

The Informal Economy in Rural Canada

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1. Introduction

This paper argues for an expanded view of the rural economy. Rather than limit the focus to those economic activities reflected in public records, we include those that have been identified as part of the informal economy: the many productive and service activities that are not reflected in the taxation and national account data. By doing so, we demonstrate the important links between informal and formal economic activities.

Our objective is to conduct this analysis using a rural lens. There is considerable evidence to suggest that informal economic activities are a special part of rural regions (Felt and Sinclair, 1992; Ommer, 1994). Rather than treat them as the vestiges of a previous level of development, we consider them to be supportive of the formal economy and an important part of its operation. As such, it is necessary to understand the relationship between the two in order to develop policies and plans that are sensitive to this interrelationship. Without them we risk misunderstanding the operation of the formal economy, mis-measuring economic growth, excluding relationships and activities important to that economy, and enacting policies that are inappropriate as solutions to rural problems. With them we can identify new opportunities for building rural economies under rapidly changing conditions.

2. The Informal Economy

The informal economy is represented in many different ways in popular and academic literature. Terms such as the ‘underground’, ‘invisible’, ‘secondary’, ‘irregular’, or even ‘criminal’ economies are frequently found in popular discussions. In addition, distinctions between ‘market’ and ‘non-market’, ‘paid’ and ‘unpaid’, or ‘legal’ and ‘illegal’ are an integral part of the more academic discourse. In most general terms, it refers to the production, distribution, and consumption of goods and services that “we do not count”.² It includes a wide variety of activities.

This variation reflects the fact that the identification of the informal (and formal) economy is socially constructed. Rather than represent the distinction as an uncontested description, it is more useful to recognize that it is largely based on the objectives and interests

¹ I would like to thank the Canadian Employment Research Forum, the Canadian Rural Revitalization Foundation, and Statistics Canada that has provided support for this research. Members of the Canadian Rural Revitalization Foundation (<http://www.crrf.ca>), especially Peter Apedaile, provided valuable suggestions for improving earlier versions. Thanks, also go to Hasan Alam, Michael Burns, and Rodrigo Molina who helped with the literature and data analysis.

² Ratner (2000:ftn 1) points out that it includes “a shadow economy created by the public sector through off-budget spending estimated at \$32.2 billion in 1981 [for the USA] (Bennett and DiLorenzo, 1982)”.

of the person arguing the case as well as the context in which the activity occurs (Pahl, 1984; Williams and Windebank, 1998). This is the approach we will take.

Three types of interests will help us to sort through the approaches to understanding the informal economy: administrative, operational, and theoretical. Administrators typically show an interest in the informal economy because of their concern with tracking market exchanges and performance for planning, regulation, and taxation purposes. This has led to the institutional preoccupation with the measurement of economic activity and its subsequent enforcement. Such concerns are not always compatible with distinctions in the more theoretical literature – especially those where the objectives are to conceptualize and understand economic activity in general terms.

Unfortunately, the demands of measurement have often driven the direction of theoretical investigation. Traditional economists, for example, frequently view such activities as outside the operation of the formal economy, thereby reducing the attention they receive and reifying the distinction on operational, not theoretical grounds. 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 al., 1994).

Our approach is more inclusive. We recognize the differentiation of formal from informal economies but treat it largely as a result of administrative organization: the formal economy is essentially economic activity that is counted. It refers to the transactions of legitimate business, recorded by government agencies.

The informal economy, on the other hand, refers to *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 pricing based on friendships and arrangements other than the going market prices.

This classification of economic activities bears some relationship to the administrative and theoretical distinctions found in the literature. From an administrative point of view, for example, many informal activities are considered *illegal* or quasi-legal. Terms such as the ‘grey economy’, exchanges ‘under the table’, or ‘corruption’ highlight the negative evaluation of these activities, most often because they involve some form of tax or regulation evasion. This concern creates considerable pressure to view the informal economy as hazardous to the economy in general if not to the social order.

Our approach is different. For operational reasons, we focus specifically on those activities in the informal economy that are *legal*. By doing so, we reinforce the extent to which these activities make a contribution to the economy and to the formal economy specifically. However, many of the arguments to be made regarding the operation and impact of the legal informal economic activities apply equally to illegal or quasi-legal production and exchange.

Even within an administrative context, there is growing recognition that the legal informal economy may be an important focus of attention. This is exemplified in the distinction between paid and unpaid work (Statistics Canada, 1995). A large part of the informal economy includes unpaid work and a large part of people’s time is spent on unpaid work (about one half of their time) (Statistics Canada, 1995: 1). The question remains regarding how much of this time is ‘productive’.

The distinction between *productive* and *unproductive* activity is more often a concern among theoretical economists rather than those in an administrative context. One of the key criteria used for such a distinction is whether capital, labour, goods, and services are used to create outputs. In our national accounts, this is usually limited to those outputs that can be “delivered (i.e., a good) or provided (i.e., a service) to another economic unit or used up by the producer in a subsequent production process” (Statistics Canada, 1995: 4). Since the household is usually treated as an economic unit, these accounts leave out “services produced by households for their own consumption as well as volunteer work.” (Statistics Canada, 1995: 4). Our approach will be to include production for household consumption as part of the informal economy, but to examine it separately in parts of our analysis.

The distinction between *market* and *non-market* economic activities parallels several aspects of the distinctions above. Once again, households are usually treated as economic units, excluding most household production and distribution as market activity. From this perspective, many exchanges are treated as non-market activities simply because of the problems of measurement associated with them. Shared child care, renovation, training, or harvesting, for example, may all operate within informal markets. This betrays the hidden assumption in much of the literature that economic markets are identical to those that we measure through the currently institutionalized means at our disposal.³

These non-measured activities are not benign features of economic activity, however. They continue to have important impacts on the formal economy. Numerous exchanges of goods and services take place outside of the auditor’s purview, yet they still have an impact on prices (Clift and Wells, 1990; Jackson, 1992). Similarly, household production may not produce goods and services for a public market, but they still significantly affect the choices made in that context (Statistics Canada, 1995: 2), and provide considerable value to the economy (Ratner, 2000).

Our approach, therefore, is to focus on informal activities largely because they are invisible to so many of the current measures, not because the formal/informal distinction is an important theoretical one. Our objective is to understand the relationship between the informal and formal economy in order to identify the distortions and exclusions that might take place through the use of the formal indicators alone. We suspect that these distortions are particularly important for people in rural Canada. We do not assume that the informal economy 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.

