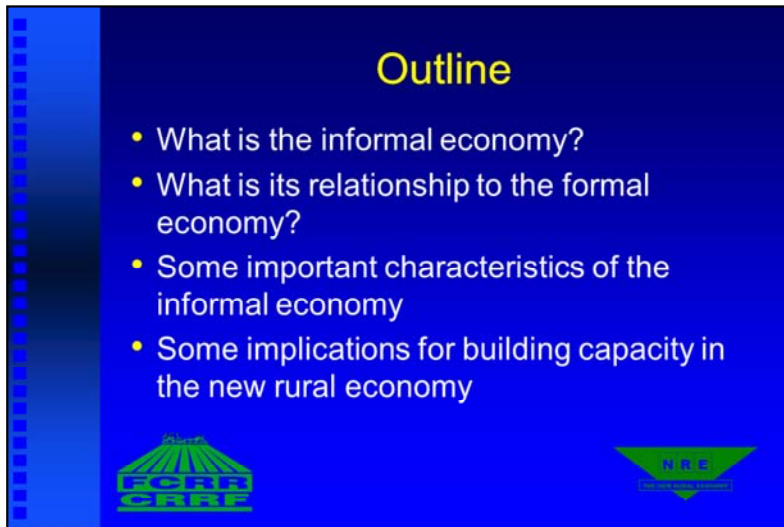


#### Acknowledgements:

- The Canadian Employment Research Forum (CERF)
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- The Canadian Rural Revitalization Foundation
- The Social Sciences and Humanities Research Council of Canada
- The Wales Rural Forum



This paper arose out of

- A concern that many of the activities we observed in our rural communities are not reflected in available measures – in spite of the fact that these activities make a contribution to the rural economy
- Without including them:
  - We get a distorted view of the economy
  - There is little recognition of the contribution made by many rural people, groups, and processes
  - The result is poor policy since it is based on incomplete information



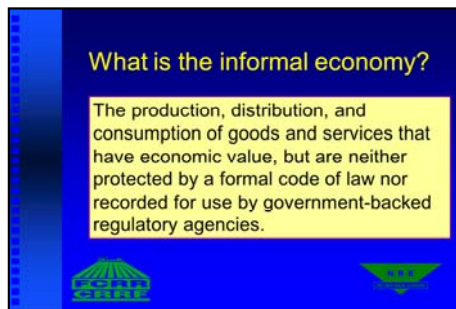
## Outline

- What is the informal economy?
- What is its relationship to the formal economy?
- Some important characteristics of the informal economy
- Some implications for building capacity in the new rural economy



The presentation is organized with respect to 4 questions and results:

- What is the informal economy?
- What is its relationship to the formal economy?
- Some important characteristics of the informal economy
- Some implications for building capacity in the new rural economy



## What is the Informal Economy

The informal economy is identified by many different names in the economic and social literature. These include the ‘underground’, ‘invisible’, ‘secondary’, ‘irregular’, or even ‘criminal’ economies. This variation reflects the extent to which its identification is socially constructed, that is, largely based on the objectives and interests of the person arguing the case as well as the context in which the activity occurs (Pahl, 1984:123-126; Portes, 1994; Williams and Windebank, 1998).

In most instances, the term has been used by those who view the informal economy to be uninteresting or undesirable. Traditional economists have tended to view such activities as ‘externalities’ to the operation of the formal economy, thereby receiving scant attention. In the political forum, the informal economy is often equated with tax evasion and criminal activity, thereby reinforcing the calls for its elimination (Smith, 1994; Mirus, et a., 1994).

Our approach is more inclusive. We recognize that the differentiation of formal from informal economies is largely a matter of administrative organization: the formal economy is essentially economic activity that we actually count. It refers to the transactions of legitimate business, recorded by government agencies. It leaves out a great deal of economic activity, however.

[S]Our approach is reflected in the definition we use as a basis for this exploration. We define the informal economy as ***the production, distribution, and consumption of goods and services that have economic value, but are neither protected by a formal code of law nor recorded for use by government-backed regulatory agencies.*** This includes illegal activities, but it also includes a large number of legal economic activity such as self-provisioning, barter, volunteer work, unpaid labour, care-giving, subsistence production, and a wide range of sharing activities that make up human relations.

