

THE INFORMAL ECONOMY: VALUING, MEASURING, HARNESSING, POLITICIZING?¹

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Abstract: The paper is devoted to some preliminary considerations, regarding the ways, in which the entire world of the “informal economy” is perceived, analysed, measured, and treated in terms of political perspectives and of policy instruments. It is pointed out that the very nature and scope of “informal economy”, and its assessments, as well as political perspectives, regarding this phenomenon, are very poorly founded, full of uncertainty and arbitrary statements and policies. While this is largely understandable, there is, definitely, a highly important challenge, facing scientists, experts and politicians, of narrowing down the extremely wide domain of admitted interpretations, assessments, and political and policy attitudes. The present short paper is just meant to add some thoughts that may help in this narrowing down.

Keywords: informal economy, unpaid work, barter, trust, taxation, social ties

1. Introduction: some basic notions and questions

The notion of “informal economy”, even if surfacing from time to time in popular media, does not seem to be on the main agendas of the economic-and-political debate, which is oriented towards such keywords, or rather slogans, as financial crises, globalization, growth, inequality, oil prices, etc. When attention is primarily focused on “technical analysis”, the whole domain of “informal economy” simply disappears from sight, even though the scientific literature, devoted to the subject is very rich,

¹ This is just a rough introductory sketch for a broader study, which I indeed hope to elaborate in the nearest future. That is why it misses most of the basic elements of a true study, such a proper definitions, literature review, and such. Yet, its purpose is mainly to coin in some of the most important, in my opinion, issues, related not only to the definition, but also measurement and policy treatment of the actual entire realm of the “informal economy”.

indeed. Yet, if we think for a while on what this domain represents, it becomes obvious that the negligence of its functioning, mechanisms and volumes must – at least – be somehow justified.

To underpin the above statement, let us quote here two prominent “definitions” or “descriptions” of the informal economy. The first of these comes from the web-based “business dictionary” (www.businessdictionary.com):

“System of trade or economic exchange used outside state controlled or money based transactions. Practiced by most of the world’s population, it includes barter of goods and services, mutual self-help, odd jobs, street trading, and other such direct sale activities. Income generated by the informal economy is usually not recorded for taxation purposes, and is often unavailable for inclusion in gross domestic product (GDP) computations.”

Another formulation, including a kind of description, can be taken from the website of the International Labour Organisation (ILO), otherwise deeply involved in the analytical and constructive work on the subject:

“The informal economy comprises half to three-quarters of all non-agricultural employment in developing countries. Although it is hard to generalize concerning the quality of informal employment, it most often means poor employment conditions and is associated with increasing poverty. Some of the characteristic features of informal employment are lack of protection in the event of non-payment of wages, compulsory overtime or extra shifts, lay-offs without notice or compensation, unsafe working conditions and the absence of social benefits such as pensions, sick pay and health insurance. Women, migrants and other vulnerable groups of workers who are excluded from other opportunities have little choice but to take informal low-quality jobs.

The Resolution concerning decent work and the informal economy adopted by the International Labour Conference in June 2002 called for the needs of workers and economic units in the informal economy to be addressed, with emphasis on an integrated approach from a decent work perspective. The ILO has set up mechanisms to collect and share lessons from good practice and policy across the four strategic objectives and different regions with a view to improving ‘know how’ and ‘show how’.”

Now, in the light of these two quotations, it becomes quite obvious that the “informal economy” is in reality much bigger than the “formal” one. This is not just the reflection of the statement from the second quotation (“...*half to three-quarters of all non-agricultural employment...*”), but of the realization that, actually, if we speak of “...*trade or economic exchange (...) outside state controlled or money based transactions...*” (first quotation), then we mean an immense pool of human activities, which, by virtue of principle, COULD be subject to money based transactions and

measured for their “market value”, e.g. in the framework of the GDP calculation, but ARE NOT.