3. Relations between Formal and Informal Economies

There are several ways that the informal economy interacts with the formal economy. We will identify a number of these in preparation for the more empirical analysis that follows.

3.1. Independence

³ It also means that many exchanges reflected in national accounts occur in markets that are far from ‘free’ in the pure sense of the term.

Modernization theories imply that the informal economy belongs to traditional systems that will be largely outmoded as development proceeds on a global level. In this way it stigmatizes the operation of the informal economy and those who participate in it as resistant to change, non-progressive, or backward. As we will show, this perspective fails to provide an adequate explanation of the continuation of informal economic activities in industrial societies and the important links between the informal and formal economies (Hart, 2000).

3.2. The informal economy as a safety net

The informal economy may operate in a number of ways to offset the activities and outcomes of the formal economy (Benhabib, et al., 1991). From this perspective, it provides an alternative source of goods and services should income be unavailable through the formal economy, the pricing too high, or the goods and services unavailable. If we include illegal activity as part of the informal economy, its impacts become enormous, especially at an international level.

Following this logic, the informal economy provides economic support during recession periods or a cushion for those in transition during periods of structural change. In this way, the informal economy may be considered essential to understand wage levels in the formal economy in the same way that ‘surplus labour’ is a crucial factor for wages. The informal economy is one means by which labour is sustained.

3.3. The informal economy as a basis of social capital

Thanks to the pioneering work of Pahl (1984) the importance of social capital to the operation of the formal economy is beginning to be recognized. Much of this capital is a reflection of the relationships established through informal exchanges. Reciprocity not only involves the exchange of goods or services, it also affirms the trustworthiness of the people involved and the networks that support them.⁴ In this way it contributes to the formal economy by supporting the social networks that sustain it.

In their study of small towns, for example, Nelson and Smith (1999) document the manner in which the informal and formal economies are linked at the level of individuals. Being employed provides access to networks where opportunities for exchange increase. In a similar manner, the networks established by informal exchange are likely to serve as a source of information regarding income-generating employment, the trustworthiness of potential employers or employees, and access to potential customers. All of these support the context for formal exchanges.

3.4. The informal economy as a limitation on market relations

Even as it brings people together, however, the informal economy can reinforce divisions that constrain formal markets, whether in goods, services, or labour. Information and exchanges may be limited to ethnic, cultural, gender, geographical, or other non-market distinctions by virtue of the experience, familiarity, and trust built through informal exchange. Although this may be seen as a negative element to the operation of a free market in its abstract representation, it is closer to the conditions under which exchanges take place and an important element for understanding the limits and conditions of a market economy.

⁴ Social networks must be regularly used to reinforce their viability and dependability. In this respect, they differ from most other types of capital.

3.5. The informal economy as source of social cohesion

Our field research suggests that the informal economy may play an important role in the reduction of insecurity and risk that many rural people and households face. As employment becomes more uncertain and part-time work increases, so does the stress and anxiety on the part of individuals involved. This is exacerbated by the stigma associated with unemployment in our society. Informal economic activities may help to reduce this stress, not only by providing an alternative source of goods and services, but also as a form of social support that affirms the worth of the unemployed and encourages the continued search for paid work. This function provides direct benefits to the formal economy by keeping people in the labour force and reducing the social costs of health, welfare, and crime.

4. The Informal Economy in Rural Areas

There is reason to believe that the role of the informal economy in rural areas is somewhat different than urban areas. Most of these differences relate to the following five conditions (Ellison, et al., 1997).

4.1. Access to tradeable resources

In order to participate in the informal economy, people require access to the resources that make production and service possible. Persons living in rural areas are more likely to have access to resources such as land, workspace, and the tools that make exchange possible than those in urban regions. In more remote regions, for example, the availability of wildlife and edible fruits can serve as a basis for food, clothing, and artifact production that goes beyond the sustenance of the producers (Reimer and Trott, 1997).

Resources for exchange can be extended to the availability of cash and time. Minimal levels of cash are necessary to participate in the informal economy, even if it means the ability to buy gasoline for a car, a needle for a sewing machine, or a beer for a friend. Available time is also important, for without it one cannot offer to help paint a house, take care of a neighbour's child, or hunt a moose. Although the availability of cash may not distinguish rural from urban areas, the availability of time may be an important distinguishing feature.

4.2. Knowledge and skills

Most of the goods and services produced as part of the informal economy require a wide range of knowledge and skills. An artisan approach is likely to support the indigenous knowledge at the base of these skills: ranging from fixing a car, to altering a dress, or catching fish.⁵ There is some reason to believe that the range of such skills is greater in rural as opposed to urban areas since small scale farming, fishing, and forestry often require capacities ranging from production and design, to sales, repairs, and management. The pluriactive nature of rural livelihoods is also likely to increase the range of these skills (Fuller, et al., 1999).

4.3. Social networks

The lower rates of mobility in rural communities are likely to enhance the opportunities

⁵ Thanks to Peter Apedaile for point out the relevance of artisan activity in rural areas.

for informal exchanges.⁶ Participation in voluntary associations and multifaceted encounters establish contacts for exchanges, provide access to resources, information, and skills, and create conditions for enforcing obligations. These networks are more likely to be found in rural over urban areas. Low levels of mobility, common social characteristics such as kinship or ethnicity, and the sharing of interests will contribute to increased contact between people and as a result, a greater chance for informal exchange.

4.4. Norms supporting reciprocity

The informal economy requires social norms that support the value of reciprocity and social responsibility. Since informal exchanges are less open to public scrutiny, they rely on common values affirming the importance of honoring commitments, helping others, and local self-sufficiency (Ommer, 1994). The same conditions that enhance the establishment of local networks are likely to favour the emergence of these norms. Low mobility and social homogeneity, as well as frequent and multifaceted interactions are all more likely to occur in rural over urban areas.

4.5. Levels of exclusion from the formal economy

The informal economy provides an alternative source of goods and services where exclusion from the formal economy occurs. It is often assumed to be a 'safety net' for those who are unable to participate in the formal economy (Ratner, 2000). Although there is evidence that this should be qualified to some extent (Ellison, et al., 1997), the informal economy "keeps families alive and thriving and capable of participating in the formal economy as the need and opportunity arise" (Nelson and Smith, 1999). Job loss, low wages, health problems, or discrimination may make the informal economy an appealing or necessary context for exchange. State support under these circumstances is often not an option, increasing the importance of informal exchanges for various economic and social crises (Reimer, 1997b). The relatively high level of such crises in rural areas is, therefore, likely to increase the extent to which rural people make use of the informal economy.