[ Within our project we have identified the informal economy to include: “All economic activity outside the formal tax system, including free labour, all kinds of barter, unrecorded cash, and pricing based on friendships and arrangements other than the going market prices.”

We investigate the informal economy in the spirit of description rather than prescription. For this reason, we do not assume that it is detrimental to the operation of the formal economy, but may provide important benefits to it. Similarly, we do not assume that it needs to be reduced in order to enhance the formal economy. Instead, these assumptions will be examined by exploring first, the ways in which the informal economy operates -- particularly in the rural context.]

**What is the informal economy?**

The production, distribution, and consumption of goods and services that have economic value, but are neither protected by a formal code of law nor recorded for use by government-backed regulatory agencies.

- Goods or services: baking a pie, fixing a car, volunteering for a charity
- Could be bought or sold, but aren't
- Not taxed or regulated
- Not necessarily illegal

### **What does this mean?**

- The production and exchange of goods and services
- They often substitute for goods and services that could be bought and sold, but they aren't
- Because: this would mean that they become formal – i.e. taxed or otherwise officially regulated
- Could be illegal, but most of the informal economic activities under this definition are legal
- This definition makes visible many activities that are currently invisible features of the economy at the present time



## **Its Relation to the Formal Economy**

- What are the ways in which the formal and informal economies are interrelated?
- Dominant economic and official views:
  - As modernization proceeds and human activity becomes more integrated into the formal market, the informal economy will diminish in size – eventually remaining, if at all only in the most backward or resistant economies.
  - It represents activities that do not make an appropriate contribution to overall social welfare and therefore should be taxed or eliminated
    - Primary focus on ‘under-the-table’ activities
    - In Canada – General Sales Tax on any transaction potentially makes any transaction without declaration to be an illegal one
- Our view:
  - Much of the informal economy already makes a contribution to the formal economy and to social welfare whether it is taxed or not.
    - Reorganizes and builds assets
    - It provides important services to the formal economy



## The Informal Economy supports the Formal Economy

### •Capital formation

#### •Informal trade rearranges assets

- E.g. Skate and ski exchanges rearranges assets to meet changing conditions
- E.g. Computer hand-me-downs extends the access to the new technology

#### •Source of innovation

- New tools and approaches often developed and tested within the informal economy
- E.g. trivial pursuit, basketball, computer software (Linux, freeware)

#### •Reorganizes and builds human capital

- People learn skills even when they are not in school or don't get paid (e.g. computer knowledge, Cap a l'Aigle: gardening and lilacs)
- Potential employers get to learn about employees before hiring (lower costs for training and mistakes) (e.g little league baseball)
- Increases motivation and entrepreneurship skills (e.g. junior achievement, 4-H, boy scouts)

#### •It reorganizes and builds social capital

- E.g. Recreation groups, Youth groups, church boards, citizen action groups teach organizational skills that can be used for productive purposes
- E.g. Women in Awano (reorganized their interests and skill)

### •Services the formal economy

#### •Restores labour

- Feeds, clothes, houses labour force
- De-Stresses – recreation

#### •Maintains and builds social cohesion

- Similar activities related to social capital (cf. above), but not necessarily directly related to productive ends
- E.g. Card parties don't necessarily lead to tradeables or income, but they do build trust and exchange information potentially useful for such purposes

