

Informal employment: Two contested policy issues

David KUCERA* and Leanne RONCOLATO*

Abstract. *This article addresses two contested issues of crucial importance to policy, namely: formal labour regulations as a cause of informal employment, and so-called “voluntary” informal employment. The authors provide theoretical overviews on both issues and an extensive survey of empirical studies on the effects of formal labour regulations on informal employment. The article closes with observations on the relevance of the ILO’s four decent work objectives for informal employment and economic development, with particular emphasis on the significance of – and potential for – organizing workers in the informal economy.*

There are at least ten publications to date whose titles tell us that informal employment is being “revisited”. With so many visits and revisits, one risks a worn out welcome. Yet disaccord persists on such fundamental issues as the causes and quality of informal employment. Against this background, this article addresses two contested issues, both of policy importance: so-called voluntary informal employment, and formal labour regulations as a cause of informal employment.

Perhaps the most essential work on voluntary informal employment is Fields (1990), but the issue has received renewed attention with the contributions of Maloney (1999 and 2004) and his co-authors (e.g. Maloney and Bosch, 2007). The basic idea is that informal employment is heterogeneous, characterized by what Fields calls “easy-entry” and “upper-tier” informal employment, and that “upper-tier” informal employment is “better” than and “preferred to formal sector employment” and is “voluntary” (Fields, 1990, pp. 50 and 66). Voluntary informal employment poses a challenge to conceptions concentrating

* Policy Coherence Group, Policy Integration and Statistics Department, ILO. Email: kucera@ilo.org. For their helpful comments, the authors would like to thank Richard Anker, Patrick Belser, Janine Berg, Naomi Cassirer, Philippe Egger, Christoph Ernst, Susan Hayter, Raymond Torres and Sylvester Young.

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on “easy-entry” informal employment. Maloney suggests that it also poses a challenge to the ILO’s definition of decent work. He writes: “This view of the voluntary informal entrepreneur has important implications for how we think about good vs. bad jobs, ‘unprotectedness’ and precariousness. The International Labour Organization, for instance, defines ‘decent’ work as jobs covered and protected by formal labour institutions” (2004, p. 1159).

Yet in its last major report on informal employment, the ILO also emphasized the heterogeneity of informal employment in a manner consistent with the notion of voluntary informal employment:

Increasingly, “informal sector” has been found to be an inadequate, if not misleading, term to reflect these dynamic, heterogeneous and complex aspects of a phenomenon which is not, in fact, a “sector” in the sense of a specific industry group or economic activity [...] There is no simple relationship between working informally and being poor, and working formally and escaping poverty (2002, pp. 2–3).

The implication is that some informal workers are not in poverty and that some formal workers are, and therefore that some informal jobs are better than some formal jobs with respect to incomes. So it is unremarkable that some workers would prefer informal to formal work, and that is what is meant in these debates by voluntary informal employment. The question is not whether there exists some voluntary informal employment in developing countries, but rather how widespread it is and how this might vary for countries at different levels of development and for different workers, particularly men and women. Among the policy issues at stake are the coherence of endeavouring simultaneously to increase formal employment while improving conditions for informal workers, as well as how the constrained choices informal workers face might be expanded.

Reducing informal employment has been a persistent challenge of economic development and remains a primary policy objective for the ILO. One of the ILO’s defining policy instruments is labour regulation, based on ILO Conventions and Recommendations. Yet, an influential view is that labour regulation is itself an important cause of informal employment, implying that the ILO’s means contradict its ends. A noteworthy example is the World Bank volume *Informality: Exit and Exclusion* (Perry et al., 2007), surveying empirical studies that purportedly provide evidence for this view.

One counter to this view is that it focuses unduly on unintended negative consequences and does not give due weight to the extent to which labour regulations fulfil their intended objectives. It is a point worth making, but policy-makers need to know if labour regulations have unintended negative consequences, both to make informed decisions in the face of trade-offs and, if possible, to better the design and implementation of labour regulations. In this spirit, this article provides a brief discussion of theories addressing formal labour regulations as a cause of informal employment and then an alternative reading of the empirical literature.

The article addresses these contested issues in two parts, each with its own short conclusion, and closes with observations on the relevance of the ILO’s four

decent work objectives for informal employment, including the role of organized labour.

“Voluntary” informal employment

Informal employment is a defining issue of development economics. Lewis's (1954) seminal paper in this field presents a familiar picture of urban informal employment even though his paper predated such terminology:

The phenomenon [of “disguised” unemployment] is not, however, by any means confined to the countryside. Another large sector to which it applies is the whole range of casual jobs – the workers on the docks, the young men who rush forward asking to carry your bags as you appear, the jobbing gardener ... petty retail trading (p. 141).

These are Lewis' examples of self-employment. For wage employment, Lewis wrote, “most important [...] is domestic service” (1954, p. 142).

Informed by their research in sub-Saharan Africa, Harris and Todaro (1970) developed a formal model of labour market dualism.¹ The Harris-Todaro model provides an account of why the number of rural to urban migrants could exceed the number of available urban jobs, resulting in open urban unemployment. In this model, entry-level urban wages are “politically determined” above both agricultural earnings and a hypothesized market-clearing level. In this setting, the authors write: “The distinguishing feature of this model is that migration proceeds in response to urban-rural differences in *expected earnings* ... with the urban unemployment rate acting as an equilibrating force on such migration” (Harris and Todaro, 1970, p. 126).²

Though the Harris-Todaro model did not address informal employment, it nonetheless provided the foundation for subsequent theories of informal employment. Fields (1975) extended the Harris-Todaro model in several directions, most relevantly by incorporating an urban informal sector. Employment in this sector is characterized as “underemployment”, an alternative to open unemployment for rural migrants unable to find work in the urban formal sector.

