

Chapter II

A spotlight on inequality: the informal economy

An examination of the informal economy, contrasted with the formal economy, highlights the importance of focusing on inequality in the pursuit of more equitable and just social development. Those who are part of the formal economy generally fall among the “haves” in society, as they are more likely to earn decent wages, receive job-related benefits, have secure employment contracts and be covered by relevant laws and regulations. In contrast, those in the informal economy are typically among the “have nots”; they are often excluded from various legal protections and are prevented from accessing basic benefits or enjoying the fundamental rights afforded those in the formal economy. Given that most poor people work informally, the presence, and indeed the recent expansion, of the informal economy in many countries has major implications for reducing poverty and inequality.

Being in the formal economy implies both rights (protections) and responsibilities, whereas in the informal economy there is little of either, and the resulting imbalance contributes to inequality. On the side of rights and protections, those in the informal economy are generally not covered by national labour laws, including safety and health regulations, and are not eligible for social security benefits, pensions or other forms of social protection. In addition, informal workers and employers are usually deprived of the right to organize and bargain collectively.

On the side of responsibilities, workers and employers in the informal economy generally do not pay income or payroll taxes on earnings, or costs such as licence fees, since their activities are unregulated and undocumented. With the tax burden thus unevenly distributed, another form of inequality is perpetuated. Workers and employers in the formal economy are left to shoulder the lion’s share of the tax bill, while those in the informal economy are largely exempt from this responsibility. Those in the informal economy who are capable of paying, but do not do so, enjoy a competitive advantage over those in the formal economy. These uncollected tax revenues are likely to translate into a lower quality and quantity of public services for the poor and vulnerable in society, further perpetuating the cycle of inequality.

An objective comparison of the formal and informal economies reveals myriad inequalities, ranging from wage, benefit and gender disparities to sizeable imbalances in the tax burden. These glaring differentials aside, greater focus on the informal economy is warranted simply because it accounts for a significant share, and in some settings even a majority, of total economic activity in a number of developing countries. Arguably, if adequate attention is not given to the informal economy, little can be done to remedy the conditions created by inequality and injustice throughout the world.

A brief overview of the informal economy

A precise definition of the term “informal economy” is elusive, though there have been numerous attempts over the years to arrive at a working definition. Without a common definition, however, it is important to bear in mind that measurements will vary according to the way the term is defined. Essentially, the informal economy can be described in terms of those who work in it (employment status), or in terms of the activities that take place in it (type of economic activity).¹

Different measurements result from assessments based on these two different approaches. The size of the informal economy is measured in terms of employment; using the broader approach to identify the types of economic activity, it is measured as a share of GDP. Both methods of assessment indicate that the informal economy has increased rapidly in recent decades in both developing and industrialized countries, and that it contributes significantly to the overall economy in most countries. Table II.1 highlights the rapid expansion of the informal economy in selected countries. Because the data are based on national definitions, they are comparable only within individual countries over time.

Informal employment accounts for between one half and three quarters of non-agricultural employment in the majority of developing countries. The share of informal workers in the non-agricultural labour force ranges from 48 per cent in North Africa and 51 per cent in Latin America and the Caribbean to 65 per cent in Asia and 78 per cent in sub-Saharan Africa² (International Labour Organization, 2002b).

Sectors other than agriculture tend to be the primary employers of informal workers, in part owing to migration from rural to urban areas, which produces a large pool of workers lacking the skills necessary for employment in the formal economy. Those with limited skills are the most vulnerable in the informal economy as they are more likely to work under inhumane conditions and accept low wages. Although a large proportion of those working in the informal economy are fully employed, it is a source of work for many in the labour force who are underemployed in the formal economy or have been unable to secure and retain jobs there. Though the formal and informal economies may overlap in some areas, deep divisions remain, further segmenting society, increasing social tensions and deterring the poor from participating in the development process (Economic Commission for Latin America and the Caribbean, 2005b). Informal trade, mainly street trade, comprises 30 to 50 per cent of urban informal employment (Charmes, 1998).