#### •Provides a safety net/valve

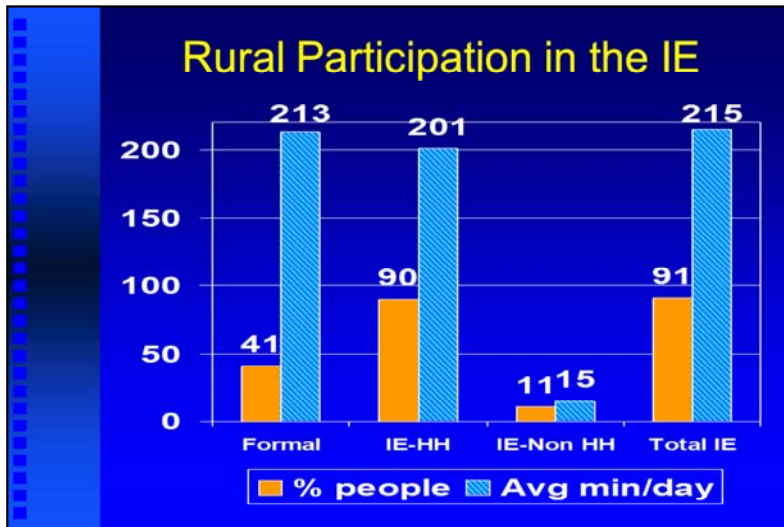
- Formal economy marginalizes, alienates, and generates tensions
- Societies must mitigate maintain level of social inclusion and moderate tensions
- Informal supports, voluntary associations, charities provide these services to 'permit' alienation to occur

## Some Characteristics of the Informal Economy in Rural Canada

- Levels of participation
- Income
- Gender
- Employment
- Interactions between them

What does the informal economy look like in rural Canada?

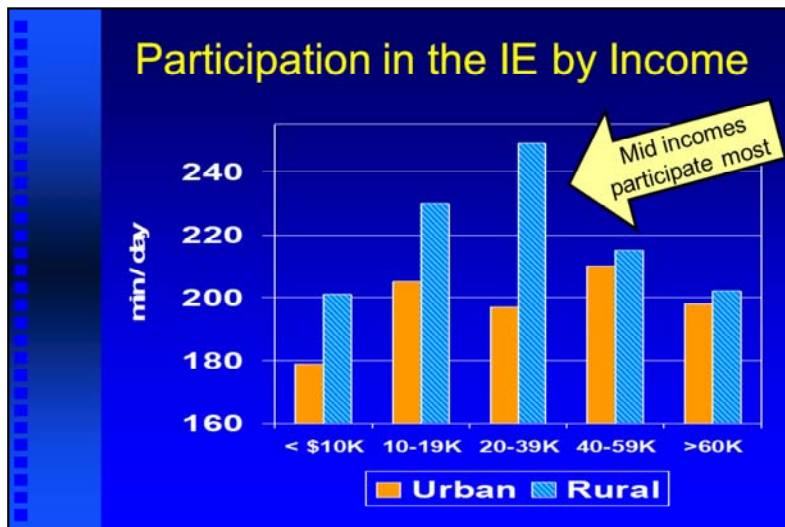
- I will present data on:
  - Levels of participation
  - Income
  - Gender
  - Employment
  - Interactions between them
- Data comes from the Canadian General Social Survey
  - I used information from the time budget data
  - Selected it by types of activities and characteristics of the people involved
  - 1998
  - These patterns are essentially the same in the 1992 sample as well
  - Not had time to work with our data collected in rural households (2001)
    - Preparing this work



Levels of Participation in the Informal Economy by rural people

- 1998, non-CMA, time budget data (GSS), national data
- Much higher % of people than in formal economy
- Amount of time is substantial (over 200 minutes – over 3 hours per day)
- Restricted definition – non HH exchanges:
  - Fewer people (11%)
  - Less, but still significant time (15 minutes a day)



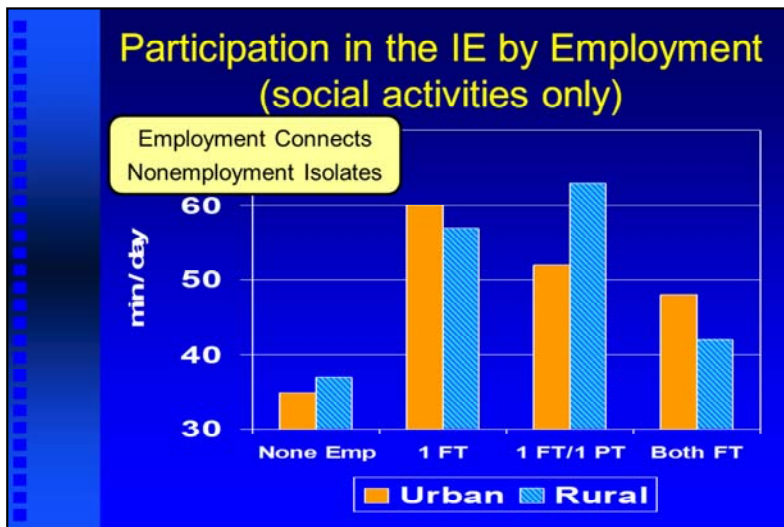


What is the Relationship between the Informal and Formal Economies?