5. Measuring the Informal Economy

By its very nature as economic activity outside the purview of government agencies, the informal economy is difficult to measure. In most cases, it has been estimated through the analysis of aggregated data from administrative records and national accounts (Smith, 1994). This provides general (if somewhat equivocal) estimates regarding the size of the informal economy, but it is impossible to use these estimates to identify or understand the activities and individuals involved.

For information at the level of individuals or households, it is necessary to rely on interview and survey data. Two types of approaches have emerged as predominant: self-reports regarding exchanges, and the analysis of time budget information with respect to individual activities. The former typically rely on information regarding the production of outputs or of exchanges. This creates some problems for the measurement of the informal economy since most of these activities leave few records. For this reason, our analysis relies on information regarding

⁶ 70% of rural residents remained in the same place of residence between 1991 and 1996. The comparable rate for urban residents is 62% (NRE database using Statistics Canada data).

individual activities taken from the time budget data of the General Social Surveys (Statistics Canada, 1995). These surveys allow us to analyze specific activities that are likely to be part of the informal economy and to distinguish (to some extent) whether they are exchanges outside the household. They also allow us to conduct the analysis at the level of individuals, rather than aggregate units. This means that we can investigate more directly, the characteristics and conditions that are associated with participation in the informal economy.

5.1. The General Social Surveys

The General Social Surveys for 1986 (GSS2), 1992 (GSS7), and 1998 (GSS12) provide time budget information for a sample of Canadian households. One member of each sampled household was interviewed by telephone regarding their activities, including how much time they spent on each over a 24 hour period.⁷ The selection of the respondent within each household was randomly assigned and the survey was conducted 7 days of the week during the 12 months of the year to equally represent weekly and seasonal variations.

Two of the three GSS surveys provide information on the respondents' place of residence (GSS7 and GSS12 only). Due to confidentiality requirements, this simply distinguishes those who live in Census Metropolitan Areas⁸ (CMA) from those outside of CMAs (Non-CMA). We will be using this distinction as a proxy for the separation of urban from rural dwellers. Since this is such a gross measure of the difference between urban and rural regions of Canada, we expect to find urban rural differences to be underestimated in our analysis.

5.2. Classification of activities

Participation in the informal economy must be inferred from information regarding the activities of the respondents. For this analysis we focused on those activities that provide output or services capable of being exchanged (Statistics Canada, 1995: 14). Consumption activities are ignored. Within this selection, we maintain a distinction between production and services for household consumption and those for exchange outside the household. This is primarily done in deference to the traditional distinction in the economic literature, but also for the insights it provides regarding the operation of the informal economy.

Activities related to household production and services include such things as domestic work, household maintenance, care-giving for household members, shopping, and services (cf. Appendix 1 for a full list of activities). Those related to exchange outside the household may include the same types of activities, but are identified in the GSS as provided within the context of organizational, voluntary, or religious activity.

In our selection of market-related activities, we make use of the 'third person criterion'

⁷ The sample size of GSS2 amounted to a total of 12,500 and the responses represented a total of 9,946 households. For GSS7, a sample size of 12,765 was chosen for the basic demographic data and a sample size of 9,817 was chosen for the time-use portion of the database. For GSS12, 10,749 useable respondents were sampled. We will rely on the latter two in this analysis, since the coding options for GSS2 are sufficiently different from them to make comparisons unreliable.

⁸ A Census Metropolitan Area is an urbanized core of at least 100,000 population together with its main labour market (Statistics Canada, 1992).

used by many researchers (Statistics Canada, 1995: 18). This distinguishes those activities that could be delegated to another person from those that could not. The former, it is claimed, identify an activity that could conceivably be the object of an exchange. Although there are some problems with the application of this criterion⁹, it provides a convenient basis for distinguishing the time budget activities as they relate to the informal economy.

Appendix 1 also provides a list of the activities from the GSS surveys that are related to the formal economy. They are at best a rough measure of the distinction since the categories were not constructed with the distinction between formal and informal economies in mind. On the other hand, there is sufficient detail to identify those activities that would be excluded by using other data sources. In general, therefore, we can claim that the measures derived from these activities are likely to be highly correlated with production activities in the informal economy, not that they are exhaustive nor that they are exclusive to such activities. As such, they will be most valuable when used for comparative purposes within the same survey.

5.3. Levels of participation in the informal economy

Table 1 provides general estimates of the percentage of people who participate in formal and informal economic activities. Informal activities are further divided into those related to household consumption and those explicitly identified as a good or service exchanged with non-household persons. These types of activities are considered for GSS7 (1992) and GSS12 (1998) as well as for CMA and non-CMA residents.

Table 1: % Participation in the Formal and Informal Economy by CMA Status and Year

Year and Residence	Formal	Informal			N ¹
		Household	Non-household	Total	
1992 - CMA	44.9	84.5	12.3	86.1	5359
1992 - non-CMA	39.0	87.5	15.2	88.8	4456
1998 - CMA	43.4	90.2	11.5	90.8	6279
1998 - non-CMA	41.3	90.2	15.8	91.3	4469

¹ These figures reflect the actual sample size, not the weighted frequency

Several points can be made from this data. First, we see that over 86% of the respondents participate in the informal economy to some extent. This is mostly a reflection of household production and services. Only 11.5% to 15.8% of the respondents are involved in non-household exchanges.¹⁰ Second, we find that in 1992, people residing in non-CMA areas were more likely

⁹ This approach rules out activities contributing to human capital, for example, and requires some normative judgements regarding the possibility of market replacement and motivation.

¹⁰ This is an underestimation since we have selected only those exchanges that were unquestionably outside the household.

to participate in the informal economy than those in CMA areas.¹¹ For 1998, the comparison is not as consistent: only the percentage of those in formal and non-household activities show significant differences between CMA and non-CMA regions (the former at $p < .05$ and the latter at $p < .01$). Third, we find a decrease in the percentage of CMA residents engaging in formal activities from 1992 to 1998, and an increase in non-CMA residents during that same period. The percentage of people involved in informal activities increases for both CMA and non-CMA residents.

These data support the importance of the informal economy for both rural and non-rural people. In 1996, over 90% of the population are engaged in such activities. Most of the informal economy activities are production and services oriented to the household, but at least 11% of them unequivocally involve exchanges with non-household people.