Workers in the informal economy constitute an eclectic group that includes street vendors, rickshaw pullers, home-based garment workers and casual day labourers. Employment status varies; in the informal economy there are non-wage workers (independent workers), including employers who are owners of informal enterprises and self-employed workers, as well as wage workers (dependent workers), including domestic workers, homeworkers and

Table II.1. Size and growth of the informal sector^a in selected countries, by sex

Country	Year	Number (thousands)			Informal employment as percentage of employment			
		Total	Men	Women	Total	Men	Women	per 100 men
Kyrgyzstan	1994	140.0	8.2
	1999	194.1	118.8	75.3	24.9	28.5	20.8	20.8
Lithuania	1998	154.2	86.1	68.1	48.5	46.9	50.7	50.7
	2000	201.6	116.6	85.0	72.0	71.9	72.2	72.2
Mali	1989	383.0	176.8	206.1	78.6	67.6	91.5	91.5
	1996	1 176.1	485.6	690.2	94.1	91.0	96.4	96.4
Mexico	1991	6 328.4	3 750.0	2 578.4	30.9	29.5	33.1	33.1
	1999	9 141.6	5 693.8	3 447.7	31.9	32.7	30.7	30.7
Slovakia	1994	362.0	276.3	85.7	17.6	23.2	9.9	9.9
	1999	450.0	343.5	106.5	23.0	30.5	12.9	12.9
South Africa	1998	1 431.0	1 001.0	430.0	9.2	11.6	6.2	6.2
	1999	2 705.0	1 162.0	1 544.0	26.1	19.3	35.5	35.5
	2001	3 319.0	1 572.0	1 746.0	31.0	25.7	38.2	38.2

Source: International Labour Organization, Bureau of Statistics, based on published national data.

^a National definition.

employees of informal enterprises. Outside of agriculture, self-employment accounts for 60 to 70 per cent of informal work in developing countries, while wage-based employment accounts for only 30 to 40 per cent (International Labour Organization, 2002b). What binds the members of this heterogeneous group of workers together is the lack of secure employment contracts, work-related benefits, social protection and a “voice” (representation).

According to estimates based on data from the International Labour Organization (ILO), in 2003 a total of 1.39 billion people, or 49.7 per cent of the world’s workers, were unable to lift themselves and their families above the poverty threshold of US\$ 2 per day. Even more striking, nearly one in four workers in the developing world (23.3 per cent) were living on less than US\$ 1 per day (International Labour Organization, 2005c). The majority of workers with very low incomes are likely to be found in the informal economy, where average wages are lower. Not all workers in the informal economy are among the working poor; nonetheless, an estimate of the working poor can be viewed as an approximation of those working in the informal economy whose earnings are very low (International Labour Organization, 2005c). It also stands to reason that because workers in the informal economy lack rights, protections and representation, they are more likely to remain trapped in poverty.

In addition to earning lower average wages, informal workers are seldom provided with social security coverage or other forms of social protection by either their employers or the Government. The lack of social protection—encompassing opportunities, resources and services such as health care, pensions, education, skill development, training and childcare—contributes further to the social exclusion of these workers. Part of the difficulty in extending social security coverage to informal workers stems from the limitations inherent in raising revenues and collecting contributions from workers with minimal earnings; the general absence of a direct employer-employee relationship is another factor. Efforts to extend social security protection to informal workers are growing, however; in India, for example, there is an initiative to tax the aggregate output of designated industries in order to finance benefits for all workers in those industries (Chen, Jhabvala and Lund, 2002).

It is important to note that although wages and benefits are generally lower in the informal economy than in the formal economy, significant variations exist even within the informal economy. Wages tend to decline in the informal economy across the spectrum of employment activity; employers earn the most, with remuneration gradually falling for self-employed and casual wage workers and continuing to decline for subcontract workers. Women tend to fall into the last three categories, and are over-represented among subcontract workers and under-represented among employers (Women in Informal Employment: Globalizing and Organizing, 2004c). Add to that the fact that more women than men tend to work informally,

and the level of economic inequality between men and women becomes even more apparent.

Overall, about 60 per cent of women working outside of agriculture in developing countries are informally employed (International Labour Organization, 2002b). Home-based work and street vending are common among women in informal employment. Myriad problems confront homeworkers, among them long hours with low pay and poor working conditions; exclusion from national labour laws; work instability; the lack of the right to organize and bargain collectively; and the absence of work-related benefits such as pensions, insurance, safety and health protection, and paid leave. An outgrowth of these conditions is that children are often required to work to supplement the family's income (Women in Informal Employment: Globalizing and Organizing, 2004b).