When I help an old lady cross the street, it might be a part of the paid duty of a city guard, and when I walk a dog of my sick neighbour, it might have been done for money by a dog-walking service provider. When we make fruit preserves for winter, or clean our segment of the pavement, when we walk home our friends’ children from the kindergarten, when... then we do something that could easily be valued according to some ‘market rate’. And the fact that such valuation would be “only an approximation” changes nothing, if we only remember that the actually paid (‘on the market’) rates for similar services or products are highly variable, and that often for very poorly known reasons.

The criterion of money payment, as the one that distinguished “formal” from “informal”, appears to be very attractive². First, it makes a clear distinction in the realm of services and products, as well as human relations, second, it provides the means for direct measurement. I must admit that I definitely stick to this simple criterion, when we speak of, and we wish to measure, something like the “formal” (“commercial” – in a broad sense) economy. What I would like to emphasise here, however, is that

- (a) the ‘production’ and ‘supply’ of goods and services does not end with the “formal economy”,
- (b) the dimensions of what lies outside of the “formal economy” are immense, indeed, and so is the importance of this economy,
- (c) the boundaries between the two are not only fuzzy and uncertain, but are also, in a way, located in various regions of the very broadly understood socio-economic space (I shall return to this issue a bit later on), and, finally,
- (d) the very fact of money payment does not equate with the possibility of actual measurement, and that also for several reasons, to which I shall yet return.

2. Homo oeconomicus

If I refer to the notion of “homo oeconomicus” it is not to imply that people are primarily the ‘business animals’, driven by greed, translated into some economic terms. This implication would have meant that when confronted with a choice, a human being would – as a rule – choose the option that yields a ‘higher return’.

What I mean, however, is simply that human beings perform individually and collectively a vast mass of activities, having economic significance. In a certain manner this reminds the communist concept that could, by analogy, be named “homo

² Taxation is, of course, another criterion, more formal and more clear-cut, narrowing down the domain of economy even more.

politicus”, namely that (almost) everything that people do has a political significance (in the case of the communist regimes – a very simple one: “for” or “against”).

Thus, I make a different assumption, namely that most (even if not all) of what people do has some kind of economic significance, and interpretation. Although this does not imply that the choices made are driven by the magnitude of the expected economic benefits, expressed, in particular, in monetary units, they can, of course, be interpreted in a (much) broader manner, where ‘economic’ is replaced by ‘social’ or, perhaps, ‘socio-economic’. This may lead to a very wide domain of ‘altruistic exchange’ or ‘gift’ economy (see, e.g., Titmuss, 1997, or Bollier, 2002), which I do not intend to enter here, primarily because it is highly ideologically tainted³. On the other hand, though, the broadening of the ‘economic’ perspective may bring very important insights, concerning both human behaviour in general, and its ‘economic’ – in a formal sense – aspect.

It is a well-known folk truth that any sort of service or good that can be offered without payment, can also be subject to money-based economy. Even if we think this is not really so, the margin that is left outside of the functioning of this adage is very narrow, indeed. When I make my strawberry jam myself, I make an impact on the commercial market, just as I do when I offer this jam to my friends. There may also be, and usually are, (important) direct elements of money-based economy involved in these actions (buying sugar, using commercially supplied gas to prepare jam,...). This means, simply, that not only almost anything that we do can be turned into a “formally” sold good or service, but even if we offer or get this good or service without payment (like when we do it for ourselves), there is also, in almost all cases, some element of the “formal” economy involved, and this element remains in mutual relationship with the “non-commercial” part of the action or transaction. When I do something in my own garden, not only could I hire somebody else to do this, or I could have it done by my neighbour for the exchange of some good or service, but, on the top of it, I can do this with tools, purchased for money, and that for quite a variety of tools, for which I might have paid very different amounts of money.