These patterns are further specified by looking at the amount of time spent in the various activities (cf. Table 2). It shows that between 190 and 219 minutes per day (3.2 and 3.6 hours) are spent on informal economy activities (compared to between 197 and 236 minutes for formal ones). Most of the informal economy activities are household-directed as we expect from Table 1. Non-CMA residents are not only more likely to participate in informal economy activities than CMA residents (cf. Table 1), but the amount of time they spend is greater (all the differences between CMA and non-CMA residents in Table 2 are significant at $p < .01$). As in Table 1, the amount of time in formal economic activities slightly decreases for CMA residents and increases for non-CMA residents from 1992 to 1998. Unlike participation, however, the amount of time in informal economic activities decreases slightly for non-CMA residents from 1992 to 1998.

Table 2: Average Minutes per Day in Formal and Informal Economic Activities by CMA Status and Year

Year and Residence	Formal	Informal			N ¹
		Household	Non-household	Total	
1992 - CMA	236	175	15	190	5359
1992 - non-CMA	197	199	20	219	4456
1998 - CMA	230	182	12	195	6279
1998 - non-CMA	213	195	20	215	4469

¹ These figures reflect the actual sample size, not the weighted frequency

These general patterns serve as a background to a more detailed examination of the relationship between the informal and formal economies.

¹¹ All of these differences were significant at the .001 level of probability.

6. Relationship to the Formal Economy

The informal and formal economies are linked in a number of important ways. In order to reveal these interdependencies, we will identify several issues where ignoring their relationship is likely to lead to misunderstanding or inappropriate policy. These issues are not exhaustive, but are selected with a view to the impacts on rural places and people.

6.1. The Informal Economy as Economic Safety Net

Most theories regarding economic cycles pay little attention to the role of the informal economy for the maintenance of labour during downturns. There is some recognition that the formal economy may vary in a counter-cyclical pattern with unpaid work or household production (Ironmonger, 1996), but the elaboration of that relationship is underdeveloped. We know little about the extent to which the informal economy buffers downturns in the formal and we know even less how households accommodate these demands.

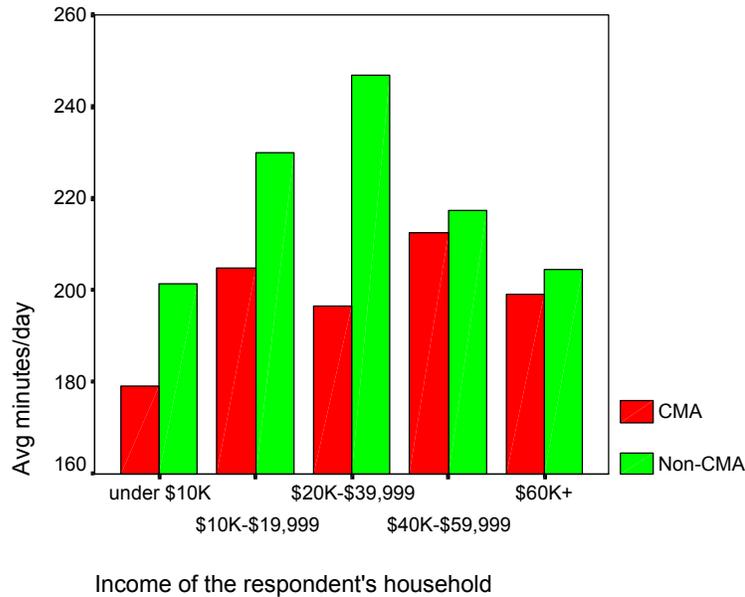
Data from the General Social Surveys provides some indication regarding this relationship. Simple correlation analysis reveals coefficients of -.426 (1992) and -.417 (1998) for CMA residents and -.421 (1992) and -.411 (1998) for non-CMA residents between time spent in formal and informal economic activities.¹² The major contribution to this relationship comes from those activities related to household production, since the correlation drops to around -.1 for non-household exchange activities only. These summary figures are somewhat consistent with the assumption of a counter-cyclical pattern between formal and informal economic activities, but they fall far short of an adequate test since they are synchronic in nature and gloss over the time-dependent nature of the activities. They are also insensitive to important conditions under which such tradeoffs might occur.

Figure 1, for example, shows variation in participation in the informal economy by income levels from formal economic sources.¹³ To the extent that one type of activity offsets the other, it is not simple. In fact, the highest levels of participation in the informal economy occur for mid-income levels – especially for non-CMA households. For non-CMA areas, there is some indication of a decline in informal economy activities at the upper ranges of income (over \$40,000), but for CMA regions, there is less change in the level of participation. An important variation from this pattern is found for those households with low incomes. For both CMA and non-CMA low income residents, the participation in the informal economy appears to drop.

¹² All these correlations are significant at the $p < .01$ level.

¹³ Data for 1992 are similar, but show higher levels of participation in the informal economy for income levels under \$40,000 within non-CMA areas..

Figure 1: Participation in the Informal Economy by Income from Formal Economy Sources (1998)

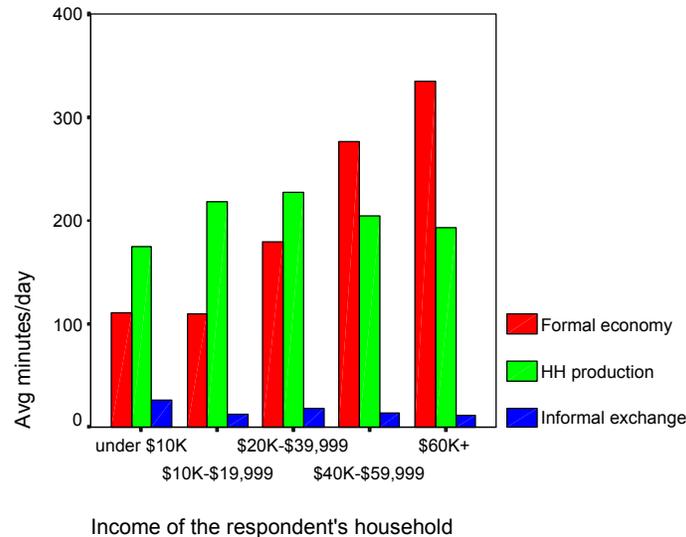


This low income dropoff may be a reflection of a lack of resources for the poor to exchange. Even so, non-CMA residents seem to be better off. Higher levels of access to land, game, or equipment may make the alternative of self-sustenance or informal exchange a possibility in rural areas, while urban dwellers are more limited in that regard (Ellison, et al., 1997). In either case, the urban poor are likely to be doubly excluded: from both the formal and informal economies.