Few women employ others, and few men are industrial outworkers or homeworkers. Differences are also pronounced within the same industry. For example, men traders generally have larger operations and deal in non-perishable goods, whereas women traders usually have smaller operations and deal in food items (Chen, Jhabvala and Lund, 2002). As this suggests, the link between working in the informal economy and being poor is stronger for women than for men, which can be associated with the growing trend towards the "feminization of poverty". Exacerbating the situation is the fact that women are frequently not given the legal right to own or hold land, and even where this right is recognized, there is a sizeable gap between legal recognition and their effective access to land (United Nations Research Institute for Social Development, 2005). All of these factors contribute to the higher rates of unemployment, underemployment and low-wage informal employment among women.

Informal economic activities exist along a continuum, ranging from survival-driven work to stable, resilient enterprises, to dynamic, efficient and growing businesses. The informal economy accounts for a significant share of GDP and gross national income (GNI) in almost all countries, particularly those in the developing world. According to a study of the informal economy in 110 countries, its average size as a share of official GNI in 2000 ranged from 18 per cent in OECD countries to 38 per cent in transition countries and 41 per cent in developing countries. Among specific regions, the informal economy accounted for an average of 42 per cent of GNP in Africa, 26 per cent in Asia and 41 per cent in Latin America in 1999/2000 (Schneider, 2002).

The same study indicates that the informal economy has been growing in those OECD countries included in the analysis; their collective share increased from 13 to 17 per cent of GDP between 1989/90 and 1999/2000 (using unweighted averages), with signs of a slowdown in growth during the second half of this period. In developed market economies, informal employment is characterized as non-standard work, and includes part-time and

temporary work, self-employment and various forms of casual day labour or contract work, all of which typically offer limited work-related benefits and social protection.

A subsequent study released in 2002 estimated the contribution of informal enterprises to GDP in 26 developing countries. The preliminary results of the study showed a fairly wide range at the regional level, with averages of 27 per cent for North Africa, 29 per cent for Latin America, 31 per cent for Asia and 41 per cent for sub-Saharan Africa. Among the countries represented in the study, Mexico reported the lowest relative share (13 per cent) and Ghana the highest (58 per cent). The disparities are at least partially attributable to the differences in methods used by countries in preparing estimates on the informal economy (International Labour Organization, 2002b).

The attraction of the informal economy

With all of its disadvantages, why does the informal economy comprise such a significant and growing portion of the total economy, particularly in developing countries? One essential reason is the lack of other options. As the economically active population increases, the formal economy is unable to absorb all those seeking work, especially in the developing world. Many turn to the informal economy because they cannot find jobs or are unable to start businesses in the formal economy. For a large proportion of the working-age population, particularly in developing countries, participation in the informal economy is not a choice but a means of survival. For those compelled to engage in survival activities, the informal economy offers ease of entry. Participants can avail themselves of local resources, operations are usually run on a small scale and are therefore more manageable, and minimal capital investment is required. Moreover, education, skill and technology requirements are generally nominal, enabling poorly educated and untrained workers to gain a foothold in the workforce.

It is important to recognize that not all individuals involved in the informal economy are there because they have no other choice. For those who have built their own businesses, the informal economy is attractive because it offers the possibility of wealth accumulation without taxation and regulation. For others, the informal economy is appealing because it offers considerable flexibility, including part-time and temporary opportunities (Chen, Jhabvala and Lund, 2002). Furthermore, the informal economy helps many people cultivate their entrepreneurial spirit and acts as a breeding ground for developing business acumen, innovation and important job-related skills.

In developed countries in particular, an attraction of the informal economy is that it enables enterprises to avoid paying income taxes, social security taxes and other wage-related taxes. Employers also save money by circumventing health, safety and environmental regulations and by disregarding intellectual property rights. A cross-country comparison among OECD coun-

tries showed that the more expensive and more complicated the taxes and regulations of a country were, the larger the informal economy was as a share of GDP (The Economist, 2004).

Overall, these findings lead to the following conclusions: (a) the informal economy tends to be larger in areas in which the burdens of tax and social security contributions are comparatively heavy; the same is true in settings with relatively high levels of State regulatory activity; and (b) as the difference between the total cost of labour and after-tax wages increases, so does the incentive to work in the informal economy (Schneider, 2002).