3. Some quotations

Just for the sake of illustration, the table below (Table 1), which is literally quote from Georgiou (2007), shows the essential kinds of activities, which are classified as belonging to the domain of “informal economy”. This list is definitely very wide, and it includes most of the instances that I mean here, but it certainly does not exhaust the very wide domain that in my opinion ought to be identified with the notion

³ The reciprocity and the equality of value are, by virtue of principle, very fuzzy notions. The range of uncertainty is so broad that any strict reasoning as to equivalence or lack of equivalence is very risky.

of “informal economy”. In particular, the table puts together the categories that are of definitely different levels, like, e.g., the one regarding the drugs, side by side with the generic category of corruption, which is exemplified solely by “bribes”. Another example is that of “work of illegal immigrants” – unpaid or non-taxed work by the “natives” being left out. Yet another refers to “Unauthorised prostitution”, which leaves outside the vast area of ‘implicit prostitution’, in which no direct payment for sex is involved, but the sense remains the same. Thus, this table is also a good illustration of the difficulty, which is encountered when trying to enumerate the activities that define the domain of “informal economy”.

Table 1. Informal (or grey) activities (following Georgiou, 2007)

Activity	Examples / kinds
Tax avoidance (legal)	= fringe benefits = legal tax planning (e.g. trusts)
Tax evasion (illegal)	= underreporting or non-reporting of income = non-issuance of receipts = illegal tax schemes
Double jobbing / moonlighting	= e.g. civil servants
Home production / services	= baby sitting = home hairdressing ⁴ = cleaning etc.
Petty unregulated / unreported trading and production	
Benefits in kind	= e.g. use of company facilities for personal gain
Infringement of copyright	= production of counterfeit goods
Fraud	= internet fraud = social security fraud, etc.
Work by illegal immigrants	
Production, distribution and sale of narcotics	
Corruption	= e.g. bribes
Illegal arms trading	
Money laundering	
Unauthorized gambling	
Trafficking of humans	
Unauthorised prostitution	
Extortion	
Smuggling	
Theft	
Piracy of the seas	

⁴ The present author has not been to a hairdresser (as of this writing) for 56 years (and is still alive...).

Another attempt in a similar direction is illustrated in Table 2, which is an only slightly modified quotation from Hussmanns (2004). Here, a sort of classification is provided, which is supposed to constitute both intellectual and pragmatic framework for placing the activities, belonging to the “informal economy”.

Table 2. Classification of activities for purposes of determining the “informal economic” activities (after Hussmanns, 2004)

Production units	Activities					
	Legal				Illegal	
	Not underground		Underground			
	Jobs					
	Formal	Informal	Formal	Informal	Formal	Informal
Formal sector enterprises						
Informal sector enterprises						
Households						

While it is obvious that this kind of categorization provides some kind of rational framework for classifying the respective activities, it still poses a number of questions, related both to the very filling of the individual cells of the table and to determining their actual (measured) content. Thus, for instance, what about illegal formal jobs in the households? In any case, the table can be filled out, also with indication that a given cell is considered as empty (NA). This categorization provides also a kind of system of dimensioning, consisting of three dimensions:

- (1) the nature of production units,
- (2) the nature of activities; and
- (3) the formality of jobs (contracts).

We shall yet return to this fundamental issue, having relevance for the delimitation and for actual measurement, against the background of the proposal from Section 5.

The attempts of measuring at least an important part of the “informal economy”, oriented at various Policy goals (see the next section), resulted in very wide efforts, undertaken on both the national and international scales (e.g. from the side of the International Labour Organization, ILO). These attempts, aiming at the development of procedures and methodologies for measuring the scale and the character of the “informal economy”, and, naturally, at production of the actual statistics on the subject, also included definite schemes, meant to categorise the activities in question. An instance, provided here in the form of Table 3, concerning the household economy, comes from the ILO’s report *Measuring informality...* (2016).

