

SOCIAL ECONOMY AND INFORMAL ECONOMY. INTERACTIONS AND EFFECTS

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Abstract

Both social economy and informal economy define complex economic phenomena, multifaceted, which generated multiple platform debate and analysis among economists, sociologists and lawyers. Perspectives on these concepts are the most diverse and present work attempts to link these views to find common denominators, but also the elements that differentiate them. Official social economy interacts with the informal economy through the initial use of capital and generating links between different forms of capital. Underground economy is based more on use of illicit and immoral capital, while the development of a formal social require networks of trust, reciprocal links with other groups and institutions, social and economic relations that are based on values and norms recognized by society. The interplay of social economy - informal economy is manifested either through a transition from the sphere of the informal (unofficial) to formal (official) or by maintaining and emphasizing underground activities as a result of using illegal or informal social networks and social capital already existing. From the perspective of this study, social economy-binomial informal economy should be seen as: a) mediating factor between the official and unofficial; b) factor of influence to ensure a legal and institutional framework apt to limit and discourage underground activities; c) factor of transition from the informal economy to the social economy.

Key words: *social economy, social enterprises, informal economy, transition strategies, connection (interaction) social economy-informal economy*

JEL Classification: *L3, O17*

I. INTRODUCTION

The interaction between social economy and informal economy represents a challenge for academia, governments and national and international organizations. Most often the strategies of transition from the informal economy (unofficial) to the formal (official) economy do not reflect the role and importance of social economy, although the interaction between the informal economy and the social economy and its effects are visible.

From socio-economic perspective, social economy is linked to the capital and its vectors, social enterprises. Social capital includes both formal social networks and informal social networks, recognized as particularly important in establishing contacts in operationalizing social economy activities. The concept of social capital refers to "rules of conduct" and "values" governing individuals or organizations. People who share similar values and principles are more likely to develop trust and to work in different organizational forms. Social enterprise is intended to respond to social and environmental goals in terms of market data. Through its activities, social enterprises can give people an licit income and employment, develop entrepreneurial skills, provide community services, contributing to social inclusion of minorities and disadvantaged communities, fight against poverty and not ultimately contribute to integration within legal or official economy. Analyzing the underground economy with the same tools: social capital, social enterprise, social pseudo-capital, we believe that the informal sector is governed by flawed norms and values and businesses are disguised as forms of organization structures and organizations illegal, criminal.

Given the complex relationship social economy - informal economy, this work falls into the category of conceptual research. Aspects of inductive nature and deductive nature are harmoniously combined in the methodology used. The conceptual aggregation of the research subject is based on the following factors: social economy, informal economy and global economy. In the first part of the work we defined informal economy and social economy. In the second part of the study we pursued the interaction informal-formal and possible adverse effects resulting.

II. SOCIAL ECONOMY AND INFORMAL ECONOMY AS INDIVIDUAL ECONOMIC SECTORS

After meticulous research, economists have got to the conclusion that official economy is accompanied by a different type of phenomenon that consists of activities which cannot be found in the national system of income accounting, but create an important increasing share of value for the society (Frey & Schneider, 2001). This phenomenon mostly known as informal or underground economy has been referred to in literature also with the terms of unofficial, irregular, parallel, second, subterranean, underground, hidden, invisible, unrecorded, black and shadow economy or moonlighting (Frey & Schneider, 2001; Lippens & Ponsaers, 2006; Papp, 2011). Maybe because of this wide perspective on the sector located outside formal economy, there has been much debate on how to define it (Henry & Sills, 2006). So, under the lack of a commonly accepted definition of this phenomenon, and in order to gain a better understanding of it, we consider important to proceed in two directions: to distinguish the informal from the formal part of economy and to enlist a set of characteristics which can be found in most conceptualizations of this underground economy.

From certain points of view (Henry & Sills, 2006), formal economy can be seen as an epiphenomenon of governments, since it consists of all economic activities which are subject governmental accounting system, with the purpose to collect taxes. Without an accounting governmental system, all economic activity would compose economy as a whole and the idea of formal economy would have no sense. However, in today's economic world, we can find on the other side of the governmental barricade, the informal economy which has the following characteristics (Henry, 1982):

- It includes activities of production, consumption and trading of goods and services in exchange for money or social rewards;
- It's activities are unofficial, because they are not included in the gross national product (GNP);
- Includes mostly part-time activities.