All three contributions share the perspective that unemployment, underemployment and informal employment are undesirable and that development policies should aim to minimize them. At the same time, the heterogeneity of informal employment was not just recognized but indeed emphasized in the earliest studies referring explicitly to an “informal sector”. Of urban Ghana, Hart wrote: “In practice, informal activities encompass a wide-ranging scale, from marginal operations to large enterprises” (1973, p. 68). Of his typology of

¹ We use labour market dualism as synonymous with labour market segmentation or multi-sector labour markets, consistent with the literature (e.g. Fields, 2005a; Ranis, 2006).

² Expected rural (or agricultural) earnings are equal to actual rural earnings on the premise of free entry; expected urban (or manufacturing) earnings are equal to actual urban earnings times the probability of finding an urban job (urban employment divided by urban labour force), which is less than one.

informal activities, Hart wrote that it “serves to illustrate the range of income opportunities widely available to the urban sub-proletariat” (*ibid.*, p. 69).

Fields (1990) built on such observations as well as his own research in urban Costa Rica and Malaysia, developing the idea of dualism *within* urban informal employment characterized by “easy-entry” and “upper-tier” informal employment. Fields found that many upper-tier informal workers had previously worked in formal employment, where they had gained the skills and savings to set up their own informal enterprises. Though Fields emphasizes that upper-tier informal employment is “voluntary”, he also refers to its “constrained voluntary nature”, elaborating that “given the constrained choices available to them, a great many of informal sector workers are in that sector voluntarily” (1990, p. 67).

Maloney’s (2004) description of voluntary informal employment is similar to Fields’ in many respects, but differs in emphasizing formal social protection both as a defining characteristic of formal employment and for its role in creating incentives to work informally. For example, in a scenario in which an entire family is eligible for medical benefits as long as one member is formally employed, there is weaker incentive for additional members to be formally employed. This is based on the assumption that workers pay for these benefits in some form and that the formal and informal jobs in question are broadly comparable. Another scenario is that workers may eschew mandatory contributions to pension schemes because of their upfront cost relative to uncertain future return. More generally, the less efficient the delivery of formal social protection, the weaker the incentive to participate.³

While Fields (1990) situates voluntary informal employment in the context of dualism within the informal urban labour market, Maloney (2004) goes further, writing that “as a first approximation we should think of the informal sector as the unregulated, developing country analogue of the voluntary entrepreneurial small-firm sector found in advanced countries” (p. 1159).⁴ Maloney does not, however, develop a formal model and so strict parsimony considerations do not come into play, calling into question the usefulness of such a “first approximation”. It seems more fruitful to pursue Fields’ line of inquiry and consider the relative importance of voluntary versus involuntary informal employment and the implications and determinants of this relationship.

The policy implications are of first importance. For instance, the higher the ratio of voluntary to involuntary informal employment:

³ See Saavedra and Tommasi (2007), for a related discussion on “social contracts” and informality in Latin America.

⁴ Similarly, Bosch, Goni and Maloney (2007) write: “The dominant perspective with intellectual roots dating at least from Harris and Todaro (1970), equates the [informal] sector with underemployment or disguised unemployment – the disadvantaged sector of a market segmented by rigidities in the ‘formal’ or covered sector of the economy. However, another emerging view [...] argues that, as a first approximation, the sector should be seen as an unregulated, largely voluntary self-employed/micro firm sector” (pp. 3–4).

1. The less meaningful is informal employment as an indicator of a decent work deficit and underdevelopment more generally.
2. The more meaningful is the open unemployment rate as an indicator of labour market slack, with attendant implications for macroeconomic policies.
3. The more contradictory may be policies aiming to increase formal employment while simultaneously improving conditions for informal workers.⁵

There are also research and data implications.⁶ For instance, Fields argues that studies that do not account for such dualism within informal employment are “rendered dubious, if not downright invalid” (1990, p. 50). He criticizes the ILO’s and other definitions of informal employment in this regard: “One is hard-pressed to see how these working definitions of the informal sector conform to earlier notions based on free-entry” (1990, p. 64).⁷ Yet measuring voluntary informal employment is intrinsically thorny, for it requires knowing not just the characteristics of the informal job in question (as per existing definitions), but the characteristics and availability of the *formal* jobs the worker is qualified for as well as the worker’s qualifications themselves. We will return to this point.

Much of the evidence on voluntary informal employment comes from Latin America; in Maloney’s case, from Argentina, Brazil and especially Mexico. These three countries have micro panel data, enabling one to trace the movement of workers between formal and informal employment. Yet these are among the most developed of developing countries, raising the question of how meaningful their findings are for poorer developing countries and regions. Fields (2005a) makes this point in reference to Maloney’s work: “Perhaps most

⁵ The underlying assumption is that the higher the ratio of voluntary to involuntary informal employment, the more workers are on the threshold of indifference between formal and voluntary informal employment. The point is suggested by Maloney (2004), who writes: “As a simple example, universal basic medical care not linked to other dimensions of formality is implicitly a subsidy to those contemplating leaving formal protections for informal entrepreneurship” (p. 1173). See also Levy (2007 and 2008) for a discussion of these issues regarding social programmes in Mexico.