In some cases, however, informal entrepreneurs are required to pay taxes, and even find themselves at a competitive disadvantage with larger, formal operators. For example, when corporate taxes are lowered to assist businesses, larger corporations in the formal economy are able to benefit from the tax cuts, whereas informal entrepreneurs are not. In some areas, city councils send out tax collectors to ensure that daily market fees are paid by street vendors, whether or not they are registered with the local authority. Indirect taxes from city councils can also come in the form of fines and bribes, so it can be in the interest of the city government to keep informal enterprises informal (Chen, Jhabvala and Lund, 2002).

Aside from the competitive advantages and disadvantages associated with tax collection in the informal economy, there is the impact on State revenues to consider. As the share of the informal economy in the total economy increases, State tax revenues inevitably decline, leading to a deterioration in the quantity and quality of public goods and services. To compensate for the slump in tax receipts, Governments can either raise tax rates in the formal economy, running the risk of encouraging more enterprises to move into the informal economy, or scale back public services. Under either scenario, imbalances are created and the level of inequality increases, affecting the vulnerable and disadvantaged most severely in the long run.

In a kind of ironic twist, labour law has also played a key role in increasing the attraction of the informal economy for many. The essential logic or purpose behind labour law is to moderate the inherent disequilibrium between labour and capital, balancing interests in such a way as to provide security for working families while at the same time not stifling entrepreneurial dynamism (Trebilcock, 2004). The trouble is that labour law has not kept pace with changes in the labour market or responded effectively to globalization, and legal and administrative requirements have raised the threshold of entry into the formal economy, placing it beyond the reach of many people (International Labour Organization, 2003). Employers or entrepreneurs who face too many legal obstacles to hiring or starting a business in the formal economy turn instead to the informal economy. Reforming labour laws to make them more responsive to changing conditions can help slow the rising trend towards informal employment, and in so doing re-establish greater equilibrium between labour and capital.

Reasons for the growth of the informal economy

For many years, development experts held the belief that an emphasis on economic growth would promote overall development, including a natural decline in the informal economy, and ultimately lead to a reduction in poverty. Over the past several decades, however, developing countries have witnessed the rapid expansion of the informal economy, rather than the synchronous decline that had been expected to accompany economic growth and industrial development. Exploring the reasons for this increase provides insight into the impact that economic growth, competitiveness and liberalization policies can have on inequality.

As touched upon previously, the informal economy has a strong and growing appeal despite its inherent disadvantages. While the reasons for its expansion in recent years are manifold, the three principal factors explaining the increase in most countries are patterns of economic growth, economic restructuring and economic crisis, and the restructuring of production chains in response to global competition (Carr and Chen, 2002).

Patterns of economic growth. Some countries have registered little or no economic growth, while others have experienced “jobless growth”, or capital-intensive growth. When not enough jobs are being generated for all those seeking work in the formal economy, some will be compelled to secure employment in the informal economy. Often the labour market is affected by changes in skill requirements. With the relatively rapid growth in the high-technology sector, for example, more high-skilled than low-skilled jobs have been created in many economies, and those who have not acquired the skills needed to compete in the evolving labour market may find that their only option is the informal economy.

A more positive aspect of the growth patterns contributing to the expansion of the informal economy has been the proliferation of small and micro businesses. These enterprises, which frequently operate in the informal economy, are in many cases more dynamic than their larger, formal counterparts, making them the engines of growth and job creation in some industries, regions and countries.

Economic restructuring and economic crisis. Evidence indicates that the informal economy expands during periods of economic adjustment or transition, as experienced by the countries of the former Union of Soviet Socialist Republics; and during economic crises, as experienced in Latin America and South-East Asia in the 1990s. During periods of economic adjustment, retrenched workers move into the informal economy in order to survive. With the downsizing of the public sector and the closure of public enterprises, particularly in connection with structural adjustment programmes, laid-off workers have few alternatives available. As social protection programmes such as unemployment insurance and pensions are inadequate or even non-existent in many countries, workers cannot afford to remain openly unemployed. Many turn to the informal economy as a way to support themselves and their

families; in effect, it becomes a kind of safety net. People also gravitate to the informal economy when they need to supplement the family income in response to inflation or cutbacks in public services (International Labour Organization, 2002b). Even with the onset of macroeconomic stabilization and economic growth following the period of economic adjustment, the informal economy tends to remain, or even continues to grow, especially if there are no appropriate institutions or policies in place to counter its expansion (Johnson, Kaufmann and Schleifler, 1997).