Figure 2 puts these values into perspective by comparing participation in the formal economy with the two components of the informal economy that we have measured. We see from this data that for those in non-CMA areas, the major informal activities are related to household production, that participation in the informal economy increases as participation in the formal decreases, and that household production drops for the lowest income group while there is a slight rise in informal exchange activities.¹⁴

¹⁴ The classification of low incomes masks the fact that the number of minutes in informal exchange activities drops to 1.2 for non-CMA residents with no income. A similar drop occurs for CMA residents with less than \$10,000 income.

Figure 2: Participation in the formal economy and two elements of the informal economy by income (1998 non-CMAs only)



These data may reflect the general ability of rural residents to buffer economic cycles with informal activities. To exclude these activities from economic analysis can be misleading, however. Without them, we can easily interpret an increase in productivity or efficiency as successful policy outcomes, whereas they may in fact reflect a shift in the costs from the formal to the informal economies (Elson, 1992). Those individuals or households who are most dependent on these activities are then forced to bear the burden.

These results also throw into question the modernization assumption that the informal economy is a vestige of underdevelopment. First, we find relatively high levels of participation in the informal economy for both rural and urban dwellers, and second, we find these levels remain high where incomes are strong and participation in the formal economy is high.

6.2. The Role of the Informal Economy in Structural Changes

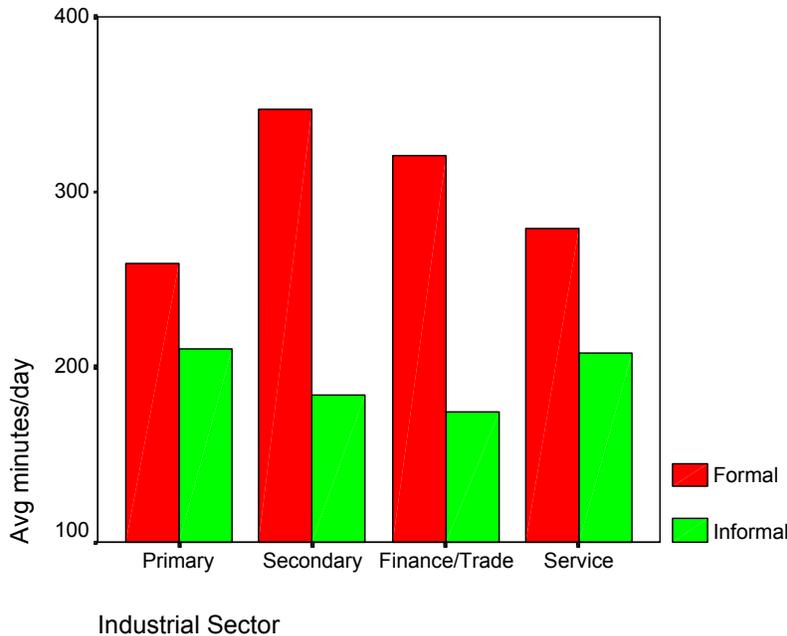
The functions of the informal economy for structural changes are similar to those found in cycles, but it is likely to have more profound impacts on our economic understanding and the effectiveness of economic policy since it affects the long term. This is especially the case with rural areas since they have been undergoing such far-reaching structural change over the last 60 years.

Rural Canada has undergone a major shift from a resource-based economy to one that is more diverse – with a new predominance of the service sector. This has produced a smaller and more pluriactive work force as new technologies have reduced labour and facilitated faster and cheaper transportation. Adjustment to this process is still under way.

An examination of the relationship between economic sectors and participation in the informal economy reveals the potential impacts of these changes for the relationship between

formal and informal economic activities. In Figure 3, for example, we see how primary and service industries place the greatest demand on informal economic activities. These represent an increase in minutes per day over the 1992 data (14 and 3 minutes respectively), whereas there is a decrease in minutes for respondents in the secondary and financial/trade sectors (15 and 35 minutes respectively). As the rural economy moves from primary to service prominence, therefore, the importance of the informal economy remains.

Figure 3: Participation in formal and informal economies by industrial sector (1998, non-CMA)



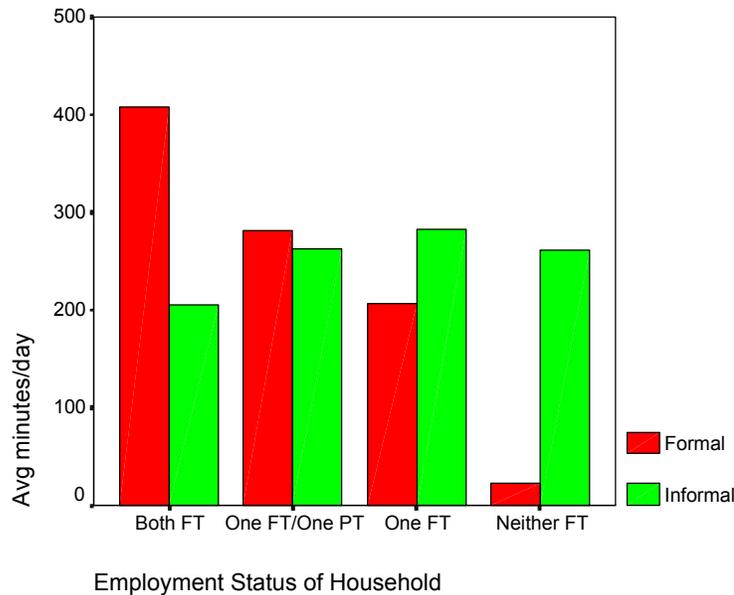
These data suggest that households assume an important share of the impacts of structural change. Longitudinal data seem to support it. In the 1996 survey of the Elliot Lake Tracking Study, for example, respondents were asked how they coped with the loss of the major industry (Mawhiney, 1997). Strategies includes an increase in vegetable gardening, canning, preserving, hunting, fishing, and other forms of self-provisioning. The extent to which these are short-term responses to crises or long term patterns of adaptation will remain unclear until we can increase the number of longitudinal studies focusing on individuals and households.

Figure 4 presents data regarding one of the ways in which households manage full-time and part-time work and informal activities.¹⁵ These data show that the time spent in informal activities increases as more household members are removed from full-time work, except for the

¹⁵ Data for 1992 show essentially the same pattern.

case where neither adult works full-time.¹⁶ As expected, the time spent on informal economy activities is greater than formal activities if one or both adults is without a full-time job.