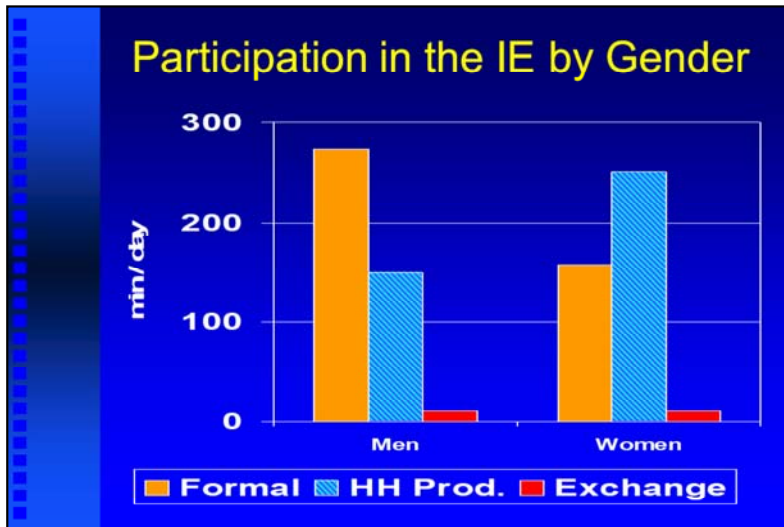
- There is some recognition in the literature that the formal economy may vary in a counter-cyclical pattern with unpaid work, but the elaboration of that relationship is underdeveloped
- Simple correlation analysis reveals negative values around it
  - -.40 for both rural and urban respondents between time spent in formal and informal activities
- The details of these relationships are better revealed when looking at more specific conditions

Participation in the Informal Economy (1998 data)

- Urban residents: reasonably similar over income levels except for lowest one
- Rural residents participate more in IE activities
- Participation is highest at the middle income levels
  - Note how participation levels drop off at the lowest income levels for both CMA and non-CMA residents
    - Even more so for the very low levels of income (<\$5K for example)
  - This may reflect a limitation in the safety-net hypothesis – very poor people are less able to participate in the IE because they lack the basic resources to exchange
  - Note also how important the informal economy is for middle incomes (Canada II?) in rural areas only



- Our analysis also suggests that the informal economy relationship with rural household pluriactivity is very different than urban pluriactivity
- We looked specifically at those informal economic activities that involved another person – either specifically done FOR another person or WITH another person, thus focusing on informal EXCHANGE activities.
- [S]The graph shows how different the patterns are for urban and rural respondents
  - For urban respondents, increases in pluriactivity (1FT to FT/PT to both FT) mean a decrease in informal economic activities
  - For rural respondents the FT/PT combination is associated with the highest level of informal exchange activity
- Being outside the labour force yields the lowest levels of IE activities
  - This may be an important part of the social exclusion associated with unemployment
- We need more research to explore these differences since the GSS does not provide us with sufficient information.



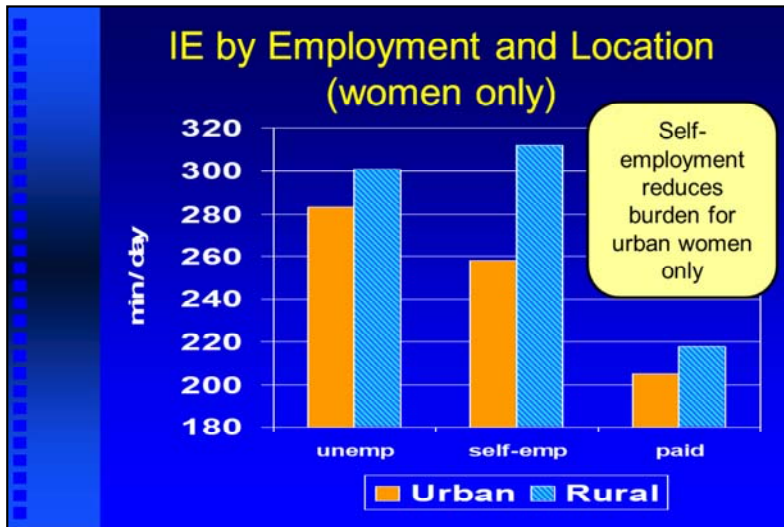
The general figures gloss over some important gender issues

- Men are more likely to be involved in formal activities than women, and women are more likely to be involved in informal activities than men.



