

## Informal economic activity: Early thinking, conceptual shifts, continuing patterns and persistent issues — a Michigan study

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### Abstract:

In this paper we review theoretical perspectives on the informal economy that developed during the period 1958–1992. We describe shifts in thinking in two phases that we identify as ‘first wave studies’ and ‘second wave studies,’ and we identify a series of critical theoretical issues that emerged from the thinking during these periods. Then, focusing on the state of Michigan, USA, we examine empirical research that was conducted in the second wave and compare the results with a state survey that we conducted in 2005. The overall aim of this paper is to summarize the extent of theoretical and empirical studies of informal economy before the more recent postmodern informed analysis of the 1990s, and to document shifts in patterns of informal economic activity as this is revealed from the research. We conclude with a discussion of theoretical and empirical questions that have begun to be addressed in the last 15 years of what has now been 50 years of research on this topic.

### Article:

#### *Introduction*

From the outset the concept of the ‘informal economy,’ and its myriad of related activities captured by the terms: ‘the unofficial economy,’ ‘the hidden economy,’ ‘the subterranean economy,’ ‘the shadow economy,’ ‘the parallel economy,’ ‘the irregular economy,’ ‘the social economy,’ ‘the underground economy’ and ‘the criminal economy’ (and in Europe, also ‘the black economy’ and ‘the second economy’), have been the subject of much controversy and considerable vagueness of definition. For an early discussion of the proliferation of these terms and their problems, [see 15, 16, 72]. A working definition necessarily distinguishes what is informal from what is formal. Thus while the formal economy refers to all those economic activities that are subject to a governmental system of accounting, typically for the purpose of tax collection, but also for assessments of the extent of crime, then “informal economic activity, whether legal or illegal, is activity that is hidden from the national records” [66:3]. Such a view implies that, without government accounting, there would be no informal economy; just economic activity. So from this perspective ‘informal economy’ could be seen as an epiphenomenon of government, a point underscored by the existence of second economies in socialist states with a command economy.

Related to the definitional issue is whether economic activity can be distinguished on the basis of formality or informality; if government is not included, does the formal/informal distinction hold? Is production and exchange of goods and services governed by formal, that is, expressly written agreed rules, different from that occurring spontaneously, without written rules, governed by the situational norms assumed by the participants? While such a distinction has long been established in the field of law and society studies [54], resulting in schema depicting a variety of different types of law, each operating at a greater or lesser degree of formality [63, 67], establishing such a definitional analysis in relation to economic activity has proved to be less easy. An early classification distinguished between four types of informal economy none of which are registered by economic measurement techniques but are distinguished on the basis of whether they use money or barter as a

medium of exchange, whether they are parasitic on the regular economy, and whether or not they are legal [62]. So, irregular informal economic activity refers to the production and consumption of goods and services outside of regular employment using money as a medium of exchange. Insofar as these activities are unregistered, they avoid a variety of taxation and other laws designed to protect the health and safety of employees and consumers, and as such are illegal, though have been referred to as quasi-legal, rather than criminal [27]. In contrast, informal hidden economic activity refers to the production and consumption of goods and services deriving from activities parasitic on regular employment, using an employer's time, resources or markets for personal gain using money as a medium of exchange. Insofar as these activities often involve pilfering, embezzlement, time theft, the sale of stolen goods and the operation of a business within a business, they are criminal. Informal unofficial economic activity operates inside legitimate formal employment as ways to get around rules and processes, typically not using money but favors, 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. Lastly, there is the informal social economy, which operates outside of formal employment, and uses barter rather than money as a medium of exchange. This typically operates among neighborhood members and through the households, using self-help and mutual aid. To these could be added a fifth informal economy, the criminal economy of illegal exchange or drugs, vice etc., that takes place via organized crime and gangs. Each of these sub-economies of the informal economy can overlap and participation can range from being minimally involved in one to extensively in one or more.

By the late 1970s and early 1980s, the extent informal economic activity was claimed to comprise up to 20% of US economic activity [15–17, 30–32]. However, while a flurry of studies on aspects of the informal economy emerged during this period, by the mid-1980s some critics began to reject the claim that the informal economy stood as a separate autonomous sector and disclaimed that it is comprised of a series of sub-economies; nonetheless some of these critics acknowledged that: “The basic realities... that stimulated the interest in the informal economy... still remain a challenge to social scientists: the existence of a whole series of economic activities which do not fall easily within the definitions and analysis of traditional economics or get measured by government” [93: 8–14].

But for others this observation was not enough to justify its study. Indeed, some critics in this reflective period argued that the informal economy concept was so confused it was of questionable usefulness [20, 72: 63, 56]. In spite of such criticisms that marked the end of a second wave of research, studies of the phenomenon continued through the early 1990s, and the phenomenon remains active 50 years after it was first founded.

In this paper, we summarize the strands of early thinking about the informal economy, describing their historical roots and drawing out key themes that had emerged by the early 1990s. In the final part of our paper we report the results of a statewide survey of informal economic activity conducted by the Center for Urban Studies at Wayne State University in Detroit, MI, and we compare these results with a study of Detroit's informal economy conducted in 1977 by the late Louis Ferman and his colleagues at the University of Michigan [35, 36] and also with a nationwide study conducted by Regula Herzog and colleagues [69]. The paper begins by discussing the founding concepts, the early ethnographic evidence, early attempts to measure the size and extent, revised conceptions and critical assessments made by the late 1980s and the second wave studies that emerged thereafter.

### *Founding concepts: The first wave of informal economy studies, 1958-1982*

The first wave of informal economy studies contained five distinct strands: (1) ethnographic studies of the unemployed and those in poverty; (2) informal sector studies of economic exchange in non-industrial and underdeveloped societies; (3) studies of the household economy; (4) ethnographic studies of illegal economic exchange; and (5) attempts to measure and compare societal rates of informal economic activity.