Figure 4: Participation in the formal and informal economies by household employment status (1998, non-CMA)



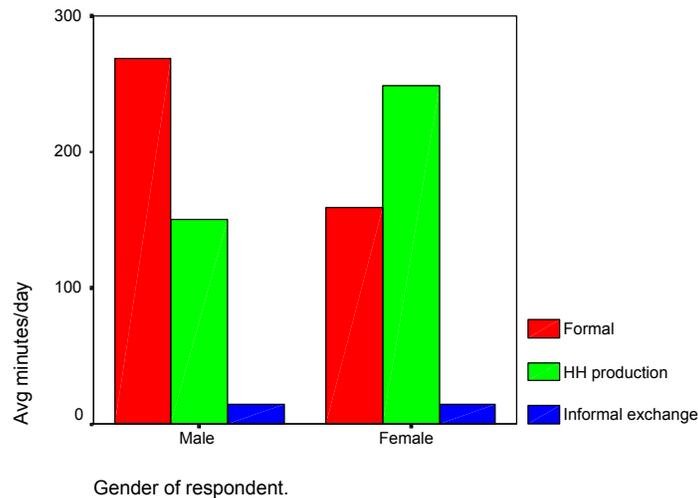
These relationships are strongly related to the gender structure of both the formal and informal labour markets. The dramatic integration of women in the formal labour market over the past 40 years has coincided with the sectoral changes outlined above. In addition, the nature of women’s and men’s participation in these markets has been considerably different.

Figure 5 provides evidence regarding these gender differences by the two categories of activities in the informal economy. From this we see that a greater amount of men’s time is spent in activities related to the formal economy, whereas for women, the informal activities predominate, largely through home production. Even the nature of home production activities varies by gender. Men are more likely to engage in house maintenance (interior and exterior), vehicle maintenance, home improvement activities, and group home maintenance, whereas women are more likely to provide home crafts, babysitting, housework assistance, and adult care. The pattern remains essentially the same for those who live in CMA areas and those in non-CMA areas.¹⁷

¹⁶ For CMA households, the results are similar with the minor difference that the involvement in the informal economy is less for ‘One FT/One PT’ households.

¹⁷ There is a slight increase in formal activities and a decrease in informal activities for both men and women in CMA areas.

Figure 5: Participation in formal and elements of informal economy by gender (1998, non-CMAs)



The gender differences reflected in these data should caution us when drawing implications regarding the social impacts of changes in the overall economy. This preliminary analysis suggests that the movement from primary to service industries, increased pluriactivity, and the greater participation of women in the labour force are likely to increase the stress on rural households and particularly on women. As women have less time for family care and social support, their health and that of those around them are likely to suffer. If these activities are not integrated into the economic analysis, the long term costs of both economic and social policies will be overlooked.

6.3. The Informal Economy as Capacity Builder

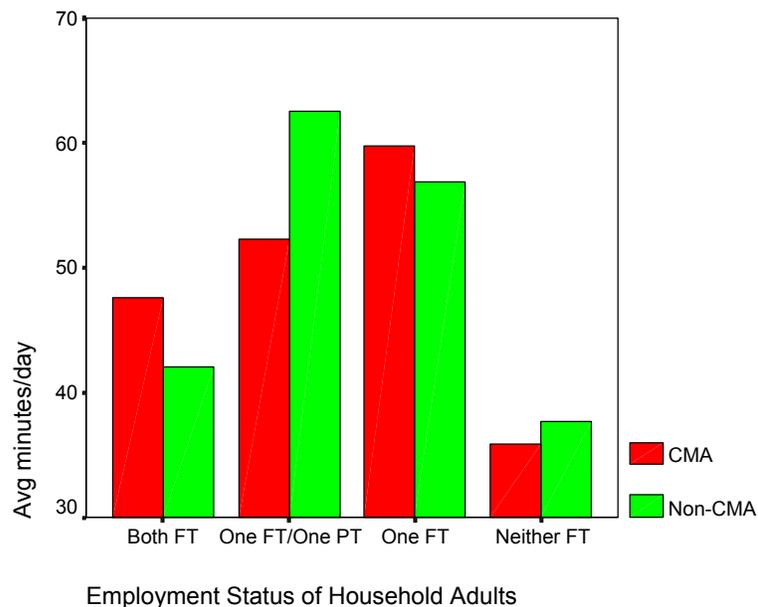
Policy directed to rural areas has paid particular attention to the ways in which communities might improve their capacity to function in the new rural economy. Much of this attention has focused on the development of human or social capital. In most cases, the interpretation and measurement has been conducted with respect to the formal economy. Thus, the attention has been given to the marketable skills of the rural population, the extent to which social networks facilitate economic transactions, and the nature of trust directed to exchanges.

These are all characteristics that have direct relevance to the informal economy. Most of the skills learned in home renovation, child or adult care, voluntary group organization, or vehicle maintenance are transferrable to the formal economy should the opportunities arise. In addition, the informal economy is well suited to the establishment of trust and information transfer that is essential for the formal market to function (Reimer, 1997a). Strategies for building local capacity should recognize this element and be inclusive of these non-market resources usually available within the region.

The potential for building social capital, for example, can be seen if we consider those that are clearly done for another person or require at least two people to complete (cf. Appendix

1)¹⁸. As shown in Figure 6, informal economy socially-oriented activities occupy respondents from about 35 minutes to an hour of the day. The extent of time is clearly related to the employment status of the adult members of the household. There may be tradeoffs here since formal work activities are likely to provide the contact that fosters social inclusion. On the other hand, those people in households without employment are highly vulnerable to exclusion. Longitudinal analysis is needed to determine whether they miss an advantage of the informal economy to provide a bridge to the formal.

Figure 6: Participation in socially-oriented activities in the informal economy by employment status and rural/urban (1998)



6.4. The Informal Economy and Social Exclusion

The tendency to overlook the informal economy in analysis and policy-development is likely to build social exclusion into the resulting programs. An analysis of the GSS information can provide some clues regarding the types of people or groups that are likely to suffer such exclusion.