The same scholar who brought important knowledge to the field, Stuart Henry, managed to classify the informal economy based on the following criteria: if the economic activities use as a medium of exchange money or barter, if they are legal or not and if they are a parasite of the regular economy:

- Irregular informal economic activity which is extrinsic to the regular employment market, and uses money for exchange; these activities avoid paying taxes and the legislative regulations regarding the health and safety of employees and customers, because they are not registered;
- Informal hidden economic activities use the employer's working time, resources or markets for someone's personal financial gain, being this way parasitic on regular employment; when these activities involve embezzlement, pilfering, time theft, etc., they become criminal;
- Informal unofficial economic activities are not a formal practice of organizations, but can be found as practices of getting around procedures and using favors, privileges and fringe benefits for exchange;
- Informal social economy which can be found in local neighborhoods, outside the formal labor market, using self-help or mutual aid.

To these, Henry and Sillis (2006) added a fifth category of illegal activities of the organized crime and gangs, being the criminal economy.

While economic crisis seized the world, economists alongside politicians and citizens have started to question the efficiency of capitalism and its capacity of surviving in its present form. Within this challenging environment, appeared the need of tempering greed and individualism, create a more human economy and create economic progress in order to obtain social and environmental sustainability (Amin, 2009). Starting from this change of perspective, the role of "social economy" has been questioned in order to see if it might offer the saving solution to the problems created by capitalism.

Social economy has been often named "the third sector", "non-profit sector" or the "sector of civil society", and is defined as the economic space situated between the private, income generating sector, and the public one, where economic activities have social purpose (Vlasceanu, 2010). In a slightly different perspective, offered by Centre International de Recherches et d'Information sur l'Economie Publique, Sociale et Coopérative, social economy is

"The set of private, formally-organized enterprises, with autonomy of decision and freedom of membership, created to meet their members' needs through the market by producing goods and providing services, insurance and finance, where decision-making and any distribution of profits or surpluses among the members are not directly linked to the capital or fees contributed by each member, each of whom has one vote. The Social Economy also includes private, formally organized organizations with autonomy of decision and freedom of membership that produce non-market services for households and whose surpluses, if any, cannot be appropriated by the economic agents that create, control or finance them." (CIRIEC, 2007, p. 9).