⁶ See Jütting, Parlevliet and Xenogiani (2007) for a useful discussion of these issues in the context of the broader debate on voluntary informal employment. The paper also contains an appendix describing the range of definitions of informal employment used in recent empirical studies.

⁷ The ILO’s definition of employment in the informal sector is based on a Resolution of the International Conference of Labour Statisticians of 1993. Previously, however, ILO offices in Latin America and the Caribbean employed a broadly similar definition, based on employment in small firms, self-employment (non-professional) and employment in domestic service (see Hussmanns, 2005, for a discussion of relevant ILO definitions, discussed further below). Ranis and Stewart (1999) address dualism within the informal sector, providing a formal model, conceptual and working definitions, and data analysis for Bangkok and Manila. They refer to the “traditional” (or “stagnant”) versus “modernizing” (or “dynamic”) components of the informal sector. Their conceptual definition overlaps to some extent with Fields’ upper-tier and easy-entry informal employment, but their working definition of the traditional and modernizing components seems to overlap less, as it is based on dividing workers in small establishments by industry, traditional versus modernizing, according to average industry characteristics. Therefore, it is not clear the extent to which such a measurement approach would satisfy Fields’ concerns.

informal entrepreneurs are in the upper-tier in Mexico, but I doubt this is the case in India, Bolivia and Kenya” (p. 25).⁸ Supporting this view, for example, are the findings of a study on Côte d’Ivoire, estimating that about twice as many urban workers want to work in formal employment than actually do, and that about three times as many urban workers are in the lower tier of informal employment than want to be (Günther and Launov, 2006).

Indeed there are several reasons to suspect that there might be a generally positive relationship between the ratio of voluntary to involuntary informal employment and levels of economic development. More developed countries generally have stronger unemployment insurance systems, and thus open unemployment can more readily provide an alternative to involuntary informal employment in the face of job loss.

Consider too that the share of informal employment is highest in the poorest developing regions, particularly in South Asia and sub-Saharan Africa, as shown in figure 1 (with informal employment approximated by self-employed and unpaid family workers in urban and rural areas, for want of better regional estimates). In India, for example, the share of informal employment was 76.7 per cent in urban areas and 94.8 per cent in rural areas in 1999–2000 (Sakthivel and Joddar, 2006, p. 2110). In South Asia and sub-Saharan Africa, there are lower propensities for a family member to be in formal employment and so more limited possibilities for other members to opt out of formal employment while receiving formal social protection (in cases of extension to family members). More fundamentally, voluntary informal employment implies a choice: that purportedly voluntary informal workers could work in formal employment if they so wished. Clearly the possibilities for this are exceedingly limited when the share of formal employment is very low.⁹

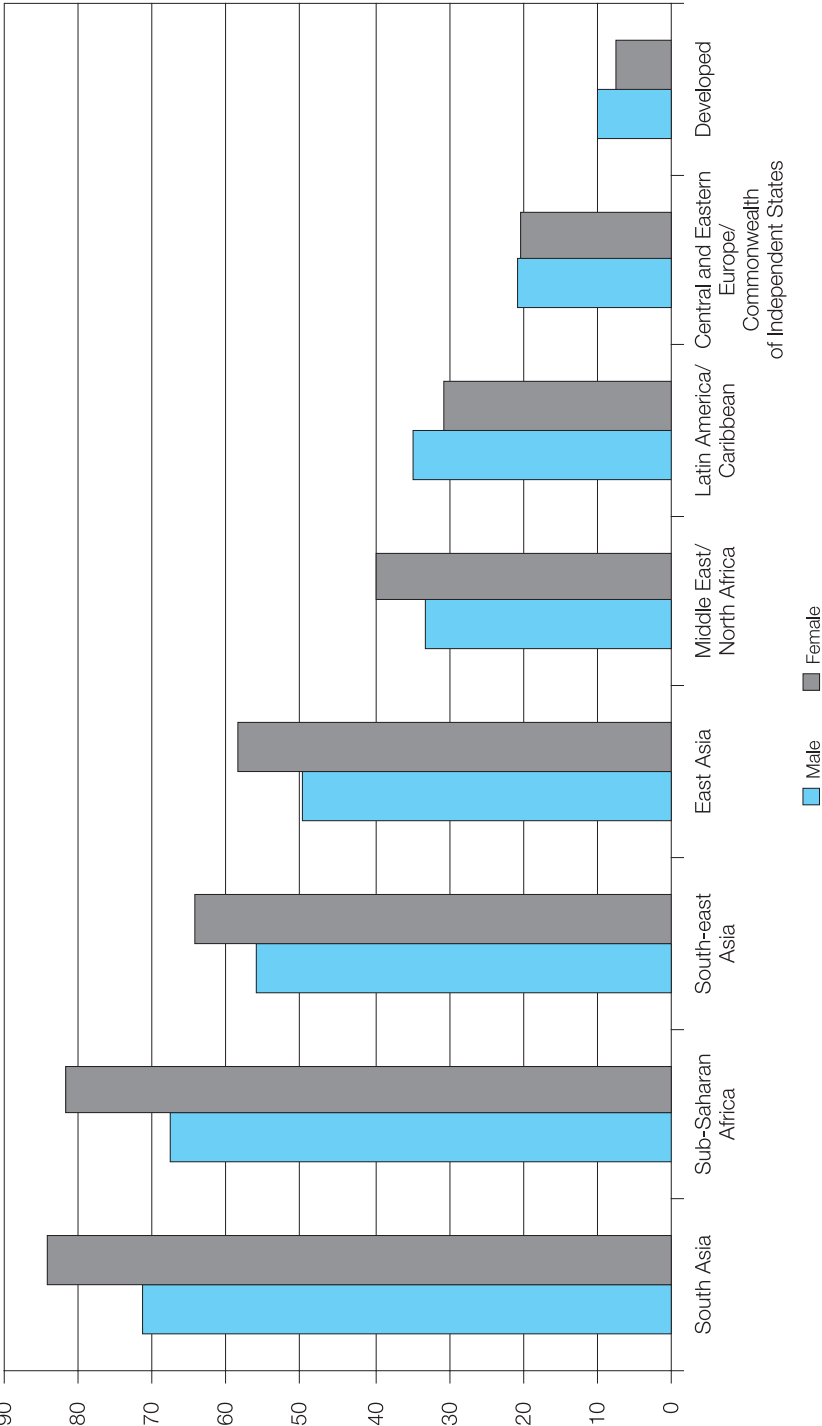
Poorer developing countries and regions also have such high shares of informal employment and rates of poverty that there is necessarily much overlap between the two. In 2004, the two-dollar-a-day poverty ratio was 22.2 per cent in Latin America and the Caribbean, compared to 72.0 per cent in sub-Saharan Africa and 77.1 per cent in South Asia (World Bank, 2007). Our view is that informal workers in poverty cannot be voluntary in any meaningful sense of the word.¹⁰ From these considerations it follows that the concept of voluntary informal employment is least relevant where informal employment is most pervasive.