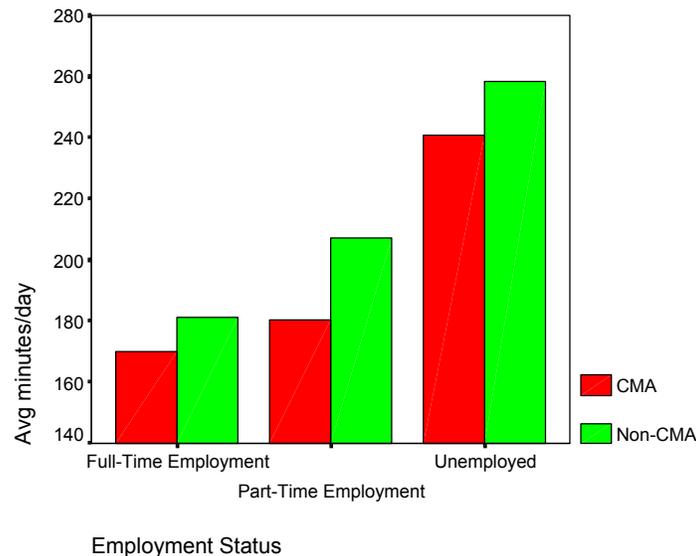
We have already identified the vulnerable position of the poor with respect to the informal economy (cf. Figure 1). The informal economy appears to provide a buffer for those who have some income resources, but primarily in rural areas. The relatively high level of activity for home and vehicle maintenance, especially for men, implies that the higher levels of

¹⁸ This underestimates the social nature of other activities since many domestic tasks are done for and with other people.

home ownership in rural areas may serve as an important protection for some of these people. On the other hand, the offloading of social and health services to the informal economy will jeopardize those who are involved in home care, especially for children and the elderly. This burden falls primarily to women.

As shown in Figure 7, the unemployed are also heavily dependent on the informal economy, especially in rural areas. These data support the hypothesis that the informal economy buffers the loss of work in the formal economy. Without integrating these activities in our measures and understanding of the economy, it also reflects another way in which the unemployed are marginalized.

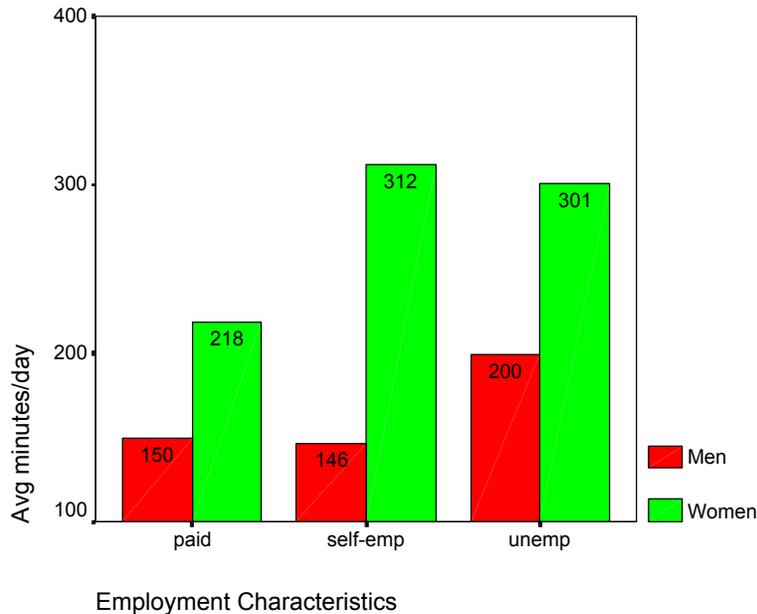
Figure 7: Informal economic activity by employment and rural/urban status (1998)



These data gloss over an important difference between men and women, however. For men who are employed part-time, the extent to which they participate in the informal economy *decreases* by just under an hour over those who are employed full-time, whereas for women, part-time employment means an *increase* of an average of one half hour in the extent to which they participate. Part-time employment for women means an important increase in informal economic activity for women – but just the reverse for men.

As shown in Figure 8, women are also disadvantaged if they seek self-employment as a means of entering the labour force. For men in non-CMA regions, moving from unemployment or even paid work to self-employment means a drop in informal economy activities. For women, on the other hand, moving into the labour market through self-employment means an increase in

Figure 8: Informal economic activity by employment characteristics and gender (1998 non-CMA)



their informal economic activities by over one and a half hours. The move from paid-employment to self-employment involves an even greater increase in women's informal economic activities. As Figure 8 shows, this amounts to an average of a one and one-half hour increase per day. For the same move, men experience a net decrease in informal economic activities. This is clearly a disincentive for women if those activities go unrecognized.¹⁹

As Figure 9 indicates, the experience of urban women is considerably different. Moving into the labour force via self-employment means a decrease in their involvement in the informal economy and the move from paid to self-employment involves about an hour's less time on informal economic activities. Self-employment may appear as an attractive alternative for urban women to get out of unemployment, but it has different implications for women in rural areas. These implications remain largely unexplored.

7. Conclusions

We are now in a better position to answer the questions that inspired this research. As we have argued, the informal economy is essentially that part of the economy that is unmeasured and unprotected by government and legal agencies. This makes it largely invisible to those agencies and the analysis based on their records, but it does not imply that the informal economy

¹⁹ In a personal communication, Peter Apedaile suggests the higher level of informal economic activity by women is the result of their lower levels of legitimation as business people. They therefore must invest a greater amount of time in building networks, markets, financing, and technology through the informal economy.

is unimportant. On the contrary, evidence from the literature and the analysis above shows that the informal economy is well-integrated into the economy reflected in our formal indicators and supportive of the social relations that sustain the formal economy.

The evidence from our analysis suggests that the informal economy serves four primary functions in support of the formal economy. First, it acts as a buffer or social safety net for economic recession. This most likely occurs for all people, although there are some limitations that are suggested by our analysis. Those at the lowest levels of income may be vulnerable to exclusion from the informal economy since they do not have access to the tradeable resources that support it. In addition, women bear a greater burden of informal economic activities largely because of their continued responsibility for domestic activities, health, and child care.

Second, the informal economy supports the formal economy through the reproduction and sustenance of labour. This is clearest in the case of the household production component where workers are rejuvenated on a daily, seasonally, and yearly basis by these activities. Once again, women bear the greatest burden of the work in this regard.

Third, the informal economy provides an important source of social cohesion. The exchange and service activities of the informal economy require a level of reciprocity that affirms trust and continued interaction. It is a context in which new relationships can be formed and tested without high risk, information is be passed between and among employers and employees, and new ventures can be explored.

Finally, the informal economy provides an important source of social support, security, and services. This is increasingly important in the contemporary context, where part-time work, interrupted careers, and low wages are increasing. Without this collective support we face the spectre of social exclusion and disenchantment that threatens the social basis of the formal economy.