These gender-related characteristics highlight the ways that policies developed without recognition of the informal economy might exacerbate inequalities and exclusion

- An example can be found in those projects and policies that support self-employment as a response to job loss in rural areas.
- Self-employment is one of the fastest growing economic activities in rural areas, and a very high percentage of these people are women.
- The implications of self-employment for men and women are very different, however, if we include an examination of the informal economy
  - [S]For men, moving to self-employment from unemployment means a decrease in the time devoted to informal economic activities
  - [S]For women, on the other hand, it means an increase.
    - Self-employment is an additional burden, not a substitution
    - Only by moving to paid employment does their involvement in informal economic activities decrease



This difference takes a new twist when we compare rural to urban residents.

- [S]For urban women, moving from unemployment to self-employment means a decrease in informal economic activities – [S]unlike the situation for rural women.
- The implications of these conditions are not included in the policies or programs directed to entrepreneurship – but they should not be overlooked if those programs are going to be effective.

## The New Rural Economy

- Services rather than resources
- Knowledge and innovation
- Global competition

### Contributions of the Informal Economy

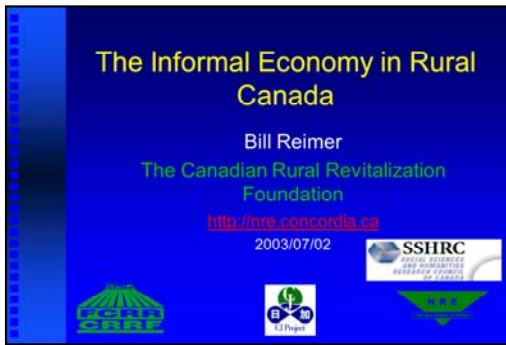
- Retrain for a service economy
- Expand knowledge and innovation
- Identify and meet external (urban) demand
- Build external (bridging) networks
- Moderate negative impacts

#### The New Rural Economy and the Informal Economy

What are the key characteristics of the new rural economy and how might the informal economy serve to support it?

##### The New Rural Economy

- Increased importance of services over resource extraction
  - In Canada: employment in agriculture, forestry, fishing, mining has dramatically decreased
  - In Wales: mining, I presume has shown the same trend
- Increased importance of knowledge and innovation
  - Computers, biotech, but also marketing innovations and re-organization of administrations
- Response to the increasing competition from all over the world
  - Linked to new technologies and trade liberalization
  - Exacerbated by world finance and industrial concentration
- How might the Informal economy be important within this context?
- Shift from resource extraction to services
  - Retraining
  - New forms of social organization
    - Rural: services have been primarily based on associative and communal relations
    - Result: they have not been part of the formal economy – not income generating
    - NRE – market and bureaucratic forms of relationship dominate
    - Therefore rural people need to learn how to work in these types of relationships
      - Build on strengths (associative and communal) to build market and bureaucratic
      - e.g. Cap a l'Aigle, Awano
- Knowledge and innovation important
  - Introduce Internet skills and support through voluntary organizations
  - Explore local knowledge and skills for innovation
  - Spread the risk through associative and communal networks
- Look for and recognize external demand
  - E.g. Matane and the in-bussing of students
  - Niche marketing
  - Branding products
  - Food, water, amenities are already shared interests
- Build and use external networks
  - Youth leaving – maintain contacts
  - Associative groups (common interests) as bridging and searching mechanism – Cap a l'Aigle
  - Community programs of exchange (e.g. Japanese program of travel rewards for community inspiration)
- Limit negative impacts
  - Especially: elderly, youth, women, poor, transport challenged
  - Using strengths
    - Associative and communal to build market and bureaucratic
    - Common interests with urban