### *Ethnographies of the informal economies of poverty and unemployment, 1973–1979*

In 1958 Louis Ferman, was an Assistant Professor of Social Work at Wayne State University in Detroit, MI. As part of a class assignment in Social Methods he sent four graduate students into a Detroit black ghetto (the

precise area that was to explode in July 1968 into the Detroit Riot). Inspired by the work of E. Wright Bakke [2], who had charted the interpersonal relationships of unemployed men, Ferman's students were to interview 20 'hard-core unemployed' residents, with the aim of finding out how, and with whom, the long-term unemployed spent their time. As Ferman describes it,

We imagined that we would find alienating and retreating behavior wherein the unemployed would exhibit a combination of job seeking, leisure and withdrawal. How wrong we were! What we found instead was that almost all those interviewed were engaged in some form of "off-the-books" work. A few were engaged in crime, but most were considerably involved in legal forms of work such as home repair, gardening, hustling and the distribution of low-priced goods and services. It soon became obvious that the unemployed were not necessarily out of work. Their "off-the-books" jobs were found to combine commercialism and emotional, and psychological rewards that were qualitatively different from dead-end jobs of the market economy... Instead of unemployment being sustained by a "culture of poverty," there was a series of irregular economic activities serving as community responses to the blocked opportunity structures of the larger economic system. Moreover, the values and behaviors that characterize irregular economic activity were found to be derivative of these structural conditions. We found that the irregular economy served different groups in different ways. It was a survival mechanism for those in poverty, a facilitative mechanism for those in suburbia, and it was operative through an exclusive system of kinship and friendship networks rather than being governed by the pure calculus of market exchange. At the time, our finding seemed important, but not revolutionary. We had no idea that it was to mark the start of what was to become a whole area of study [34: vii –viii].

In a paper given in New York to the annual meeting of the American Sociological Association in 1958, Ferman had observed:

there is growing awareness of an "irregular economy" which exists side-by-side with the regular economy but is functionally independent of it. Some of the work opportunities in the "irregular economy" are deviant, but most are not. The irregular economy presents the opportunity for informal job opportunities that are not classified as employment by the formal agencies of society... These types of employment offer several advantages to the invisible unemployed. First he [or she] is not strictly accountable to legal authority for his [or her] earnings since no record is kept of this work for public scrutiny... Secondly, such work activities may give the worker a sense of felt competence over his [or her] economic fate that he [or she] does not enjoy in the regular economy. He [or she] can accept or reject jobs. He [or she] can engage in a range of pseudo-entrepreneurial activity that is closed to him [or her] in regular employment. There are elements of the play or the game here, and he [or she] enjoys the manipulation of his [or her] environment that is unparalleled. Little is known of the mechanics of the irregular economy, but my hunch is that knowledge of this institution will give significant insights into the willingness of the invisible unemployed to return to regular market employment (Ferman, 1958: 8, cited in [66: 3–4]).

With these insightful observations began a new wave of enquiry, but it would be another 15 years before the idea germinated, and at that time no one believed it would sustain for 50 years. It was Ferman's original sociological identification of informal economic exchange as a means of survival among the urban poor of American cities that served as the major corrective to our perception of the hegemony of modern industrial and commercial rationalism, while also showing that the formal and informal, regular and irregular, are integrally related. P. R. Ferman and L. A. Ferman [37: 5] later argued that the structure of capitalism generates its own historically specific types of informal economies such that the very origins of irregular economies "lie in structural conditions and processes in the larger society, and cannot be divorced from them." They argued that modern industrial society encourages such economies by creating structural inequalities based on class, ethnic and cultural segregation and that economic specialization, protectionist trade unions and professional associations coalesce so that some goods and services are not widely available or are too expensive for the poor. The direct result is that a market is created outside of the formal regular economy for cheap goods and services [37: 17].

The Ferman's early observations of the relationship between lower class marginality, poverty and irregular work were being supplemented with ethnographic studies by Stack, Lowenthal and Dow. Stack [103] described how, among African-Americans, the limited supply of finished material goods is perpetually redistributed among mutual aid networks of kin in the community. Lowenthal [79, 80] and Dow [27] described networks of mutual aid and support that have been the typical survival mechanism for the working classes where otherwise isolated urban ghetto dwellers use it to "make out" or "get by." Lowenthal, for example, documented the reciprocal transactions in white, working class communities that take place among kin and friends and which result in mutual aid support. Lang [76] described the adaptive patterns developed by Chippewa Indians in

response to their structurally created conditions that circumscribe their impoverishment and how irregular work combines with alcohol consumption in a cultural pattern that sustains their ability to cope, while bringing them into conflict with the dominant cultural institutions.

In short, these urban ethnographers argued that it was not the welfare state that saved those in poverty but their own mutual aid networks. Further, in the exercise of such coping strategies the poor were then victimized through norms and laws that defined them as social problems. From the sociological perspective, then, irregular or informal economies were seen as a means whereby people could survive industrialism, even if industrialism was also seen as their cause. Thus, in the early 1970s scholars observing urban industrial society had begun to rediscover the long ignored anthropological wisdom that goods and services did not have to be produced and consumed in officially registered, legally constituted enterprises. Instead they could be made, traded, swapped and bartered, informally, among members of local networks, families, neighbors, kinsfolk and communities. Moreover, the rules and 'laws' governing these exchanges had more to do with valued exchange rather than exchange value; and perhaps less to do with rational economic man and a market economy. Indeed, by the mid-1970s it seemed that a certain proportion of economic activity was exchange based on the principles of positive reciprocity, altruism, social obligation, and commitment to the community. Further, the economy containing this exchange was interrelated with, rather than separate from, the market exchange economy.

Interestingly, these urban poverty studies had parallels with research going on in 'Third World' underdeveloped economies; vast numbers of whose populations had been marginalized and exploited by international business and what was subsequently to be described as the exclusionary forces of globalization [110, 111].

#### *Informal sector studies in nonindustrial underdeveloped societies, 1955–1982*

Anthropologists of non-industrial society had long observed that non-industrial societies had more than one form of exchange [6, 39, 95, 96]. Paul Bohannon [6], for example, argued that most non-industrial societies possess at least one or more non-market system such as the 'redistributive' and the 'reciprocal,' each having its own rules, reality, language and meanings. John Davis [23], applied this vision of economic pluralism to industrial society pointing out that in addition to a 'market economy' governed by laws of commercial trading, employment and labor relations, and a 'redistributive economy' governed by laws of taxation, welfare and state expenditure, capitalist societies also have a 'domestic economy' governed by customs and expectations between family members, and a 'gift economy' governed by the rules of reciprocity. He says that rather than talking of one form of exchange, the market economy, predominating, we should be examining the relationship between these different sub-economies. Problematic here was the implication of a separation between economies, as if each could exist independently of the other.