These results suggest some important policy considerations. They reinforce the importance of the informal economy for both formal economic activities and social organization. Rather than search for ways to capture those activities through taxation and regulation, the search should be for ways to facilitate informal economic activities and enable them to provide easier access to the formal economy. The four functions of the informal economy suggest more specific ways in which this might be accomplished.

First, we require more appropriate policy to address the safety net role of the informal economy. This is particularly important with respect to welfare regulations and social support benefits. Improving access to health, dental, and disability for those in the informal economy will ensure their future participation in the formal economy while maintaining their quality of life during periods of recession. Policies that allow higher levels of income earning for welfare recipients will facilitate the transfer of skills from the informal economy and open networks and information flow between the formal and informal economies.

Second, we need new policy to recognize the value of the informal economy for training and socializing labour. By including informal economy activities as acceptable criteria for employment insurance, access to financing, and employment, we ensure that human and social resources are not overlooked when building the formal economy.

Third, the ability of the informal economy to increase broad-based social cohesion can be enhanced by communication and networking. Policies that support interaction among voluntary associations, credit circles, social clubs, and even cultural groups will increase the knowledge

and collaboration between people and create conditions where new ventures might grow. Improved communication infrastructure can at the same time reduce isolation and self-serving cohesion that might work against expanded market activities.

Fourth, the social support function of the informal economy should be enhanced by improved policy regarding voluntary organizations and individual acts of generosity that form the backbone of the informal economy. The contributions of all levels of government have not kept pace with the increased load on these persons and groups – resulting in severe problems of financing and volunteer burn-out (Bruce, et al., 1999). Women are especially disadvantaged since they provide the greatest part of informal support services. Policies and their associated justifications must be developed to recognize and support the fund-raising and infrastructure components of these services so they may continue to maintain the social environment conducive to formal economic activity.

Finally, we need policy that will facilitate the analysis of the informal economy. Our use of the GSS information demonstrates the utility of this source while at the same time illustrating the inadequacies and difficulties of doing it right. Time budget information is valuable, but it has so far not included sufficient detail to identify the variety of exchanges, commitments, and attitudes that go to make up the informal economy. Ethnographic and in-depth interviews make clear that we are far from an adequate representation of the details of these activities and their importance for social and economic behaviour.

Such an investigation should not be limited to the administrative objectives that have driven so much of the economic data collection in the past. It is not enough to focus on those activities that might be taxed or controlled. The objective should be to prepare a more accurate view of how people manage their economic affairs in order to implement programs that facilitate all approaches to improve livelihoods for the greatest number of people.

This should include the investigation of the many ways in which people deal with the limitations of corporate or market economies. Barter and exchange activities, voluntary groups, household production, and personal care should be included as part of the way that people maintain their existence and dignity under difficult conditions. All of them interact with the formal economy in many ways, but the details of that interaction are still vague and speculative.

We have demonstrated how informal activities are particularly important for the rural economy. Not only do people participate in such activities to a greater extent than in urban areas, but the distribution of that participation is different. This is most clearly the case with respect to the involvement of women. Theories and policies excluding those activities will be insensitive to the full contribution of rural people to the overall economy and those that assume the situation in the rural context is that same as the urban are likely to create additional burdens for rural people.

Appendix 1: Activities Classifications

Informal Economy: GSS7 (1992) and GSS12 (1998)	Household Orientation	Social Orientation
Unpaid work in a family business or farm	Household	Individual
Meal preparation	Household	Individual
Baking, preserving food, home brewing, etc.	Household	Individual
Food (or meal cleanup)	Household	Individual
Indoor cleaning	Household	Individual
Outdoor cleaning	Household	Individual
Laundry, ironing, folding	Household	Individual
Mending/shoe care	Household	Individual
Dressmaking and sewing (for self or HH members)	Household	Individual
Interior maintenance and repair	Household	Individual
Exterior maintenance and repair	Household	Individual
Vehicle maintenance	Household	Individual
Other home improvements	Household	Individual
Gardening/grounds maintenance	Household	Individual
Pet care	Household	Individual
Care of house plants	Household	Individual
Household administration	Household	Individual
Stacking and cutting firewood	Household	Individual
Other domestic/household work	Household	Individual
Unpacking groceries	Household	Individual
Packing or unpacking luggage and/or car	Household	Individual
Packing and unpacking for a move of the household	Household	Social
Travel for domestic work	Household	Individual
Child care (infant to 4 years old)	Household	Social
Putting children to bed	Household	Social
Getting children ready for school	Household	Social
Personal care for children of the household	Household	Social
Helping/teaching/reprimanding	Household	Social
Reading/talking/conversation with child	Household	Social
Medical care - household children	Household	Social

Informal Economy: GSS7 (1992) and GSS12 (1998)	Household Orientation	Social Orientation
Unpaid babysitting	Household	Social
Personal care - household adults	Household	Social
Medical care - household child	Household	Social
Help and other care - household children	Household	Social
Help and other care - household adults	Household	Social
Travel: household child	Household	Social
Travel: household adults	Household	Social
Grocery shopping	Household	Individual
Everyday goods and product shopping	Household	Individual
Take-out food shopping	Household	Individual
Rental of videos	Household	Individual
Shopping for durable household goods	Household	Individual
Financial services	Household	Individual
Government services	Household	Individual
Other repair services (e.g. TV, Appliance)	Household	Individual
Other shopping and services	Household	Individual
Travel for goods and services	Household	Individual
Volunteer work	Non-household	Social
Housework and cooking assistance - organization	Non-household	Social
House maintenance and repair assistance - organization	Non-household	Social
Unpaid babysitting - organization	Non-household	Social
Transportation assistance - organization	Non-household	Social
Care for disabled or ill - organization	Non-household	Social
Correspondence assistance - organization	Non-household	Social
Unpaid help for a business or farm - organization	Non-household	Social
Other unpaid help - organization	Non-household	Social
Other organizational, voluntary, and religious work	Non-household	Social
Travel for civic and voluntary activity	Non-household	Social
Hobbies done for sale or exchange of items	Non-household	Individual
Domestic home crafts done for sale or exchange	Non-household	Individual

Informal Economy: GSS7 (1992) and GSS12 (1998)	Household Orientation	Social Orientation
Travel for hobbies and crafts for sale	Non-household	Individual

Formal Economy: GSS7 (1992) and GSS12 (1998)
Work for pay at main job
Work for pay at other job(s)
Overtime work
Travel during work
Waiting/Delays at work
Meals/Snacks at work
Idle time before/after work
Coffee/Other breaks
Other work activity
Travel: to/from work

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