The restructuring of production chains in response to global competition. The fundamental changes made to enhance global competitiveness have also played a major role in the expansion of the informal economy. Global trade and investment patterns tend to favour capital, especially large transnational corporations that can readily move capital and goods across borders, and to constitute a disadvantage for labour, especially low-skilled workers who may find it difficult or impossible to migrate. While the liberalization of trade and capital has been encouraged, little has been done to facilitate the free flow of labour across national boundaries. In fact, many countries are trying to tighten their borders and limit the influx of migrant workers. As a result of these developments, the widening of skill-based income differentials has become a worldwide phenomenon (Ocampo, 2002b).

In an effort to increase their global competitiveness, investors are shifting production to countries with lower labour costs and increasing their reliance on more informal employment arrangements, including “flexible specialization”. Flexible arrangements usually involve an erosion of employment standards, as workers are neither afforded minimum wage rates nor given assurances of continued work, and rarely receive benefits. In many cases, such arrangements amount to no more than piece-rate or casual work. The drive to cut costs has led to the radical restructuring of production and distribution in many key industries in favour of outsourcing or subcontracting through global commodity chains. These chains begin with large companies, which in some cases focus only on the design and marketing of their products and subcontract all manufacturing and production responsibilities to suppliers in low-wage countries. In turn, these suppliers contract with small, informal production units, which further contract out work orders to isolated, informal workers. These workers at the end of the chain are typically paid very low wages, and many, such as industrial homeworkers, have to absorb the non-wage costs of production. The employment situation is so precarious in many areas that large number of informal workers, particularly the poor and vulnerable, are compelled to accept any terms offered. In segments of the garment industry, for example, companies will not provide workers with secure employment contracts, giving them only the option of working as home-based subcontractors (Chen, Jhabvala and Lund, 2002). Under these circumstances, it is not only that firms in the formal economy are *unable* to absorb labour; they are also *unwilling* to do so.

Globalization also favours large companies that can capture new markets quickly and easily over small and micro enterprises that have difficulty gaining an understanding of and access to emerging markets. Self-employment also becomes more precarious because individual producers and traders are apt to lose their market niche. With globalization, low-skill workers and petty producers lose much of their bargaining power and face increased competition, putting them at a further disadvantage.

Globalization does present opportunities as well as threats; however, many in the informal economy find it difficult to avail themselves of the opportunities because they are cut off from the benefits typically enjoyed by participants in the mainstream formal economy, including access to loans and information about prices, the quality and sources of goods, and potential markets and customers (Chen, Jhabvala and Lund, 2002). The self-employed (and women in general) often lack access to credit, training, technologies and market information. These individuals also face competition from those dealing with imported products in the domestic market or from larger formal units (in export markets), and sometimes have to move into other, less profitable areas of the informal economy, perhaps engaging in petty trading or piecework either at home or in a factory with low wages and under poor working conditions (Carr and Chen, 2002).

Further compounding the difficulties, the sustained expansion of the informal economy eventually results in overcrowding, generating greater internal competition. Added competition exerts downward pressure on earnings within this segment of the economy, making it even more difficult for people to earn a living, regardless of how much they work or how many family members are brought in to help out.

Linkages between the formal and informal economies

Though the formal and informal economies move along separate tracks, they are nonetheless interrelated and characterized by numerous intricate linkages. What has gradually emerged is a continuum of production and employment relations, with the formal and informal economies becoming more interdependent than distinct. The question is whether the linkages are benign, exploitative or mutually advantageous (Carr and Chen, 2002). Once this relationship is better defined, the challenge turns to enhancing the positive linkages in order to ensure the promotion of decent work in both economies.