At this time anthropologists and developmental economists also started to document the importance of 'informal income opportunities' in global capitalism [57]; the 'modes of earning a livelihood' which lie outside the 'formal' wage economy: "incomes earned by individuals, instead of, or additional to, the wages and salaries paid by private firms, public corporations or government departments" [10: 1]. This 'informal sector' provides essential goods and services for the survival of the wage workforce and comprises a traditional mode of 'petty commodity production' existing in conjunction with, but operating independently of, capitalism and having no orientation to accumulation and representing a more egalitarian organization of economic activity [7, 22].

However, Bremen [8] cautioned about creating such false distinctions between formal and informal sectors, recognizing that the Third World informal sector is relied upon as a means of labor absorption for the wider capitalist economy, serving to disguise unemployment and to stimulate new employment [7, 83]. Indeed, the informal sector was seen by some as contributing to global economic growth by providing low cost consumer goods, indigenous capital goods and a more labor-intensive form of industrialization. Yet others, argued that Third World informal economy workers were no more than disguised wage laborers, since their production was subject to control by industrial capital which set the volume, type and quality of the goods produced and fixed the prices below their true value [84].

By the end of that decade, Bromley and Gerry [9] argued that, where an employee is not part of the firm but is subcontracted as an outworker, or even where self-employed, she or he is, in practice, harnessed to the needs of large enterprises, dependent on the capitalist employer for credit, rental of premises or equipment, supply of raw materials or as the monopolistic purchaser of his product. In short, the informal economy of the Third World was seen as the means whereby global capitalist corporations were able to maintain a marginal workforce available for employment at the lowest possible cost.

Bryant [10: 13] suggested that the mutuality of support apparent in underdeveloped capitalism was just as pervasive in mature capitalism (see also [77]). Nor was capitalist society or global capitalism the sole harbingers of informal economies. A challenge to traditional political theory came when commentators began exposing the second, parallel, or colored economies of socialist planned economies, which showed that the nature of a society's irregular economy was an inversion of its dominant, officially sanctioned economy [52, 74, 85, 99, for an overview see 78]. It seemed, then, that irregular or informal economies were as integral to industrial society, capitalist or socialist, as they were to non-industrial society, and were indeed, a global phenomenon.

### *Capitalism and household studies, 1975–1985*

By the late 1970s some European scholars also began to conceive of work outside of formal employment as an informal economy centered around the household. Their conception of the informal economy was not restricted to the poor or the unemployed, but adopted the notion of the capitalization of the household found in the American futurist Scott Burns' [12] concept of "The Household Economy." In Britain, for example, Pahl and Gershuny, saw the informal economy as a constructive supplement to the formal or regular economy [50, 51], a perspective also held by Heinze and Olk's [59] ideas of using informal economies to resolve the crisis of the welfare state as well as by Huber's [72] self-help economy perspective in the then West Germany.

Gershuny and Pahl saw informal economic activities as early indications of future development and progress of post-industrial society. Pahl [86, 87] was concerned with the changing nature of work, employment and unemployment, particularly as this affected the household and the domestic division of labor. He challenged the prevailing sociological view of working class solidarity. Gershuny [42–49] was interested in the way technological change could stimulate social innovation in the community. Gershuny challenged Bell's [3] theory that post-industrial society was becoming a service society, demonstrating instead that the trend was away from expenditure on services and towards expenditure on goods. He predicted that a growth of labor productivity resulting from a declining manufacturing sector, and spurred on by the micro-technological revolution, would continue to reduce employment opportunities in the formal sector. Fiscal and legitimacy crises would halt the traditional Keynesian public spending solution to unemployment, and would encourage an ideological shift from public provision to privatization (a prediction that has proven to have been highly accurate). Rather than continuing the expansion of the service sector, argued Gershuny, we are more likely to see an expansion of the 'self-service' economy. Unable to afford formal economy services because of higher unemployment and lower income in the formal economy, people will turn to the household, the community and the irregular economy to provide goods for themselves that they would otherwise be unable to afford. Moreover, rather than preventing this development, capitalism will encourage it in certain areas, for the same reasons that it is encouraged in the Third World. As Gershuny and Pahl concluded at the end of the 1970s, "our present stage of economic development appears to be one in which jobs are displaced not only by automation within the formal economy, but also by export to an informal economy" [50, 51: 77].

These ideas were being informed and challenged by emerging empirical studies. Particularly strong from the empirical perspective was the data that showed the semiautonomous nature of informal/irregular work; partly structured by the needs of those commanding the wider market economy, but partly by the social needs for an alternative, innovative and often community-based alternative that contrasted to the market system of privileged exchange.



### *Classical ethnographies of workplace crime, 1974–1982*

More evidence of these patterns simultaneously began to come from those who were reporting their studies of the illegal hidden economy in Europe. Criminologists and urban anthropologists such as Ditton [26], saw the hidden economy as a quasi-criminal activity based on pilfered goods and illicit services, while Henry [61] and Mars [68, 81, 82], saw it serving to restore individual autonomy and social rewards in an era of economic rationalism.

The term ‘hidden economy,’ was initially taken to be activities parasitic on the regular economy and overlapped considerably with the criminal economy. Ditton [25: 275], for example, defined the hidden economy as “the sub-commercial movement of materials and finance, together with the systematic concealment of that process for illegal gain ... a microscopic wry reflection on the visible economic structure, upon which it parasitically feeds.” The hidden economy comprised activities which are not the primary source of income for those who engage in them and ‘milks’ the host occupations in which its members are employed through pilfering and ‘fiddling’ (embezzlement), or what Ditton more generally calls ‘part-time crime’ [26]. Hidden economies differed from black markets [19] in that they dealt with ‘cheap goods’ at lower than market prices, rather than goods at artificially inflated prices resulting from a prevailing shortage in supply [61]. The proceeds of this activity were then traded or ‘fenced’ among neighborhood friends and relatives. There was a remarkable parallel here to 1970s US studies on the history of the ‘sub-economy’ of illegal business [11]. Moreover, there were contemporary examples of the entrepreneurial activities of ordinary Americans, who, rather than being unemployed, were employed in full-time legitimate jobs and who were prepared to channel some of their employer’s or customers’ property into an amateur trade in stolen goods [28]. Importantly, these studies challenged the view that pilferers and traders in stolen goods were common criminals but presented, instead, a portrait of ordinary people with legitimate jobs who believed themselves honest citizens taking only those things that they were entitled to as part of ‘the perks’ of their job [26, 58, 61, 70, 81, 82].