Table 3. Classification of household unincorporated enterprises (15th ICLS resolution)*

Type of enterprise	All household unincorporated enterprises	
	Informal sector enterprises	Other household unincorporated enterprises
Own-account enterprises	Informal own-account enterprises	Other own-account enterprises
Enterprises of employers	Enterprises of informal employers	Other enterprises of employers

* ICLS – International Conferences of Labour Statisticians
Source: *Measuring informality...* (2016)

The question, which should be seriously asked, regarding the design of Table 3 is: what sort of purpose is it meant to serve? What conclusions might be drawn from the structure like this? And: what is, economically and socially, the significance of the distinctions introduced, and how they can be made in reality? Some light on the potential answers to these, and, indeed, more, questions, may be gained from the next table, Table 4, taken from the very same source.

Table 4. Criteria for defining informal sector enterprises (15th ICLS resolution)

Criterion	Purpose
1. Legal organization: enterprise not constituted as a legal entity separate from its owner(s)	Identification of unincorporated enterprises
2. Ownership: enterprise owned and controlled by member(s) of household(s)	Identification of household unincorporated enterprises
3. Type of accounts: no complete set of accounts, including balance sheets	Exclusion of quasi-corporations from household unincorporated enterprises
4. Product destination: at least some market output	Identification of household unincorporated enterprises with at least some market production; exclusion of household unincorporated enterprises producing goods exclusively for own final use by the household
5. Kind of economic activity	Exclusion of household employing paid domestic workers; possible exclusion of enterprises engaged in agricultural and related activities
6.1. Number of persons engaged / employees / employees employed on a continuous basis: fewer than 'n' and/or 6.2. Non-registration of the enterprise and/or 6.3. Non-registration of the employees of the enterprise	Identification of informal sector enterprises as a subset of household unincorporated enterprises with at least some market production

Now, here, in distinction from the proposal of Table 2, we deal with at least six dimensions (six to eight). While their sense can hardly be put to doubt, the question is, similarly as for the cells of Table 2 – what are the correlations between these dimensions in socio-economic reality (these correlations quite obviously differing for various national and regional economies)?

4. The purposes and the instruments

Now, having said this, I should indicate the objectives of all this, in the perspective of this introductory essay: the ‘internal’ purposes (cognitive, let us say), and the ‘external’ ones (applied, or policy oriented). The internal purpose is to grasp the (‘true’) dimensions of the economic space and the intervening variables or criteria that help in assessing, delimiting, etc., the ‘objects’ in this space. Of special interest are the boundaries of what I appear to call “informal economy”: do they, in fact, exist? And if they exist, how are they defined, and placed (delimited)? Then comes the question of measurement (not just the ‘volume’, but the ‘value’ or ‘intensity’). The question of measurement can be practically reduced to the “monetisation” or “market exposure”, but it can also be treated more broadly, very much like when we try (oftentimes in vain) to separate the “current market price” from the (however understood) “equilibrium price”. In this latter case, though, we obtain usually a lower value than that quoted on the market at a given instant. On the contrary, in the domain of “informal economy” the proportions are quite inverse, very frequently.

These questions have a direct bearing, naturally, on the second domain of purposes, the applied ones. No policy can be formulated in a rational manner if we cannot measure, or can measure only with a very broad margin of error. Can “informal economy” be measured with accuracy sufficient for any policy making? Yet, concerning policy making there is also another, very important aspect, associated with the question of the ‘true value’, mentioned in the context of measurement. This aspect can be referred to through the question: “What do we want to do with the value of the informal economy?” Do we want to “tap it” (tax at least some part of it as it is, or turn into “formal economy” by, say, making it commercial), to support it (as, at least partly, an irreplaceable complement to the “formal economy”), or to liquidate (a part of it that we deem harmful or redundant)?

The answers to these questions depend upon – exactly – the ‘value’ we attach to the (particular actions / transactions within the) “informal economy”. Just like with the “formal economy”, the policies may be designed so as to treat in a differentiated manner these diverse fragments of the “informal economy”. Still, even if we have all of the necessary definitions, including the boundaries and the assessments, and we know what are our policy goals (answers to the above questions) – do we really have the appropriate instruments for realizing these policy goals? This, indeed, is a very hard issue, as well. With all these problems, of intellectual, technical and, certainly,

also moral character, no wonder the whole realm of “informal economy” lies almost entirely outside of the reach of the actual policy thinking and implementation.