The experience of a number of key export industries (producers of garments, leather goods, textiles, sports shoes, carpets and electronics) can be used to illustrate the linkages between the formal and informal economies. A high percentage of the labour force in these industries are employed under informal arrangements, with many working in export processing zones, in sweatshops or out of their homes. What links them to the formal economy is a global commodity chain, a network that connects the various labour,

production and distribution processes contributing to the manufacture and placement of a single commodity or product. There are two main types of global value chains that represent the full range of activities required to take a product from conception to end-use and beyond. With buyer-driven chains, such as those found in the footwear and garment sectors, retailers govern production. With producer-driven chains, which characterize the automobile and electronics sectors, large manufacturers govern the process. Every link in the chain, from the production of inputs to the sale of final products, is controlled by powerful buyers or producers. Those at the bottom of the chain, namely home-based workers in the informal economy, typically benefit least from these arrangements (Women in Informal Employment: Globalizing and Organizing, 2004a).

A shift has occurred in global production and distribution with the more widespread adoption of the just-in-time inventory management and control system, or “lean retailing”, which is characterized by the absence of a large amount of stock on hand or on order. In the garment industry, for example, the supply turnaround time is short, and a competitive order-to-delivery lead time can only be maintained if the subcontractors furnishing the goods are located relatively close to the main markets in Europe and North America. In response to such market demands, there has been an increase in home-based work in countries in close proximity to these markets, precipitating a decline in the large-scale garment industry in Asia. As the industry becomes more dispersed and volatile, homeworkers are less likely to receive the pay due them or to be notified when their contracts end, deepening their experience of economic inequality. The cumulative result of these trends is that the informal economy, despite being considered incompatible with economic growth and industrialization, has expanded considerably in both developed and developing countries (Carr and Chen, 2002).

As mentioned previously, the rising competitive pressures accompanying globalization have compelled companies and employers to seek more flexible work arrangements in order to cut costs. Consequently, reliance on subcontracting has increased, with home-based work constituting an especially attractive option. The proliferation of information technology, including the Internet, has also facilitated the movement towards home-based work, as larger numbers of clerical, technical and professional workers are able to work at home rather than at a job site. This shift allows employers to save on rent, utilities and other costs associated with maintaining a workplace.

Home-based self-employment has also grown, largely in response to the contraction of the formal economy, as many people have had no choice but to explore informal work options on their own. While some may find it advantageous to work at home, there are some notable disadvantages for the home-based self-employed; in particular, these individuals often remain outside the information loop and lack access to financial markets and the capacity to compete in product markets.

Some of the more common home-based work activities include rolling cigarettes; stitching garments; providing laundry or childcare services; assembling electrical plugs or electronic components; entering, processing or analysing data; and providing professional or technical services to individuals or businesses (International Labour Organization, 2002b). Not included in this category are those engaged in unpaid housework or paid domestic work. Wages and working conditions can vary dramatically among home-based workers, depending on the type of activity performed and the characteristics of the informal economy in a particular country.

Generally, the lowest-paid and most economically disadvantaged home-based workers are industrial homeworkers, who engage in activities such as garment production for businesses, typically on a piece-rate basis. Their numbers are significant and growing; industrial homeworkers currently comprise 30 to 60 per cent of the workforce in the garment, textile and footwear industries (Chen, Sebstad and O'Connell, 1999). A stumbling block to improving the wages and working conditions of industrial homeworkers is the difficulty in determining whether the employer is the intermediary that directly places the work order, the supplier that contracts with the intermediary, the manufacturer that obtains goods from the supplier or the retailer that sells the finished product. Without a clear indication of who the employer is, it is also unclear who should be responsible for protecting the rights and benefits of these workers.

Linkages between the formal and informal economies can also affect productivity growth. As competitive pressures in the formal economy intensify, more firms have an incentive to move into the informal or "grey" economy. "Grey" firms tend to be small, which helps them stay under the radar of tax authorities, and they prefer to stay that way to continue avoiding taxation. Remaining in the informal economy comes at a price, however, as these intentionally small enterprises tend to be less efficient, which serves to undermine productivity growth and ultimately the overall economic growth of the country. Nevertheless, labour-intensive industries such as retailing are inclined to stay fragmented and inefficient because the informal operators perceive that any productivity benefits deriving from an increase in scale would be offset by the increased tax obligations in the formal economy. A recent study suggests that broadening the tax base, cutting tax rates and improving enforcement might bring more businesses into the formal economy, indirectly raising productivity rates (Farrell, 2004).