- Thanks
- Invitation



### **[S]The Data**

- Because it is outside the view of the usual measures of economic activity, informal economic activities are hard to measure.
- Usually through aggregated data from administrative records and national accounts (i.e. as a residual)
- These don't provide information regarding the people or relationships involved.
- We have turned to the GSS to provide this information
  - [S]Time budget information provided on GSS2 (1986), 7 (1992), and 12 (1998)
  - [S][S]Includes information about what people did, some re. Who they did it with, and what their characteristics are.
- The coding options for GSS2 were more limited than for the other 2 – therefore we have used these ones in our analysis
- In addition, GSS2 did not include an identifier for urban and rural geography
  - Even with GSS7 and 12 – the geography identifier is between Census Metropolitan Areas (CMAs) and non-CMAs (because of confidentiality)
    - CMA – urbanized core of at least 100,000 with its associated labour market
  - Thus, it is a rough approximation of the distinction we have made in most of our other NRE work – i.e. places and spaces less than 10,000.



## Measuring the informal economy

<p>Household Production</p> <ul style="list-style-type: none"> <li>• Meal preparation</li> <li>• Dressmaking and sewing</li> <li>• Vehicle maintenance</li> <li>• Child care</li> <li>• Personal care of adults</li> </ul>	<p>Exchange Outside HH</p> <ul style="list-style-type: none"> <li>• Volunteer work</li> <li>• Transportation for organization</li> <li>• Care for disabled or ill for organization</li> <li>• Hobbies for sale or exchange</li> </ul>
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### [S]Measuring the Informal Economy

•Using these activities, we have developed a classification into 3 types of activities

- Formal economy (e.g. ‘work for pay’, ‘travel during work’, ‘meals/snacks at work’)
- Informal economy
  - [S]Those related to household production (e.g. ‘meal preparation’, ‘vehicle maintenance’, ‘child care’, ‘personal care of household adults’)
  - When selecting market-related activities we made use of the ‘third person criterion’ used by Statistics Canada:
    - Distinguishes those activities that could be delegated to another person from those that could not.
  - [S]Those explicitly identified for exchange purposes (e.g. ‘volunteer work’, ‘transportation assistance for an organization’, ‘care for the disabled or ill on behalf of an organization’, ‘hobbies done for sale or exchange’)

## Levels of Participation (% of people involved)

Year and Residence	Formal	Informal			N <sup>1</sup>
		Household	Non-household	Total	
1992 - CMA	44.9	84.8	8.1	86.1	5359
1992 - non-CMA	39.0	87.8	10.7	88.6	4456
1998 - CMA	43.4	90.2	7.5	90.6	6279
1998 - non-CMA	41.3	90.2	10.5	91.1	4469