These European studies also contested the dominance of the assumption that money was the sole motivating force for hidden economy trading, cautioning that ‘rewards’ should be interpreted very broadly to include a sense of community, a network of reciprocity, status and prestige, and the fun of competitive play. Indeed, in an examination of the historical evidence for informal economic activity in Britain since 1914, Smithies [102] concluded that it remained small scale and generated a disproportionately low income for the time, effort and ingenuity invested in it, suggesting that monetary gain, even for the illegal activities which he examined, was not the sole motivating criterion. (See also [106], for similar findings relating to the pre-seventh century period).

To some, perhaps the most challenging aspect of the hidden economy studies was that stealing from work was not only tolerated by employers, but that for some it was seen as constructive since it not only provided workers incentives and improved their morale [21, 112] but also aided governments to arrive at appropriate policy. Indeed, Mars [81] showed us that rather than being separate and parasitic on society, the very structure of capitalist occupational specialization is inter-spliced with varying degrees of ‘fiddle proneness,’ depending on the structure and culture of the occupational position. He found that the incentive of personal rewards is accompanied by greater input into the regular economy since boredom, alienation and efficiency are minimized. He concluded that without an understanding of the important role of informal work inside formal employment, it is difficult to appreciate the way in which organizational and technological change can impact on workplace relations.

More cynically, Ditton’s [26] study of modern day service workers shows that some employers are not so short-sighted. He shows how service workers are often placed in low-wage situations by their employers who ‘connive at corruption’ by turning a ‘blind eye’ to employees who cheat customers. This serves as a means of deflecting employees from making losses for the company. Similarly, Mars and his colleagues had shown how, in the hotel and catering industries, this idea developed into an individualized rewards system in which pilfered items were ‘allowed’ to some core workers in exchange for loyalty and policing of peripheral workers who were thereby prevented from forming unions and pushing for higher general wages.

Ironically mass media attention to the existence of informal economies was intensified by economists, politicians, and taxation experts whose theories were most challenged by the very existence of the phenomenon of non-rational informal exchange. They did this with the rhetoric of statistics.

### *Extent and measurement of informal economic activity, 1977–1987*

American economists Peter Gutmann and Edgar Feige demonstrated that irregular, underground or subterranean economies could form, and conceal, a significant amount of a nation's output. Gutmann [55] based his analysis on the assumption that those wanting to conceal their activities from the tax authorities did not leave records of their transactions, dealing largely in cash. He assumed that the size of the irregular economy is the increase in the ratio of currency to demand deposits, arguing that if we have a large cash-based irregular economy then this should show up in an increased amount of cash in circulation. Using this method he estimated the size of the US irregular economy by taking the 1937–1941 period as the norm for legal economic activity and declared the difference between this and recent levels of cash to be a measure of the amount of currency held for illegal purposes, a figure of \$176 billion or 10% of GNP for 1976.

An alternative to this 'excess cash' argument was the use of econometric models to measure the increase in circulation of large denomination currency. The assumption here was that large notes are used by participants in the underground economy and, according to an advocate of this method, James S. Henry, an increase in the circulation of large denomination bills relative to the increase in the value of currency reflects a growth in the irregular economy. For the same year as Gutmann, James Henry [60], using the 'excess notes' approach, suggested that the circulation of large denomination notes had increased disproportionately at three or four times the rate of increase for all notes, and amounted to \$60 billion or 3.4% of GNP. But the largest estimate for the irregular economy calculated for the year 1976 was made by Feige [30, 31] at \$330 billion or 19% of GNP. Feige used an indirect method based on the assumption that transactions require a stock of money and that a constant relationship exists between stock and GNP, such that any excess reflects unmeasured GNP.

Both the excess cash and excess notes methods were criticized for assuming that the excess was due to irregular economic activity. Large amounts of currency held by countries overseas would seriously affect the calculations, as would changes in the rate at which the typical demand deposit moves through the economy. According to some estimates both these were moving in opposite directions, which would tend to distract from the significance of the excess cash thesis [13]. In addition, Gutmann failed to consider whether or not the increased ratio of cash to demand deposits resulted from a shift from demand deposits to time deposits [94]. His method also underestimates the amount of cash hoarding that may occur as does the excess of large notes thesis, which also fails to consider the turnover rate of the currency used in such transactions.

By the mid-1980s, critical reviews of these early studies [15–17, 89] appeared. Porter and Bayer, for example, argue that measures of changes in the ratio of transactions to total income, that forms the mainstay of Feige's modified estimates, is affected by a number of factors extraneous to the informal economy. In addition, they argue that both Feige and Gutmann's choice of base years is arbitrary. Government research reveals "that both unrecorded and unreported incomes are much greater than had previously thought to have been the case, and they now confirm the primary assertions of earlier studies that the underground economy has exhibited considerable growth during the 1970s and 1980s" [32: 102–103].

These economists' serious consideration of informal economies had a significant impact on public attention to the phenomenon, particularly those like Gutmann who saw the cause of this activity in terms of an increased incentive for evasion as a result of growing state bureaucracy and expenditures which forced up taxes. By the time the phenomenon had become established media fare, there had been enough research to warrant a revision of the original conceptions.

### *Second wave: revised conceptions, 1982-1990. The importance of work, women and family*

By 1982 it was becoming abundantly clear that in their attempt to delineate the distinctive identity of informal economic activities, some scholars had given the impression that the phenomenon was separate from the formal or regular world of work. The period of the 1980s rectified that false impression.

In a major revision of his earlier thinking, Ferman [41] broadened his notion of the irregular economy to that of the informal economy, and moved away from an exclusive concern with poverty as a cause. Drawing on the anthropological heritage, he suggested that informal trading and exchange patterns arise from fundamental processes of human life and social organization, and are an adaptation to social rather than economic needs. He reintroduced the important role of the reciprocity principle in economic exchange and argued that a substantial amount of activity that goes unrecorded is based on these family and community processes, rather than being tied to material returns, and that these processes are linked in a complementary way to the operation of the wider economy, filling in where it fails. In an earlier revision of his thinking Ferman [33] had shown how such 'filling in' can occur when people withdraw from the conventional world of market economy employment into unconventional categories of work, where precedence is taken by values beyond the work ethic, such as the obligations of family life, the reciprocity within social networks and associational memberships.