⁸ Even the case of Mexico remains unsettled, as a study by Duval-Hernández (2006) takes a different approach to analysing the micro data and finds evidence that a large majority of urban informal workers in Mexico are involuntary.

⁹ Even in countries where the share of formal employment is higher (e.g. Mexico), while any given ostensibly voluntary informal worker might be able to work in formal employment individually, not all could do so at the same time. In this sense, estimates of the share of voluntary informal employment can be illusory, the result of a fallacy of composition.

¹⁰ The point is strengthened when one considers child labour, informal and involuntary by definition, which is of greatest severity in the poorest developing regions. For 2004, the economic activity rate of 5 to 14 year olds was 5.1 per cent in Latin America and the Caribbean, compared to 26.4 per cent in sub-Saharan Africa and 18.8 per cent in Asia and the Pacific (ILO, 2006).

Figure 1. Shares of self-employed and unpaid family workers (urban and rural), 2006



Source: ILO (2007b).

Regarding poverty, Maloney (2004) takes a different view: “Arguing that workers are voluntarily informal does not, of course, imply that they are not living in poverty, only that they would not obviously be better off in the formal jobs for which they are qualified ... many are simply making the best choices they can given their low level of education” (pp. 1160 and 1164). This returns us to the issue of the “constrained voluntary nature” of purportedly voluntary informal employment.

For voluntary informal employment to be a meaningful notion, it is important to consider the quality of this employment as well as formal employment alternatives in an absolute, not just a relative, sense¹¹ – for there are good and bad jobs within the formal sector, dualism within both the formal and the informal sectors. Indeed, it was concern about the growth of marginal employment within formal establishments that motivated the ILO’s new definition of informal employment, adopted in 2003, which adds to employment in informal establishments (that is, employment in the informal sector) informal employment in formal establishments (Husmanns, 2005).

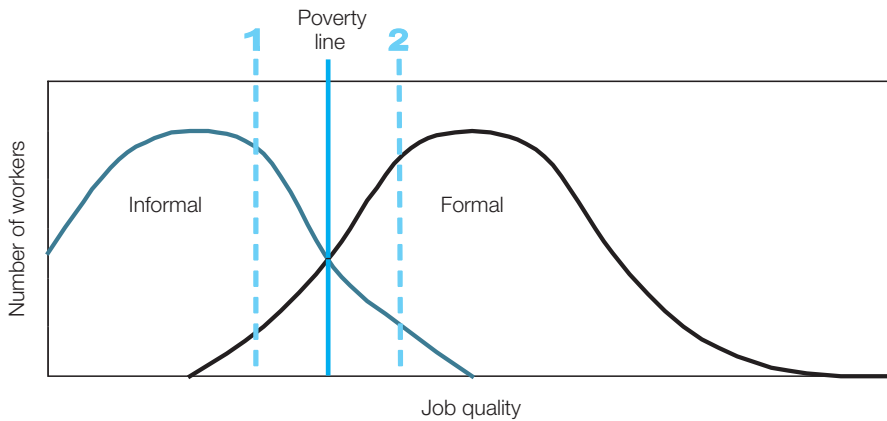
These points are illustrated in figure 2, showing hypothetical distributions of formal and informal workers according to the quality of their jobs and assuming commensurability among the full range of job quality characteristics, including social protection.¹² At points 1 and 2, equivalent job quality is available to formal and informal workers, who therefore may be indifferent between formal and informal employment. At point 1, however, formal and informal workers are below the poverty line, whereas at point 2 they are above it. In our view, the difference between points 1 and 2 should be central to discussions of purportedly voluntary informal employment. This holds for decent work more generally, many aspects of which are defined in an absolute rather than a relative sense, for example, regarding minimum working age and maximum working hours (see Anker et al., 2003).