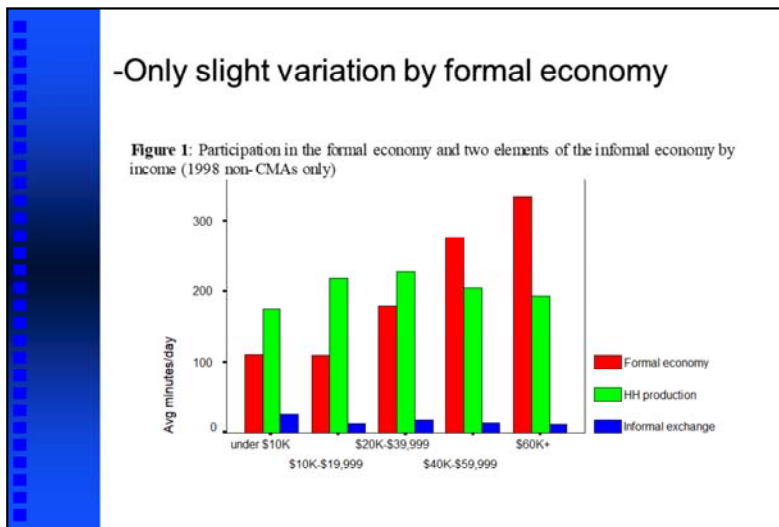
### [S]Levels of Participation

- Provides the % of people who were involved in the
  - Formal economy
  - Household production
  - Exchange activities
  - Informal Economy (both of the latter 2)
  - Frequencies (unweighted)
- Note:
  - Over 86% of the respondents participate in the informal economy
  - Mostly a reflection of household production
  - [1992 – higher % of non-CMA people participate in the informal economy (significant at  $p < .01$ )
  - 1998 – only difference is with formal and non-HH activities ( $p < .05$  and  $p < .01$ )
  - Decrease in % of CMA people participating from 1992 to 1998
  - Increase in % of non-CMA people participating from 1992 to 1998
- Summary
  - Informal economy is important to most people (over 85% of population)
  - Major part is through production and services oriented to the HH
  - About 7% of the population involved in non-household exchanges
  - Our measures are likely to underestimate this]

Levels of Participation (average minutes per day)					
Year and Residence	Formal	Informal			N <sup>a</sup>
		Household	Non-household	Total	
1992 - CMA	234.8	184.6	10.4	195.0	5359
1992 - non-CMA	187.5	208.9	14.5	223.3	4456
1998 - CMA	230.3	188.0	8.2	196.2	6279
1998 - non-CMA	212.8	200.6	14.5	215.0	4469

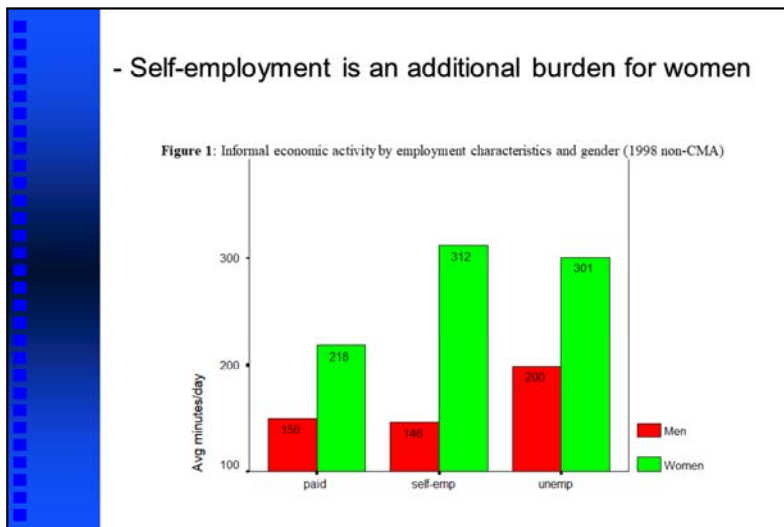
[S]Levels of Participation – average minutes per day

- Between 3.3 and 3.7 hours per day on informal economy activities
  - Formal economy: between 3.1 and 3.9 hours per day
- Most IE activities are household-related
- Non-CMA residents spend more time in IE than CMA residents ( $p < .01$  for all comparisons)
- [Decrease in amount of time in IE from 1992 to 1998 (non-CMA residents) – due to decrease in HH-related activities
- Sum:
  - In non-CMA: more time in informal economic activities than formal
    - In CMA: less time in informal over formal
- 1992 to 1998:
  - Non-CMA:
    - Decrease in time related to IE activities
    - Increase in time related to formal activities
  - CMA:
    - Slight increase in informal
    - Decrease in formal]



[S]We can take a closer look at the safety-net aspects by looking at participation in the formal and informal economies for non-CMA residents only

- Participation in formal economy drops with income decreases as expected
- In this case we have broken apart the 2 aspects of the IE that we have been able to measure
  - Household production is particularly insensitive to variations in income or participation in the formal economy
  - Outside HH exchanges, on the other hand increase slightly at the lowest level
    - Only some compensation for lower participation and incomes in the formal economy
    - Caveat – at ‘no income’ level, extra-HH exchanges drop to 1.2 minutes a day on average
- [This data also challenge the modernization hypothesis – participation in IE activities remain strong at all levels of income
  - Participation in the formal market does not eliminate participation in the informal economy]




These gender-related characteristics highlight the ways that policies developed without recognition of the informal economy might exacerbate inequalities and exclusion