The interrelation between formal and informal work was also the focus of revised thinking about informal work. In 1982 Henry argued that our notion of the working unemployed needed to be reconsidered in light of the emerging evidence that the majority of those participating in the informal economy had been shown not to be so much those in poverty, but those most active in the regular economy, who had the skills, resources and motivation to pursue extra 'off the books' work [62]. Moreover, that the existence of a successful and publicly acknowledged network of informal support was likely to provide a political excuse for governments to avoid their responsibilities to do something about the wider system that forces many into a dual dependency of formal and informal work [64, 65]. Subsequently, Henry [65] argued that this constituted an integral relationship between informal and formal economies and that economic development and change was the outcome of both the mutually supportive and destructive aspects of the interrelations between these forces.

Similarly, Pahl [87, 88] and Alden [1] found that irregular jobs are typically done by those already highly active in the formal market economy. This is because much informal work requires particular skills and finances, which are possessed by the very same people who already have occupations in the formal economy. As a result those who are already in formal work are the ones found to be most able to benefit from the informal economy, and who will, if given longer holidays or shorter hours, take extra overtime, or 'moonlight' in double jobs and so on. Moreover, Pahl [88: 36], revealed that there is a polarization in forms of informal work between men and women and between "work-rich households with multiple earners engaging in all forms of work and work-poor households typically headed by elderly people, single parents, or unemployed people."

This rethinking was informed by a new wave of informal economy studies that examined the central role of gender stratification in the workings of the informal economy. Thus the work by Vinay [107] in Italy, showed how women may begin in formal employment but move into informal work when children are born, returning to formal work when children are older revealing how participation in informal work is tied to the family cycle. Hoyman [71], building on Vinay's work, showed that women's participation in informal work has been greatly underestimated and that government has been particularly ignorant of the important aspects of this work which has served to keep women controlled through repressing their attempts to change their objective relationships in the formal economy by relying on their dual loyalty to the formal and informal economy [71, 73]. Indeed, similar themes were taken up by Lever [77] and Weiss [108] who showed that governments in advanced Western capitalism, can penetrate, shape, and even create informal economic activity. Weiss demonstrated, particularly in the case of Italy, with its high level of underground economic activity, that succeeding Italian governments had deliberately fostered small capital by giving small formal companies privileges and that this has encouraged many small employers to move part of their production underground in order "to retain the privileges and benefits that attach to firms of small size"[108: 224]. At the same time, Weiss argued, the state endorsed the expulsion of married women from the official work force and limited their access to legitimate employment, forcing them into invisible underground economy labor, and that it also resisted the regulation of



outwork in order to reaffirm women's auxiliary and domestic role. Thus the patriarchal structure of Italian society is reinforced through a combination of government policy and its facilitation of informal economies.

### *Critical assessments: 1985–1990*

By the mid-1980s, enough evidence had been gathered that many were beginning to be critical of the entire perspective on the informal economy. Some, such as Smith [101], wanted to modify the concept to 'informal economies,' saying that there were many not just one. Others, like Huber [72] were outraged by the imprecision that had accompanied the phenomenon's growth. In commenting on the confusion resulting from lumping together a diverse range of informal activity including, domestic do-it-yourself work, consumption and leisure-time activities, black labor, tax evasion, smuggling, alternative communal projects, self-help and mutual aid, it is little wonder that he was moved to exclaim that "The result is a conceptual 'tuttifruitti' which leads to political hodgepodge, if it leads anywhere at all" [72: 63]. He argued that a systematic and universal definition should be adopted. Connolly [20: 86] felt that in so far as the concept grouped together a whole range of disparate activities into one category it was unhelpful and further, that it amounts "to an apologetic and mystifying discourse," which should be abandoned altogether.

Some of these new approaches began to acknowledge the challenge to classical economic thinking and to take on a multi-disciplinary perspective in their analysis of economic exchange. Roberts, Finnegan and Gallie, for example, pointed out that: "Not only are some of the older, taken-for-granted boundaries between disciplines being challenged, but much recent research is now drawing on insights from a number of disciplines, not just from one" [93: 14]. However, in the same volume one of the founding anthropologists of informal economy studies, John Davis lamented that, limited by disciplinary interests and by the politics of research funding, studies in informal economies have been narrowly channeled. Despite their critical stance, he said, these researchers have bought into "the established categories of the system of analysis they seek to revise." As he sardonically commented, "If they have found a principdom by kissing the toad of falseness, they should now embrace imperfection. But in fact they have at best been tentatively rebellious" [24: 503].

Ray Pahl who, along with Gershuny in Britain and Ferman in the US were founders of the area of study approach, also expressed the critical view that the concept of the informal economy has outlived its usefulness and instead suggested that the challenge should be incorporated back into new ways that we think about work, a view also shared by Sharpe [98] whose geographical approach provided a fresh analysis of the variety of dimensions of work as these relate to spatially uneven development.

Undoubtedly, however, Harding and Jenkins [56] offered the most critical analysis of the field arguing that the hidden economy did not exist; it was a myth created by social scientists. They argued that the informal economy and formal economy are part of a single phenomenon that is work and the economy. Each is interrelated with the other, having more or less of the characteristics that set them apart. Thus most market exchange comprising the formal economy may be based upon the assumptions of classical economics, but a significant component has the characteristics of the reciprocal social exchange that is the defining characteristic of informal economic activity. Likewise, informal economic activity is not completely captured by its social and moral dimensions since it too contains elements of economic rationality (see also [29]). Of the nine areas of informal economic activity Harding and Jenkins identify, all, with the possible exception of 'crime,' are to varying degrees, interrelated with formal economic activity, rather than existing in a separate sphere. These include: self-employment, household activity, work in the community, home working and outworking, activities between work and employment, informality on the job, and forms of corruption and crime [56: 103]. They argue that rather than being separate, the formal and informal economies are analytically at different ends of a continuum; ideal typical caricatures which comprehensive critical analysis should avoid. Indeed, Harding and Jenkins argue that most social interaction has a degree of both formal and informal, depending upon the context and the legal administrative framework in which each is set: "even the most formal contexts are comprehensively penetrated by and implicated in informal social relationships" [56: 175]. But this perspective does not deny their degree of separation for: "the informal is both an absence and a presence within the formal, and vice versa. The relationship between them is a contradictory dialectic of dependence and autonomy" [56: 175]. Moreover,

instead of a rigid distinction between the economic and non-economic, they argued that an overarching concept is necessary since “the dichotomization of social experience into distinct domains of the economic and the non-economic,” varies in significance for different actors and “the allocation of specific activities varies across time and situation” [56: 175].