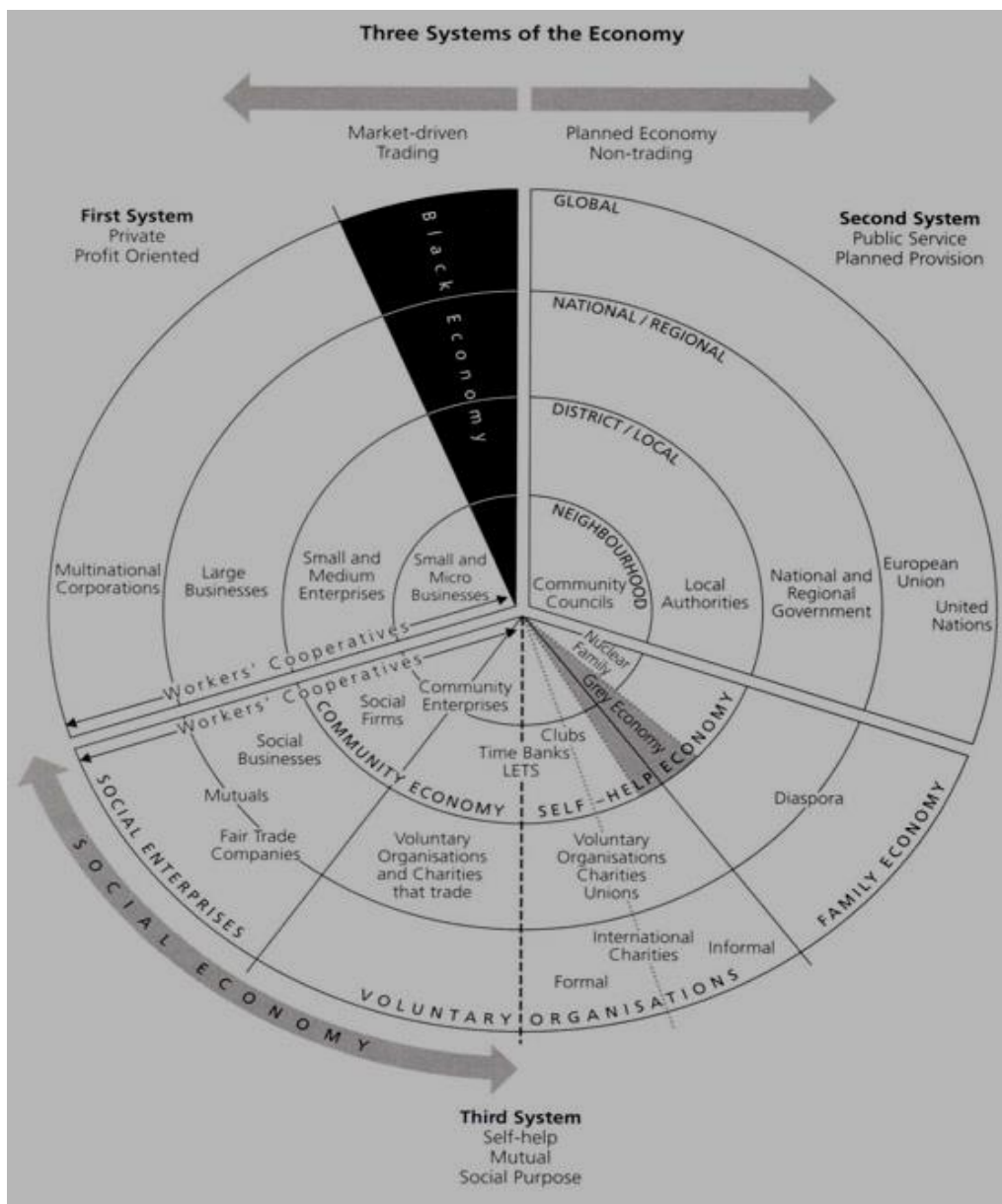


Figure 1 - The three systems of the economy
 Source: (Pearce, 2003 in Ash Amin, 2009)

When talking about positioning the social economy, a meticulous representation has been made by John Pearce in 2003 – Figure 1. This also gives the premises of understanding the role and importance social economy has in relation to the public and private sectors. Of course, we have to bear in mind the fact that the author used for this conceptualization his experience with the UK economy, which contains a significant social economy sector. On the other side, other countries which might be underdeveloped in what concerns the social economy sector still have social economy elements. So, the size of pie pieces from the representation from Figure 1 might be different, but they will have the same representation.

III. SOCIAL ECONOMY AND IT’S CONNECTION WITH THE INFORMAL ECONOMY

Based on the observation of the connection created between how people participate in informal economy and the lower class marginality, different other studies have been made on the system of mutual aid used as a mechanism of survival (Lowenthal, 1975 cited in Henry, 2006; Stack, 1974 cited in Henry, 2006). Lowenthal named this phenomenon “social economy”. It has been seen that social economy developed based on the need of offering solutions to poverty, social exclusion and other social problems (Prelicean, Bucaciuc, & Boscoianu, 2016).

During some tries of conceptualizations of informal economy, there has been made an initial difference between social economy and irregular economy (Henry, 1982). While irregular economy is an economy sector that is not registered by the society’s economic measurement techniques, and uses for exchange money, social economy did not use the same medium of exchange.

Social economy has been also divided in a “household economy” which means the “production, not for money, by members of a household and predominantly for members of a household, of goods and services for which approximate substitutes might otherwise be purchased for money” and a “communal economy”, which is “production, not for money or barter, by an individual or group, of a commodity that might otherwise be purchasable and of which the producers are not principal consumers” (Gershuny & Pahl, 1979). According to Stuart Henry’s perspective, social economy is representative for domestic, household, communal, alternative or ghetto informal economy, and they offer as example the barter, self-help and housework (Henry, 1982). Also, within the same line of thought, Henry establishes a clear typology for social economy: it is represented by activities which are not parasitic to regular economy, are not monetized, registered nor accounted, but are legal.