The contingent nature of voluntary informal employment creates serious conceptual and measurement problems. Less-educated workers have more limited formal employment prospects, so consider what would happen if the level of educational attainment were to increase in a country. In such a case, more workers would be qualified for good jobs in the formal sector and so fewer would contentedly settle for informal employment. That is, the ratio of voluntary to involuntary informal employment would be lower, even though the ratio of good to bad jobs would remain the same. Or consider what would happen if the quality of formal jobs were to worsen. Previously involuntary informal workers might now prefer to remain informal rather than seek formal employment. In this case, the ratio of voluntary to involuntary informal employment would be higher, even though the ratio of good to bad jobs would be lower. In

¹¹ A similar point is made by Heintz and Pollin, who write that “such situations emerge [...] not primarily because informal employment opportunities are highly desirable, but rather because the formal jobs are highly undesirable” (2003, p. 3).

¹² This figure was suggested to us by ILO economist Patrick Belser.

Figure 2. Job quality distribution for formal and informal workers



short, the ratio of voluntary to involuntary informal employment does not necessarily tell us anything about what we most want to know: the quality of jobs in an economy. Indeed these examples show how it can be downright misleading.

The notion of informal workers voluntarily opting out of formal social protection also raises concerns. This point is raised by Maloney, who writes:

What I am suggesting is that those contemplating opening their own firms may survey the array of available social protection mechanisms, both formal and informal and then, comparing the utility of the portfolio they can cobble together in the two sectors, make the decision to open an informal business and leave formal protections (2004, p. 1167).

Social protection policies can indeed have unintended negative consequences. For example, if workers' and employers' contributions to social protection schemes are too high, both parties have an incentive to keep their relationship off the books, whether within or outside of formal establishments. This provides a sense of the challenges of policy design, involving the extent to which social protection is financed from contributions versus government tax revenues.

Yet there are other fundamental issues at stake in considering formal and informal social protection as alternatives. Two forms of social protection that have received much attention are pensions and health care (e.g. Mesa-Lago, 1992). There can be informal alternatives to formal pensions, of which traditional family support has been most important historically. But there has been a breakdown of such support in developing countries as a result of migration (internal and international) and the decline of the extended family household (Cassirer and Addati, 2007). And for formal health care, there are no viable informal alternatives. More generally, though it is true that poorer workers have less incentive to participate in formal social protection when service delivery is

poor, this also applies to better-off workers.¹³ Poorer workers can less readily afford to waste or risk their money. Still, that poorer rather than better-off workers are more likely to forgo formal social protection seems more a reflection of constraints – of poverty itself – rather than a meaningful expression of choice.

Women are disproportionately represented in informal employment, and so debates on the quality of informal employment have particular bearing on them (see figure 1). Some studies of formal-informal employment dynamics evaluate men and women together (e.g. Calderón-Madrid, 2000, on Mexico), while others exclude women from the analysis altogether (e.g. Maloney, 1999, also on Mexico). However, studies that evaluate men and women separately find much less mobility between formal and informal employment for women, which their authors interpret as providing stronger evidence of labour market segmentation for women (Funkhouser, 1997, on El Salvador; Gong and van Soest, 2002, on Mexico).

Though Maloney's emphasis is on men's voluntary informal employment, he also discusses women's informal employment, arguing that it too may be largely voluntary:

[t]he explanation for the disproportionate representation of women in informal self-employment may also again be found in certain desirable characteristics of the sector, particularly, flexibility ... Given the constraints that poor women face in balancing home responsibilities and the need to work, informal employment may be a relatively desirable alternative (Maloney, 2004, pp. 1162–1163).

An alternative view is provided by Cassirer and Addati (2007), based on in-depth research on the childcare needs of informal workers in 13 developing countries. They find that the lack of childcare provision in developing countries leaves women with limited options in balancing work and family responsibilities.

The lack of supports for unpaid family responsibilities may force many women, particularly poor women, to accept the low wages and poor working conditions typical of the informal economy, but as a survival strategy, such employment does not meet the broader aspirations of the working poor for economic security and freedom from poverty (Cassirer and Addati, 2007, p. 7).

These authors provide evidence that the challenge of balancing family responsibilities with paid work has become increasingly difficult as a result of the breakdown of traditional family support, the increased number of female-headed households, and a lack of public support for unpaid work. They also argue that the want of childcare provision contributes to the growth of informal employment in that it creates demand for domestic workers as childcare pro-

¹³ This point about richer and poorer workers was made to us by ILO economist Christoph Ernst.

viders. Cassirer and Addati address not only childcare problems, but also childcare solutions, describing programmes directed toward informal women workers in several developing countries. Indeed, if the question of whether women are voluntarily in informal employment is to be meaningful, one must endeavour to understand the constraints under which these women choose.¹⁴

Out of the frying pan ...?

Fields (1990) developed the idea of a dualistic informal sector, characterized by voluntary upper-tier and involuntary easy-entry components. The distinction is helpful in understanding the heterogeneity of informal employment and labour market dynamics in developing countries, such as voluntary movements of workers from formal to informal employment and that some rural-to-urban migrants seek informal rather than formal employment. More generally, the value of multi-sector labour market approaches is that they provide explanations of phenomena that are otherwise paradoxical (Fields, 2005a).

At the same time, the contingent nature of voluntary informal employment makes it difficult to measure. Moreover, current debates about voluntary informal employment are meant to be about job quality, about decent work. This calls for consideration of the quality of purportedly voluntary informal employment as well as formal employment alternatives in both relative and absolute senses.