In contrast Portes, Castells, and Benton [90] presented a more sophisticated and empirically grounded analysis of the interrelationship between formal and informal economies showing that: the informal economy is universal, irrespective of the level of a country’s development, and regardless of the presence or absence of immigrant labor; that its form changes even in the same society, region or city; and that the amount of activity has grown in recent years, in both underdeveloped and advanced industrial societies, especially if one takes account of usually discounted very small economic units.

In contrast with a theme of the first wave studies, Portes and his colleagues argued that the informal economy is “not a set of survival activities performed by destitute people on the margins of society” but “a specific form of income generating production relationship” that “cuts across the whole social structure,” [90: 12] and a “fundamental politico-economic process at the core of many societies” [90: 15]. Its importance stems from being “unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated” [90: 12]. It is in this sense that the informal economy is created at the interface of human agency and formal structure for “the more the society institutionalizes its power relationships and the more individual actors try to escape this institutionalized logic, the sharper the divide between the two sectors” [90: 13].

The importance of maintaining the sense of difference between formal and informal activities, therefore, is to examine their interrelationship in ways that are not possible if they are collapsed into an undifferentiated whole. As Roberts [93] observes in his study of employment, life cycle and life chances in Guadalajara, northwest Mexico, the two sectors are systematically linked by the requirement of profitability, but this is mediated by the life cycle. Roberts describes how young men in low-income areas, complementarily, start out in informal work, move into formal employment and subsequently become self-employed. Thus the household becomes the nexus of formal and informal work strategies in combinations that reflect stages in the life course.

However, in some areas, the interrelationship between formal and informal is such that the informal sector grows at the expense of the formalized employment relationship, as Sassen-Koob’s [97] study of New York’s informal economy demonstrates [see also 91]. Instead of being displaced by advancing industrialization these informal activities have reemerged. Consistent with critical development theory, Fortuna and Prates’ [41] study shows how, in Uruguay, the informal sector serves as a form of disguised wage labor. The boom period of manufacturing and increasing use of advanced technology led to deskilling and fragmenting of the formal work force, and its restructuring on the basis of age and sex. But as, Castells and Portes point out, the emergence of what appears to be old forms of wage relationship such as sweatshops, in the new historical context of advanced, regulated institutionalized capitalism, “causes old forms of production to become new ones” [18: 13]. They argue that the informal economy as a process, undermines classical liberal and radical views that economic development leads to the incorporation of the work-age population into capitalist labor relations dominated by the wage bond; in short, to proletarianization. A central theme of these authors is that traditional class relations are being transformed by the informalization process into a ‘wild economy’; a diverse decentralized heterogeneous economic organization of networks and clusters of workers, whose members are bound more by their social and communal ties and their social projects than by their objective class positions in the work process. Stepick’s [105] study on the ethnic enclave economy of Miami shows that the nature and relationship of the informal economies to the formal economy depends upon the existing patterns of work in an industry, the skills of the potential workers, and the discrimination practices against ethnic minorities, in this case Cuban and Haitian immigrants. While both are excluded from the formal economy, for Haitians exclusion results in an isolated survival strategy of casual employment within their own ethnic enclaves; for Cubans informalization, based on garment, construction, and restaurant work, directly competes with the unionized formal economy.

In many instances, then, these informal networks and clusters are not marginal but central to the formal, regulated economy, as is further illustrated by Beneria's [4] contribution on subcontracting and employment in Mexico City, Benton's [5] study of industrial subcontracting in Madrid's electronic industry, Capecchi's [14] evidence of "flexible specialization" in the Emilia-Romagna of Italy and Sassen-Koob's [97] study of the garment, furniture and electronics industries of New York City. These studies attest to the fact that the character of the informal economy is inextricably intertwined with the causes of its generation. Workers who participate have the common characteristics of being 'down-graded labor,' whose social situation is marked by some kind of social stigma, as immigrants, ethnic minorities, women, youth, etc. But their marginalization is systematically produced by the wider political economy as is demonstrated by Ybarra's [109] study of the household workshops of the Valencia region of Spain. Yet its emergence also structures subsequent relations for as Castells and Portes argue, "The informal economy evolves along the borders of social struggles, incorporating those too weak to defend themselves, rejecting those who become too conflictive and propelling those with stamina and resources into surrogate entrepreneurship" [18: 27].

But this informalization also takes place under the overarching auspices of the state which may tolerate, or even stimulate informal economies in order to resolve potential conflict or promote social patronage that results in situational advantages for otherwise excluded groups, which is a theme of Fernandez-Kelly and Garcia's [38] study of Hispanic women homeworkers in the garment and electronics industries in California and Florida (but see [108]). Similarly, even where it is unintended, the state can stimulate the process of informalization as Grossman's [53] study of corruption and other informal income generation in the Soviet Union shows. However, as Standing's [104] research on the British government's reversal of Keynesian economics toward a supply side strategy shows, state action, in this case resulting in unemployment, can also bring with it a new form of control through the disenfranchisement of a large section of the traditional working class.

Thus the dialectic of the informalizing and decentralizing process that is the informal economy is both the outcome of the conjuncture of economic, political and social forces, and a heterogeneous movement that itself has transformative capacity. It is the product of: a response to global recession of the 1970s; a reaction to the power of organized labor and labor aristocracies; a rejection of the state's regulation of the economy; international competition from cheaper Third World Nations that forced many previously successful formal Western corporations underground; and Third World countries' attempts to selectively industrialize in pockets freed from the costly baggage of regulation and enforcement that pervade their wider society.

Consequently, the developmental effects of informalization are contradictory: it can lower labor productivity, automation and rationalization, while simultaneously increasing capital productivity by reducing the size, and thereby cost, of large scale bureaucracy and by reducing the cost of labor. It can also undermine the power of organized labor and thereby the protection and related quality of work life of the participants. But it can also destroy the proletariat as a class, blurring its boundaries through networks and variety of work, while constituting a web of connectedness between social groups that have different internal ties and bonds than those traditionally associated with working classes.