It has been argued that employment creation can actually hinder productivity growth. If the jobs created are not decent and productive and do not provide a sufficient income, they will not have a favourable impact on the demand side of the economy (International Labour Organization, 2005c). In order for economic growth to be sustainable in a country, there has to be a domestic market for the goods and services produced. If not enough people in the country have sufficient earnings to buy the domestically produced

goods and services, economic growth is bound to stagnate. This supports the argument that decent work and productivity growth have to accompany GDP growth; under these conditions, economic growth can lead to poverty reduction.

Conclusion

For most workers and many employers in the informal economy, the negative aspects of participation—not being recognized, registered, regulated or protected under labour laws or covered under social protection schemes—far outweigh any perceived advantages. What the ILO refers to as “decent work deficits” are more pronounced in the informal economy than elsewhere. Working in the informal economy often implies unsafe and unhealthy working conditions, long working hours with insufficient and unsteady compensation, low skill and productivity levels, and a general lack of access to information, markets, finance, training and technology (International Labour Organization, 2002a).

Another important factor perpetuating inequality is that those in the informal economy often do not have secure property rights, which restricts or blocks their access to capital and credit, thereby limiting their ability to expand and grow their businesses. Informal workers and employers also tend to have difficulty gaining access to the judicial system to enforce contracts, leaving them without any means of seeking redress and thus more vulnerable to harassment, exploitation, abuse, corruption and bribery. A coherent legal and judicial framework is needed to ensure that property rights are secured and respected so that assets can be turned into productive capital.

While efforts should be made to address the negative aspects of informal work, or to reduce the decent work deficits, it is important not to destroy the capacity of the informal economy to provide a livelihood or to develop entrepreneurial potential. Rather than regarding all informal work as negative, it is useful to view it as existing somewhere along the “continuum of decent work”. At one end of the continuum are unprotected, unregulated survivalist jobs, and at the other end are decent, protected and regulated jobs. The goal, ultimately, is to enhance the linkages between the informal and the formal economies, and to ensure that there is decent work all along the continuum—where workers have rights, protection and a voice—and not necessarily focus on “formalizing the informal”. Ideally, there should be movement upward along the continuum so that there is not only job growth but improvements in the quality of jobs as well (Trebilcock, 2004). Efforts to reduce the decent work deficits in the informal economy and ensure that people are both empowered and protected will simultaneously contribute to poverty reduction.

Traditionally, it has been difficult for workers and employers in the informal economy to secure membership in, and therefore enjoy the services of,

larger employer and worker organizations, leaving them with little hope that their rights at work will be acknowledged or respected. Women and youth, who make up the majority of workers in the informal economy, are particularly vulnerable, as they tend to have no voice or representation; the same is true for home-based workers, whose isolation from other workers means that they typically have little bargaining power relative to their employers or other workers. There are signs of progress, however. Some important players in an expanding international movement to support those working in the informal economy include the following: Women in Informal Employment: Globalizing and Organizing (Women in Informal Employment: Globalizing and Organizing, 2004c), a global research and policy analysis network of women in the informal economy; StreetNet, an international alliance of street vendors; and HomeNet, a worldwide alliance of home-based workers. The emergence of these and similar groups is a positive step towards providing excluded and often exploited workers with representation and a voice.

The report of the World Commission on the Social Dimension of Globalization stresses the importance of advancing the huge informal economy along the decent work continuum, emphasizing that this is an essential part of the overriding effort to achieve a more inclusive globalization. It is suggested that this might be accomplished by ensuring that workers' rights, including property rights, are clearly established and consistently respected, and by increasing productivity and access to markets for informal producers (International Labour Organization, 2004). Enormous strides can be made in resolving the inequality predicament if steps are taken to ensure that the informal economy becomes an integral part of an expanding, dynamic economy that provides decent jobs, incomes and protection, as well as fair and competitive trade opportunities within the international system.

Notes

- 1 For various definitions of the informal economy, see the following: International Labour Organization (ILO), "Report of the International Conference of Labour Statisticians" (Geneva, 1993); ILO, "Conclusions concerning decent work and the informal economy", adopted by the International Labour Conference at its ninetieth session, Geneva, 3-20 June 2002 (see the ILC Provisional Record, No. 25, para. 3); and Friedrich Schneider, "Size and measurement of the informal economy in 110 countries around the world", World Bank Working Paper (Washington, D.C., July 2002), p. 3, referring to definitions used by Feige (1989, 1994), Schneider (1994), and Frey and Pommerehne (1984).
- 2 Excluding South Africa.