There is also reason to think that voluntary informal employment may be the least prevalent where informal employment is itself the most prevalent, i.e. in the poorest developing regions. Further research on this hypothesis would be useful, if only to counter the tendency to project research findings from the most developed of developing countries onto the developing world as a whole. Given the paucity of micro panel data on poor developing countries, such research would probably have to rely a good deal on worker surveys. To best inform policy, such research should be mindful of the constraints under which workers make choices, because understanding whether informal workers are meaningfully voluntary requires understanding their options. More generally, making sense of the debates on voluntary informal employment means contending with the possibility that policies can do what they are meant to do, and that is to expand options.

Formal labour regulations and informal employment

The World Bank's *Informality: Exit and Exclusion* (Perry et al., 2007), though focusing on Latin America and the Caribbean, contains a fairly comprehensive

¹⁴ For a useful discussion of the elusive nature of choice regarding women's part-time employment, see Procter and Padfield (1999).

survey of the empirical literature on labour regulations and informal employment and provides a useful point of comparison for our reading of this literature.¹⁵ Particularly relevant is the chapter by Maloney and Bosch (2007), “The informal labour market in motion: Dynamics, cycles and trends”.

We first provide a short theoretical overview, focusing on the literature deriving from models of labour market dualism and related to labour regulations.¹⁶ Among the issues addressed are trade unions, minimum wages, and hiring and firing costs. Taken together, these theories suggest that the effects of formal labour regulations on informal employment are ambiguous a priori.

Theory

Looking back over the period since the publication of his 1954 paper, Lewis wrote that “[u]rban wages [in less developed countries] have been rising faster than we would have predicted” (1979, p. 223). He attributes this to several factors: trade unions and their “strict control of entry”, “civil service unions raising government pay”, the “pressure of governments on foreign employers”, and minimum wage regulations (ibid., pp. 225 and 227).¹⁷ Consistent with his reliance on the neo-classical demand curve for labour (1954, p. 150), Lewis’s concern was that these factors give rise to less employment in the formal sector and more in the informal sector.

Harris and Todaro (1970) did not elaborate on how entry-level urban wages are “politically determined” above a hypothesized market-clearing level. Their model was extended in this regard by Calvo (1978), incorporating unions on the assumption that they are concerned with the difference between rural wages and union members’ urban wages. Calvo argued that this model was also relevant without unions, insofar as governments establish urban minimum wages. Quibria (1988) also extended the Harris-Todaro model, most relevantly by incorporating urban formal and informal sectors and unions on the assumption that they are concerned with the difference between wages in these two urban sectors. A key policy implication of the difference between these assumptions of union behaviour is that in Quibria’s model, government policies can eliminate urban unemployment and informal employment without having to resort to controls on rural-urban migration. In this sense, the effects of unions on informal employment are benign. At this abstract level, the effects of unions are therefore ambiguous, and, more concretely, we know that unions’ attitudes and

¹⁵ For a review of this book, see *International Labour Review*, Vol. 147 (2008), No. 2–3, pp. 291–295.

¹⁶ For a review of the literature on why formal-sector wages might be above a hypothesized market-clearing level, see Fields (2005a), who addresses institutional, efficiency-wage and supply-side considerations.

¹⁷ Lewis also refers to trade unions in his 1954 account of the difference between wages in the “capitalist” and “subsistence” sectors (p. 150).

behaviours vary widely in developed and developing countries, from conflictual to cooperative.¹⁸

Fields (2005b) uses the Harris-Todaro model to evaluate the effects of three labour market policies – “modern sector job creation”, “modern sector wage restraint” and “rural development” – on four labour outcomes, namely, unemployment, total labour earnings, inequality of labour earnings, and poverty. In this context, Fields’ finds that “modern sector wage restraint” can result in either higher or lower unemployment, depending on whether the demand for labour is sufficiently elastic or inelastic. “Modern sector job creation” results in higher unemployment. More generally, the effects of “modern sector wage restraint” and “modern sector job creation” have both negative and positive effects on the labour outcomes considered. Only “rural development” is found to be unambiguously beneficial.

Originally intended to explain unemployment, insider-outsider theory also provides an account of labour market segmentation, including segmentation between formal and informal workers (Lindbeck and Snower, 1986 and 2001; Solow et al., 1985). Central to this theory is a conflict of interests between higher-paid insiders and lower-paid (or unemployed) outsiders. In Lindbeck and Snower’s version of the theory, a key reason why firms do not replace insiders with outsiders lies in the associated hiring and firing costs, which can be influenced by labour regulations. The higher the hiring and firing costs, the higher insiders’ wages can reach above a hypothesized market-clearing level and so the greater the potential extent of unemployment and informal employment. Unions can also come into play in insider-outsider theory insofar as insider status is associated with union membership. Unions can act to increase hiring and firing costs as well as strengthen insiders’ bargaining power.

There is a sizeable empirical literature on the effects of employment protection legislation on levels of employment. The theoretical effects are ambiguous, however. As Bertola, Boeri and Cazes write, “Theoretical models show that employment protection does tend to have a constraining effect on both layoffs *and* hirings, job creation *and* destruction, unemployment inflows *and* outflows, with the extent to which one effect dominates the other depending on the values of the parameters” (2007, p. 237). In other words, employment protection legislation is expected to dampen the volatility of employment, but not necessarily affect the levels of employment. Employment protection legislation generally applies only to formal workers, so there is no clear expectation that employment protection legislation would affect the shares of formal and informal workers in an economy. Employment protection legislation could increase hiring and firing costs, though, returning us to the insider-outsider dynamic.