5. The boundaries and the dimensions

I shall now try to sketch the perspective, within which I perceive the whole area and the individual phenomena within the “informal economy”. This perspective involves the understanding of the boundaries and the relations in this domain, including definite aspects of evaluation. It consists in defining a sort of ‘space’, within which I would like to place the particular individual activities, in particular those associated with “informal economy”. This ‘space’ shall not only, ultimately, allow for classifying the activities, but also, perhaps for measuring some of their important aspects that may have connection to the policy objectives and the potential policy instruments.

This, this perspective is based on the following dimensions (variables):

- **distance (affinity)** between the persons, involved in the activity; the distance is zero (affinity is at its maximum) for the single persons (‘I do this for myself’), and it is very small, indeed, for the members of the family (household); distance grows for friends and acquaintances, through neighbours, etc., up to some kind of maximum for ‘an anonymous person somewhere on the globe’; it is understood that the bigger the (maximum) distance between the persons, engaged in the given activity, the lower the possibility that we deal with the genuine “informal economy” (e.g. in view of the necessary presence of intermediating instruments, institutions, and the like); on the ‘inner’ side of this dimension, for the smallest distances, we can also see the limits of “informal economy” in the sense that we can oftentimes hardly speak of any ‘economy’ at all;
- **transferability** of the given transaction (relation); this dimension is very closely associated with the previous one, and this especially for small dimensions; transferability means, namely, the possibility of changing the ‘partner’ of the transaction; the higher the value of this variable, the higher the possibility that we actually move out of the domain of “informal economy”, for reasons similar to those, mentioned in the case of distance; this variable is, of course, not identical with distance, even if definitely correlated; suffice to mention that ‘what I am doing for myself, I could also do for you’;
- **unit value** – here the ‘outer world’ of market economy appears to intervene, but, in fact, not completely directly; while we can speak of the ‘market value of the good/service’, we, actually, should speak of the ‘value to the participants of the activity / transaction’; still, the interpretation of the significance of this variable for the perspective outlined is very much the same: the bigger the unit value, at least beyond some limit, the less probable is the maintenance of the activity within the domain of “informal economy”; and, similarly as with the preceding variables, on the inner side – for the negligible

unit values one can hardly speak of any ‘economy’ at all (down to a smile or a handshake...);

- **volume** – the unit value might be small (although, of course, not very small), but if the volume of activity is high enough, then we suspect that we deal with an actual ‘economy’ (meaning sort of business), and then, beyond certain scale of volume, we suspect we do no longer deal with “informal economy”, but with ‘serious business’;
- **trust** should be, actually, considered jointly with the next variable of institutionalization or formalization; I do distinguish between the two because they have, first, different external aspects, and, second, the possibilities of assessment are, certainly very different with respect to these two dimensions; the degree of trust has a bearing not only on the degree of formalization of procedures and records, but is also closely associated with the very undertaking of the activity (do I trust myself enough to do this – even just for myself?); in fact, trust may even constitute the sole reason (side by side with need or opportunity...) for undertaking the activity;
- **institutionalization (formalization)** is the aspect, which usually appears as the most important criterion for delimiting the “informal economy”, even if with a definite approximation; of course, when ‘all papers are in order’, then we no longer deal with “informal economy”, and quite often there are no papers at all.

Thus, we deal here, again, with six variables, similarly as in Table 4 (although there we could easily distinguish up to eight of them). These are, in my opinion, the characteristics that describe the activities that could be classified as belonging to the “informal economy”, and that may allow for the definition of the (‘lower’ and ‘upper’) limits of this particular kind of economy.

On this basis we can design or identify the categories of activities that, conform to the previously asked questions of purpose, ought to be ‘tapped’, ‘supported’ or ‘liquidated’. The proposals for the respective methodology shall constitute the subject of the future study.

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