After the peak of studying informal economy alongside of social economy, which has been registered in the ’70s and ’80s, critical assessment and a feeling of neglect started to characterize the field (Papp, 2011).

Later on, the position of social economy towards informal economy changes from social economy being included in the former to being considered two different parts of the third sector¹. Because social economy is seen as being characterized by a set of values and is extremely dynamic in the types of relationships it nurtures, some researchers have tried to make a step back and analyze the third sector. This way, they concluded that this third sector, different from the private, profit oriented sector and the public governmental sector, consists of a social economy (recognized generally as the formal 3rd sector) and the shadow economy (European Commission, 2003). Informal shadowed economy relies on bonding social capital, but the development of social economy needs that the networks of trust, reciprocity and mutuality extend beyond other groups and institutions and bridge them.

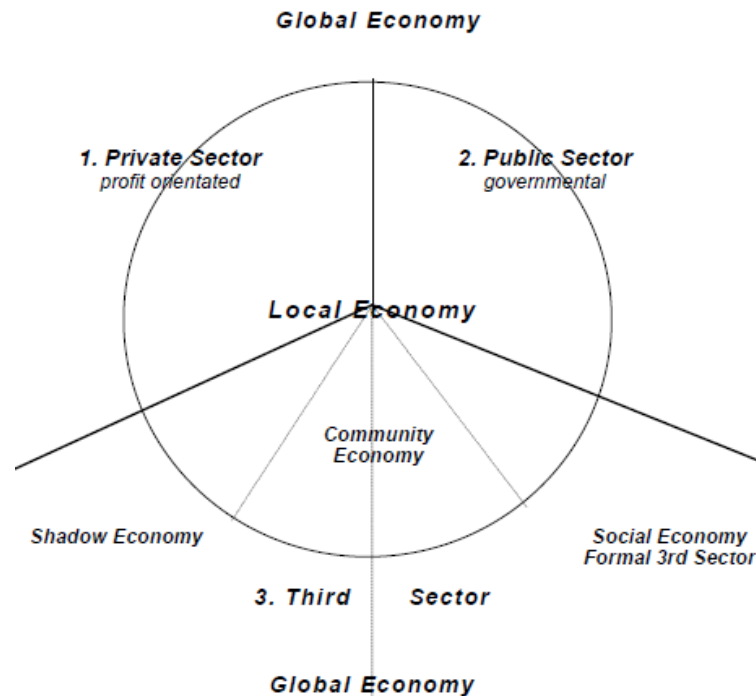


Figure 2 - Situating the Shadow Economy and the Social Economy
 Source: (European Commission, 2003)

However, in our perspective, shadow economy cannot be so simply represented graphically, since also part of the social economy can be included in the shadow economy in those countries where there is no legislation for social economy or social enterprises and social organizations carry on unregistered economic activities.

IV. PREMISES AND CONCERNS OF THE DEVELOPMENT OF INFORMAL ECONOMY AND SOCIAL ECONOMY

Based on a research made within the European Commission, the report “The Contribution of Social Capital in the Social Economy to Local Economic Development in Western Europe”, shown that when social enterprises emerge from small isolated, rural communities, usually they grow by bonding social capital which is embedded in informal or shadow economy (European Commission, 2003)

¹ The concept of “the third sector”, distinct from the traditional private and public sectors, which comprises of enterprises and organizations, has appeared in the middle of the 70’s (Defourny, 2004). The term is used mostly in Anglo-Saxon literature, is called also “nonprofit sector” and “civil society sector” and refers to organizations which invest/reinvest their profits in order to achieve their social, cultural or environmental objectives.