We have noted Fields’ (2005b) finding that the effects of modern-sector wage increases on unemployment are ambiguous. Another way of looking at

¹⁸ Nelson (1991) illustrates this variance and argues that it depends on union strength, the state of the economy, and the relationship of unions to political parties. There is also a debate on whether strengthening trade union rights gives rise to more or less economic and social stability and thus more or less informal employment (see Singh and Zammit, 2000; Galli and Kucera, 2004).

this is to consider the macroeconomic effects of wage increases depending on whether a country is in a scenario of wage-led versus profit-led growth. This depends on a country's comparative savings rates out of profits versus wages, the strength of "accelerator effects", and exposure to international competition (Blecker, 1996). In a wage-led growth scenario, formal-sector wage increases could result in formal sector employment increases.

Such a wage-led growth scenario is at odds with the neo-classical theory of unemployment that underlies the above models and the expectation that stronger formal labour regulations result in less formal and more informal employment.¹⁹ Job search theory is also an offshoot of the neo-classical theory of unemployment, for which the social wage – which includes unemployment insurance benefits – is argued to be the relevant determinant of unemployment. A useful overview of the neo-classical theory of unemployment and its offshoots is provided by Card and Krueger (1995), particularly as regards minimum wages and low-wage labour markets. Motivated by the empirical findings of their and other studies that the effect of minimum wage increases on employment is "centering on zero", these authors argue that the predictions of the neo-classical theories of unemployment can be confounded when employers have a degree of discretion in wage-setting (Card and Krueger, 1995, p. 383).

The theoretical foundations of the neo-classical theory of unemployment – and, by implication, its various offshoots – have also been extensively critiqued, particularly regarding the derivation of the demand curve for labour (e.g. Garegnani, 1990; Felipe and McCombie, 2008). This calls into question the interpretation of observed inverse relationships between wages and employment and brings another element of doubt into the expected effects of formal labour regulations on informal employment.

Evidence

In their contribution to the World Bank's *Informality: Exit and Exclusion*, Maloney and Bosch write that "variations in business flexibility account for 16 per cent of the variance" in self-employment (2007, p. 121). This is based on a finding in Loayza and Rigolini (2006), who estimate the effects of "credit, labor and business" regulations on shares of self-employment (urban and rural) in a cross-country panel data analysis evaluating samples of developed and developing countries over the period from the mid-1980s to 2004.²⁰ For the full sample of 42 countries, the study finds a borderline statistically significant relationship

¹⁹ The neo-classical demand curve for labour also underlies the notion of a trade-off between the quality and quantity of employment. See Fields (2003), who rechristens this curve the "decent work frontier".

²⁰ The study uses an index developed by the Fraser Institute that addresses in one bundle the "regulation of credit, labor and business". The five labour regulation components of the index address "impact of minimum wage", "hiring and firing practices", "centralized collective bargaining", "unemployment benefits" and "use of conscripts to obtain military personnel". Note that ten of the 15 components of the "credit, labor and business" index are not based on coding of regulations but rather on survey responses.

(10 per cent) between stronger regulations and more self-employment. However, for samples of developing countries only, or only countries in Latin America and the Caribbean, the relationship is the opposite, though not statistically significant. In short, weak as the relationship is for the full sample of countries, for samples of developing countries it is non-existent.²¹

The volume *Law and Employment*, edited by Heckman and Pagés (2004), surveys and compiles a number of studies on the impact of labour regulations in Latin America and the Caribbean. Of this volume, Maloney and Bosch write that “[f]or the region and several countries, a credible case can be built that labor legislation has a substantial impact on the size of the formal sector” (2007, p. 121). The volume is noteworthy for its emphasis on studies analysing micro data (representing individuals). Most relevant are studies evaluating the effect of “job security costs” (cost of dismissing a worker) on formal employment in Argentina, Barbados, Brazil, Chile, Jamaica, Peru, and Trinidad and Tobago.

Among these seven countries, statistically significant relationships between higher job security costs and less formal employment are found only in Argentina and Peru. But are the implications of job security costs for *informal* employment, the topic of Maloney and Bosch (2007)? For Argentina, the answer is ambiguous, as different definitions of informal employment show movements in opposite directions: defined as workers in informal establishments, the share of urban informal employment decreased in the 1990s; defined as workers without social security coverage, the share increased.²² The case of Peru is more straightforward. In the 1990s, job security costs fell while formal employment increased (Saavedra and Torero, 2004). Yet, by all measures, urban informal employment increased even more rapidly, meaning that falling job security costs coincided with a rising share of informal employment.²³

Rather than being anomalous, Peru typifies the relationship between changes in job security costs and shares of informal employment in Latin American and Caribbean as well as OECD countries. The relevant study is Heckman and Pagés-Serra (2000). This study estimates the effects on shares of

²¹ See Maloney and Bosch’s table 3 (2007, p. 28), based on the authors’ model including GDP per capita. Not shown but described by the authors are results from a model not including GDP per capita. Without GDP per capita, the authors report that results are similar between the full sample of countries and samples of developing countries (p. 19). Our view is that GDP per capita belongs in the model (it is the variable with the greatest explanatory power) and that the corresponding results are the ones that matter. Note also that Loayza, Oviedo and Servén (2006) estimate the effects of labour and other regulations on the size of the informal economy (rather than informal employment) across countries, using estimates of the “shadow economy” constructed by Schneider (2004). Schneider’s estimates are the output of a model in which the size of the “shadow economy” is predicted based on its hypothesized determinants, one of which is the “burden of regulation”. It is therefore circular to treat Schneider’s estimates as endogenous and indicators of labour and other regulations as exogenous.