Importantly both the cause and the effects of the informalizing process are, because of their interrelationship with the state and political economy, quite different depending upon the historically specific relationships between the macro and micro forces in each country and even in different regions and cities. Because of this, Portes and his collaborators caution about the policy implications of the informalizing process. In particular, they warn against the transferability of apparently successful contributions that some nations or regions have experienced in harnessing the strengths of informal economies to their overall development, and are even more critical of attempts to elevate informalization into an ideology. They also point out that those state policies that have proved most beneficial to informal economic growth are those implemented at the local level, and those that are facilitative of a general environment for entrepreneurial opportunities for people of modest resources (see [75]). They conclude that the findings from a variety of studies: underscore the need for innovative state responses to a novel economic trend, rather than a return to earlier models of either rigid planning or simple deregulation. The process of informalization generates simultaneously pitfalls and opportunities for local labor

absorption and economic growth. Effective action to promote the latter requires a shift in the style of government intervention, but not its abandonment [90: 307]. But they are not blind to the negative consequences of the process. Confronting the reality of informalization requires that we recognize how participants in class struggle will use it as an instrument to further their interests, how dominant classes will attempt to strengthen their hegemony at the time that labor organizations are fragmented and weak, and how workers use this development to survive and gain autonomy under the new conditions: “The challenge is how to develop new organizational forms as flexible as the new arrangements and which respond to the emerging needs and interests of participants.” [90: 309].

### *Changing methods of measurement*

Just as the conception of the informal economy changed between the first wave and second wave studies, so too was there a considerable revision of our understanding of the extent of informal economic activity. One of the first attempts to measure the extent of the informal economy by measuring rates of participation was made by Ferman and his colleagues. Ferman, Berndt and Selo’s early survey conducted among 284 households in Detroit in 1977 established that 60% of the services households reported using were produced within the household by friends, relatives, neighbors or co-workers without monetary payment, and further, that of all the services used, 25% of those for which payment was made were purchased through the irregular economy of paid, off-the-books, work [35: 26–27, 36].

Following Ferman, there was an attempt in the 1980s to measure informal economic activity in terms of levels of participation rather than monetary flow. Through an IRS funded national probability survey of 2,100 homes in the United States, Smith [101: 83] found, “that about \$42 billion in informal economic activity took place in 1981 and that four out of every five American families purchased something from an informal vendor.” In 1986 Herzog, Kahn, Morgan, Jackson, and Antonucci [69] conducted a US national household survey of 3,617 adults over 25 years of age that provided information about the extent of participation in a variety of informal paid and unpaid work. Drawing on Ferman’s original tripartite distinction, the authors looked at work done in: (1) the ‘irregular economy’ which they took to be jobs people performed for each other but that were not part of their regular job; (2) the household or domestic economy such as housework, care to children in the household and home maintenance; and (3) the social or communal economy which included help provided either informally to friends, neighbors or relatives and volunteer work done for organizations. They found that while paid productive work in regular jobs occupies the greatest number of hours of productive time in any one year, significant amounts of time are involved in informal economic activity which includes irregular work for pay, unpaid work at home and help provided to others. They found that 15.3% engage in paid irregular economic activity, while 81.3% provide help of various kinds to friends and relatives; 86.9% engage in some household maintenance or improvement; and 95.5% engage in housework. The Herzog et al., was the most comprehensive data available on the extent to which adult Americans participate in non-market economic productive activity. They show that by far the greater amount of their productive time is spent in work outside of formal employment [69: 131]. However, even this data underestimated the amount of irregular work, since the respondents probably underreported criminal or illegal exchange. This was not researched in the studies of Herzog et al. [see 100]. Nor was the extent of informal exchange occurring within the market economy context, such as informal exchanges within a regular economy job, theft of time from work during which informal activities are conducted, and the informal work necessary to complete formal economy jobs.

### *Measuring Michigan’s informal economic activity, 2005*

As part of its annual statewide survey of Michigan residents the Center for Urban Studies at Wayne State University, in 2005, included a series of questions on this wider range of

**Table 1** Informal employment activities

Activity	N	Percent of responses (%)	Average <sup>a</sup> hours spent per week (h)	Average <sup>a</sup> hourly pay (\$)
House repair/improvement	15	15.31	3–5	6–10
Personal services	15	15.31	3–5	6–10
Garden/lawn services	14	14.29	3–5	6–10
Professional services	14	14.29	3–5	16–30
Childcare	6	6.12	11–20	>5 per hour
Recreational services	5	5.10	6–10	
Car repair	3	3.06	3–5	>5 per hour
Substances	1	1.02	1–2	>5 per hour
Other	25	25.51	6–10	6–10
Total	98	100	3–5	6–10

<sup>a</sup> Median value

informal economic activities. This survey of the general population is directed to residents 18 and over. The Center uses random digit dialing techniques to create a representative sample of Michigan residents. Data for this study was collected during the Fall of 2004. A total of 751 responses to the statewide survey were collected. The Detroit area accounted for about half of respondents with a 10th (9.9%) of respondents living within the City of Detroit and two-fifths (39.9%) living in the three county metropolitan areas of Detroit.

As is common in telephone survey research some skewing toward female respondents was evident with 65.1% (489) of respondents identified as females and 34.9% (262) as males. About two-fifths (39.1%) of respondents had a High School Diploma, while about a fifth (20.1%) had completed some college (AA or technical training), and a third had completed at least a four-year degree (33.4%). Over one-half (57.7%) of respondents were married. The ethnic break down of respondents was as follows: 83.5% Non-Hispanic White; 12.3% African—American, 1.6% Latin/Hispanic, 1.2% American Indian/Native American, and 1.1% Asian/Pacific Islander.