Discussing on the reasons based at the development of informal economy, we can find also one perspective which is in contrast with the poverty cause: the *anthropological heritage* (Gaughan & Ferman, 1987). According to this, the need of informal trading activities comes from fundamental processes of human life and the social organization, being this way adapted to social needs rather than economic ones. An important amount of unreported activities is based more on family and community processes than on material returns. And most important, these processes fill in the operations of the wider economy that fail. From our point of view, this ethnographic perspective of informal economy suits especially to the informal social economy.

On the other hand, we have to bear in mind also the point of view in which *governments have failed to sustain a healthy formal labor market*. During the transition from industrial economies which felt the decline of smokestack industries, to the rapid development of new service and high-technology industries, the level of unemployment in many countries managed only to be steady if not even to increase. Governments have tried to find different strategies in order to at least lift the burden of unemployment from those employed, but the success has been extremely low (Pahl, 1987).

In this challenging economy, the poor and/or unemployed have managed to implement their own saving strategy, the one of the informal safety nets. This is because they fail in getting a job and look for work by day or any low qualified unofficial job, or because they yearn to the higher income of those more qualified and tend to make "extra" money "on the side" in order to make up for the difference of income they perceive (Ditton & Brown, 1981). This way, they create a rather controversial situation because this type of income, even informal, gives a higher level of living which is of course gratifying, but at the same time it puts an extremely heavy burden on governments which not knowing the real income levels, have to develop too excessive social policy. Not only this, but informal labor is in the disadvantage of employers also, taking into consideration the fact that these jobs do not offer the security of a labor contract nor the framework government by health and safety at work legislation.

However, informal labor market is not created only by contractual employers, but also by informal employers. This way, relevant possible taxpayers, while dissatisfied with the public services they should get for their contribution or based of bad-faith, try to escape going to the informal economy.

And not least, an important factor of the informal economy is the *lowered levels of trust in the principle of society*, which favors an egoistic way of thinking and acting (Frey & Schneider, 2001). Solidarity is renounced in informal economy, while in social economy it represents a foundation stone.

Extensive research has demonstrated that irregular jobs characteristic to informal economy are usually done by those who are already active in the formal labor market and market economy, because they possess skills and finances needed by much informal work (Pahl, 1987; Sommers, 1990). Another perspective shows that informal economy involves more men than women, more young than old, more people without work than employed (Frey & Schneider, 2001). When talking about social economy, we can see that indeed, there are employees qualified which are needed in order to offer direction to the social economy organization, but it also involves persons who are disadvantaged on labor market: women, old people, unemployed, persons with disabilities.

Within a project report developed in London, it has been shown how United Kingdom's Government though their units with roles in solving different social community problems (Social Exclusion Unit, Neighborhood Renewal Unit, Small Business Service, Social Enterprise Unit and the Active Community Unit of the Home Office) recognized that the potential of certain aspects of informal economy have a great potential to promote and offer knowledge for entrepreneurialism, to develop coping strategies for micro-enterprises and small businesses, integrate migrants and generate social capital (Evans, Syrett, & Williams, 2006).

These examples show that social economy, through social enterprises, can facilitate the shift from informal economy to formal economy, by sustaining the activities of inclusion of disadvantaged groups and communities at large. This can be done either through financial support offered to organizations and enterprises which fight social exclusion and poverty or, even more efficient, directly through training and employment of persons coming from disadvantaged groups (Stoumann, 2007).

V. STRATEGIES OF TRANSITION FROM INFORMAL ECONOMY TO FORMAL ECONOMY

The etiology and morphology of informal economy revealed the magnitude and complexity of this economic phenomenon. The way in which informal economy influences social and economic environment has created the need to develop strategies for the conversion of informal economy to formal economy (Baicu & Corbu, 2016).

One way to translate the formal informality is the right policy and appropriate regulatory frameworks, meaning formalizing the informal. This regulation should be aimed at developing an easy process by which "actors" of informal economy can more easily obtain licenses, open accounts and pay taxes (Chen, 2006). From this aspect, the ILO has developed a consistent way of transition from the informal economy to the formal one, based on a framework for the diagnosis of seven main routes (International Labor Office Geneva, 2014): strategy development and the generation of quality employment ; regulated environment, including the establishment of international labor standards and basic rights; organization, representation and social dialogue; gender, HIV status, ethnicity, race, age, disability; entrepreneurship, skills, funding, management and access to markets;

extension of social protection: development of social protection levels and systems; local development strategies (urban and rural). We can see that the major part of the requirements set by ILO of great importance for translating the informal economy to the formal economy is the principles of social economy and social enterprises. Be it to increase quality issues in employability of socially excluded people, provision of social services or even lobbying for policy development of social protection, social economy through its own essence sustains the process of translating the informal economy.