- An example can be found in those projects and policies that support self-employment as a response to job loss in rural areas.
- Self-employment is one of the fastest growing economic activities in rural areas, and a very high percentage of these people are women.
- [S]The implications of self-employment for men and women are very different, however, if we include an examination of the informal economy
  - For men, moving to self-employment from unemployment means a decrease in the time devoted to informal economic activities
  - For women, on the other hand, it means an increase.
    - Self-employment is an additional burden, not a substitution
    - Only by moving to paid employment does their involvement in informal economic activities decrease
- This data may also reflect a process whereby women must invest more time in acquisition of acceptance, markets, and time through the informal economy in order to engage in self-employment.
- A more detailed analysis is necessary to determine which of these implications is more accurate.

## Research Results

- Rural people participate more in IE
- Some buffering occurs – but:
  - IE occurs at all levels
  - Lowest levels of income are less likely to participate
- IE activities build social capital – but:
  - Not for all people
- Gender matters



### [S]In Summary

- [S]1. Rural people participate more in the informal economy (% of people and the amount of time)
- [S]2. Some buffering occurs between formal and informal economy, but it is conditional in a number of important ways;
  - [S]There is a relatively high level of participation in the IE at all income levels
  - [S]People at the very lowest levels are less likely to participate
- This implies two things
  - The IE is an important element of the formal economy
  - It does not serve as a supplementary support system for all people who might need it.
- 3. [Have not had time to present the related data, but there is an additional point to be made regarding the informal economy and social capital]
  - [S]Many of the informal economy activities involve with others both inside and outside the household (reflection of social capital?),
  - [S]But, Our examination of these socially-oriented activities show important sensitivity to employment status (e.g. for unemployed people, the involvement in socially-related activities drops
  - Once again exclusion from the formal economy may doubly jeopardize these people.
- [S]4. There are important gender relations that must be considered in an analysis of the IE and policy related to it
  - Women bear a greater burden of the informal economy than men
  - This burden does not respond in the same way to participation in the formal economy as it does for men
  - It is also different for rural as opposed to urban women
    - E.g. self-employment for rural women means a greater burden over unemployment, whereas for urban women it means a lighter burden

## Implications for the techniques

- Good for activities, relations, not reasons
- Insensitive to some exchanges
- Limits to geography
- Good for exploration, comparison

[S]What are the implications of the technique (time budget) for the examination of the informal economy?

- [S]The technique is good for the identification of activities and some relationships, but not for identifying the reasons for these activities or the way they relate to individuals' strategies
- [S]They are probably not picking up many of the exchanges made between people. This may be due to:
  - The collection techniques and questions asked, or
  - The coding of the responses
- [S]There are limits to the geography (only CMA vs. non-CMA)
  - This may be overcome by special runs using Postal Codes.
- [S]The technique is good for exploratory purposes
  - Comparisons can be made within a survey
  - It is good for highlighting important issues to be investigated in our field surveys on the same topics

## Policy implications?

- Stop trying to formalize the IE
- Design enabling policies
  - Ease entry into and out of IE
  - Make IE learning, work experience, criteria for EI and welfare
  - Support LETS-type activities to increase social cohesion
  - Provide adequate support for collective services

[S]Policy implications of this research?

- [S]We should stop trying to formalize the informal economy
  - It performs useful functions for the formal economy and social stability
- [S]We could go further and design policy that facilitates the functions of the informal economy – for example
  - For its safety-net functions – We could make entering the informal economy easier and use it to access the formal economy through such things as tax modifications, removing welfare disincentives, including access to health, dental, disability insurance for those in the informal economy
  - Reinforce its links to the formal economy by establishing learning or work experience in the informal economy to be included as criteria for employment insurance and welfare programs. Collateral for financing could be reduced for a strong track record in the informal economy, for example.
  - Social cohesion could be increased by supporting informal coop and LETS-type activities. These will also provide a basis for learning that is useful for formal economic activities.
  - We could design methods to compensate people for the public services provided by the informal economy. Providing recognition for the in-kind contributions via grants, transfers for such things as the servicing of rural heritage and management of territory, and infrastructure that can facilitate the fulfillment of these service objectives
- In short, recognizing the informal economy as a basis of increasing community capacity.