Just over half of respondents (51.1 %) were employed. Of those not currently employed, 16.3% had been employed in the last 12 months. Nearly all (94.8%) who were employed, or employed in the last 12 months, worked in the formal sector. Only 19 respondents (4.3%) reported that as their primary job they engaged in 'informal work' for which he/she

**Table 2** Informal activities while at work

Activity	N	Percent of responses (%)	Average <sup>a</sup> hours spent per week (h)
Personal entertainment	71	43.0	1–2
Educational work	39	23.6	1–2
Arranging child care	16	9.7	1–2
Running your own business within a business	10	6.1	3–5
Gambling	1	0.6	1–2
Other	28	17.0	>1
Total	137	100.0	1–2

<sup>a</sup> Mean value

gets paid, but no tax or social security is paid. However, when asked to clarify if they 'engage in any kind of informal work outside of formal employment,' 75 respondents (10.0%) answered 'yes'. Omitting overlapping responses, the total number of respondents who worked in the informal economy, at least part of the time, was 11.5% about 4% less than the findings of Hertzog et al. in the late 1980s.

Males were slightly more likely to participate in the informal economy: 14.5% of males worked at least part-time in the informal economy compared to 9.8% of females (chi-square= 3.697 df=1, P=0.055). Ethnic minorities were no more likely to report work in the informal economy than whites: 13.3% of non-whites worked at least part-time in the informal economy compared to 11.1% of whites (chi-square= 3.697 df=1,



P=0.055). Likewise, there was little difference in the percentage of respondents participating in the informal sector from Detroit City (12.0% participating in informal work), from the Detroit Metropolitan Area (11.6%), and from all other areas (11.3%).

Respondents were asked to identify the types of informal activities in which they were involved, the average time spent in these informal activities per week, as well as the average hourly pay they received for their activities (see Table 1). As noted in the table, almost equal proportions of respondents were involved in house repair/improvement, personal services, garden/lawn services, and professional services. In terms of time spent engaging in informal sector employment, childcare accounted for the greatest number of hours per week, 11 to 20 hours per week, though it was one of the lowest paid of the informal activities. The average hourly pay for these informal activities was \$6 to 10 an hour, though individuals engaging in providing professional services reported the highest hourly pay: \$16 to 30 hours on average.

Interestingly, 7.9% of respondents reported engaging in informal activities while at work or on work-related business. On average respondents spent 1 to 2 h per week at work on informal activities. In addition, respondents were asked about other activities that they may have engaged in while at work (see Table 2). Of 137 responses to this question, 43.0% were related to personal entertainment while at work and another 23.6% were related to completing educational activities while at work. Overall respondents who replied to this question spent an average of 1 to 2 h on non-work related activities. Those who ran a business while at work spent the most time: 3 to 5 h.

Outside of the workplace 14.8% of respondents indicated buying goods or services from the informal economy. Of 198 responses to the type of informal commodity purchased,

**Table 3** Informal activities purchased by respondents

Activity	<i>N</i>	Percent of responses (%)	Average <sup>a</sup> hours spent per week (h)	Average <sup>a</sup> Expense per month (\$)
Home repair/improvement	39	18.4	>1	10–101
Personal services	36	18.2	>1	10–101
Car Repair	35	16.5	>1	10–101
Garden/lawn services	32	15.1	>1	10–101
Recreational services	20	9.4	>1	10–101
Professional services	18	8.5	>1	10–101
Other	16	7.5	1–2	101–200
Substances	14	6.6	>1	10–101
Childcare	2	0.9	1–2	201–500
Total	198	100.0	>1	10–101

<sup>a</sup> Mean value

**Table 4** Reasons for informal activities

	<i>N</i>	Percent of responses (%)
I can save money	103	30.7
I can help my friends	98	29.3
I can make extra money	61	18.2
It is more fun/exciting than regular work	35	10.4
I receive prestige/status among friends	21	6.3
Other	17	5.1
	335	100.0

almost equal proportions were found among home repair/improvement (18.4%), personal services (18.2%), and car repair (16.5%). On average, respondents spent less than an hour engaged in purchasing informal

services/good. Notably, informal childcare accounted for more time, 1 to 2 hours on average, and more monthly expenditures, \$201 to 500 (Table 3).

Respondents were asked about their reason for participating in the informal economy as a consumer and/or producer of goods and services. Most responses indicated participation in the informal sector was due to economic reasons such as saving money (30.7%) and making extra money (18.2%). While, a notable percentage (29.3%) indicated that helping friends and gaining prestige or status among friends (6.3%) were reasons for participating (Table 4).

### *Conclusion*

We have seen that informal economic exchange was brought into being along with capitalist market exchange, developed alongside and within it, and has been shown to continue to be a significant and integral part of its future development. The empirical research demonstrates that informal economic activity continues to play a significant and persistent role in economic and social life, and occurs both inside as well as outside formal employment. An important corollary is that market economy activity cannot be adequately considered without discussion of informal economy. As we have argued, existing dominant economic structures have an inevitable tendency to produce contradictory social forms. Informal economies and their related informal institutions are just such forms. Once established informal economies and informal institutions exist in dynamic dialectical relations with the wider, over-arching structures of which they are an integral part. Where capitalism dominates, some of these are precipitated around the remnants of a communal order that existed prior to capitalism's formation. Others emerge from the very differentiation process employed by human agents in constructing the existing capitalist order. Yet others stem from the unbridled human capacity to differentiate, or make a difference from whatever appears to be a self-evident truth.

The relations between the over-arching capitalist economy and its contradictory forms is one of interdependence and mutuality; formal and informal economies are constitutively interrelated in both convergent and divergent relations of support and dissolution. As radical theorists have shown, this means informal economies are themselves vulnerable to penetration and undermining by the wider capitalist structure in which they are set. But the process is two-way. As conservatives and liberals fear in their different ways, the wider capitalist structure is penetrated and undermined, but, as the functionalists argue, it is also strengthened.

Perhaps the most that can be claimed is that informal economies have both transforming and stabilizing potential. Insofar as they are engaged in relations with capitalism and provide a forum for human agents to challenge its truths, then we may say that capitalism is the unsettled outcome of relations with a plurality of economic orders. But the momentary possibilities that this implies for liberation, as argued by the romantic view, would seem to pale in relation to the arguments of critical conflict theorists who show the strength of the over-arching domination of capitalist society as a whole, with its seeming endless ability to absorb, co-opt, transform and literally capitalize on that which challenges.

In short then, the study of informal economies presents a challenge to established truths, prevailing views and disciplinary boundaries. It forces us to think again about the way we measure society's economic activity, about how we assess its growth, about the motor of change and about the limits to effective policy making. The study of informal economies is a study of the 'living economy' and as such it can never fail to challenge us to research, review, and revise.

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