Another approach in the translation of the informal sphere within formality is represented by a two-pillar strategy: "exit option", meaning reducing the attractiveness and "voice option", meaning strengthening voting and civic participation (Enste, 2015). The two pillars detailed in Table 1 are not yet independent of each other. The transition into the formal economy can only be done by increasing the participation of citizens in decision-making and the design of the tax system that would lower the perception of imposition of restrictions on personal freedom, fostering morality, fiscal and civic awareness yielding the diminishment of the informal economy attractiveness.

Table 1 - A two-pillar strategy for reducing the attractiveness of the existing option

Exit option	Voice option
Reducing financial incentives to escape into the shadow economy	Strengthening popular participation in government
Improve and simplify the tax system to strengthen acceptance	Build trust and invest in social capital (for example, through support of corporate social responsibility)
Reform social security systems by strengthening the equivalence principle (more social tax contributions equals higher payments)	Reduce centralization
Boost efficiency in administration and combat Corruption	Support more direct democratic elements in some areas
Focus on higher growth and welfare in the official sector to reduce pressure on government budgets	Encourage popular participation to increase commitment and loyalty and reduce free riding
Protect property rights and increase investment in infrastructure	Avoid attacking the symptoms through stricter controls, which encourages hiding participation in the shadow economy rather than reducing it
Allow more flexible work arrangements for employees and employers (individual agreements)	Focus on reforms of institutions and systems
Reduce regulation and bureaucracy	Explain and communicate broadly the need for reforms

Source: (Enste, 2015, p. 9)

From the previous mentioned, we noticed that a way to shift the informal economy to the formal economy is shown by a number of authors as formalizing the informal. However, while the rigid formalization of the informal economy can be beneficial for governments, by requiring informal associations to legalize and pay taxes, this process will not be as beneficial to small producers or service providers. Therefore, we can detect completely different approaches, represented by the non-formalization of formal structures of support for micro-enterprises and small businesses. This path offers a perspective closer to the reality of the informal economy situation and can thus offer customized solutions for development (Palmer, 2007). Again, the parallels between this strategy and social economy show that this bottom-up representative of social economy can be successful in economic and social development.

VI. CONCLUSIONS

The social economy and the informal economy are analyzed by scholars as two different complex phenomena, positioned completely different in the representation of the overall economy. However, in this paper we noted that the two economic sectors interact *directly* (by *overlapping*, such as social organizations operating in an economy where the social economy and social enterprises not covered or *sequentially* through the development of social organizations informal economy) or *indirectly* (through the social elements that lead to development of social economy and informal). Moreover, we could see that the effect social economic development has on the informal economy is positive. Through the principles of social economy and its vertical approach from community to authorities, the informal economy can be translated to a formal non-rigid sphere.

In our view, the dynamic relationship between the social economy and the informal one should continue to address issues related to norms, values, cohesion and trust between individuals and have as finality the "formalization" (becoming legal) of informal activities. Conjugation of human capital and social capital and the

use of social enterprises as vehicle can generate balanced economic and social development amid a sharp formalization of illicit activities.

Informal economic activities are characterized as being contradictory, generating positive and negative effects on local or global economic development processes. Hijacking negative consequences, by positively reconsidering the relationships of trust and mutual aid of underground economy actors could have the effect of involvement and engagement in social enterprises capable of developing a viable social economy. In this way, social economy can be seen as a mean of out-put from the vicious sphere of informality. The failure of exit from the informal sphere to social economy expresses, in our opinion, the failure of economic and social policies. As such, we pledge that the transition strategies from the informal to the formal agenda to include the complex issues of social economy.

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