²² This resulted from a compositional shift in employment from informal to formal establishments alongside declines in social security coverage in both informal and formal establishments (Galli and Kucera, 2008). The index of job security costs constructed by Heckman and Pagés-Serra (2000) shows no change for Argentina over the 1990s.

²³ Saavedra and Torero’s (2004) data refer to Lima (for corroborating evidence, see Heckman and Pagés-Serra, 2000; Galli and Kucera, 2008).

self-employment (non-agricultural) of job security costs, measured as the cost of dismissing a worker according to law, expressed in multiples of monthly wages. This is a cross-country panel data analysis evaluating samples of Latin American, Caribbean and OECD countries from 1990 to 1999. Regressions driven mainly by variation across countries (OLS) show a positive relationship between job security costs and shares of self-employment. In contrast, regressions driven by change over time (fixed effects) show the opposite, and such longitudinal evidence provides the better test of policy impact. The longitudinal evidence is also stronger in terms of both the estimated strength and statistical significance of the relationship (table 1). As with Peru, changes in job security costs in Latin American, Caribbean and OECD countries are associated with opposite changes in shares of informal employment

Though not addressed by Maloney and Bosch (2007), Galli and Kucera (2004) provide relevant findings. This study estimates the effects of trade union rights on shares of formal and informal employment in a cross-country panel data analysis evaluating a sample of Latin American countries from 1990 to 1999. It finds that countries with stronger “civic rights” for workers tend to have higher shares of formal employment.

In addition to the study by Paes de Barros and Corseuil (2004) in *Law and Employment*, Brazil is also the subject of a study by Bosch, Goni and Maloney (2007) that endeavours to determine the causes of the increase in the share of informal employment in the 1990s, particularly in the light of trade liberalization and the constitutional reform of 1988. These authors’ data show an overall increase in the share of urban informal employment (self-employed and informal salaried workers) of about ten percentage points from 1990 to 2002, with a slight decline from 2000 to 2002.²⁴ Their study estimates the effects of “union power” on the share of urban formal employment, job creation and job destruction in a cross-industry panel data analysis (with time and industry fixed effects) for Brazil from 1983 to 2002, with union power measured by union enrolment rate in each industry. The study also evaluates the effects of overtime costs and “firing costs”.²⁵ Results from the authors’ “preferred specification” show that higher union enrolment is associated with higher shares of formal employment (Bosch, Goni and Maloney, 2007, p. 20). Moreover, the estimated positive

²⁴ Based on alternative definitions of informal employment, Gasparini and Tornarolli (2007) and Ernst (2008) present different trends in informal employment in Brazil. From 1990 to 2003, Gasparini and Tornarolli show a peak in the share of urban informal employment in 1996 by a “social protection” definition (workers with pensions linked to employment), with an overall increase of about seven percentage points over the period, and a peak in 1999 by a “productive” definition (unskilled self-employed, unpaid, and salaried workers in small private firms), with an overall increase of about two percentage points. From 1992 to 2004, Ernst shows a peak in 1999 in the share of non-agricultural informal employment by an employment status definition (self-employed, unregistered, unpaid, and subsistence workers), with an overall increase of about two percentage points over the period.

²⁵ Proxied respectively by the share of employees working more than the post-reform legal limit of 44 hours and the average job tenure of fired workers. Along with the union enrolment rate, these variables are constructed as industry annual averages for the pre-1988 period multiplied by a dummy variable with a break at 1988/1989.

Table 1. Estimated effect of job security costs on shares of self-employment

	OLS	Fixed effects
OECD plus Latin America/Caribbean	1.37 (5 per cent)	-8.43 (1 per cent)
Latin America/Caribbean	1.09 (10 per cent)	-8.34 (1 per cent)

Source: Heckman and Pagés-Serra (2000).

and negative effects of union enrolment, overtime and firing costs on formal job creation and destruction cancel each other out over time.²⁶

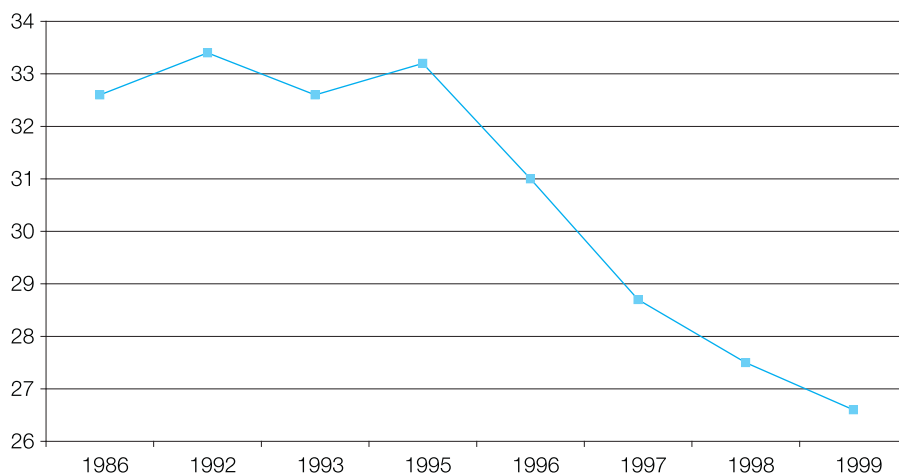
In spite of these findings, the authors write that “[a] small fraction of this [rise in informality] is driven by trade liberalization, and the remainder seems driven by rising labor costs and reduced flexibility arising from Constitutional reform [...] We establish that trade liberalization played a relatively small part in this increase [in shares of informal employment], but find suggestive evidence that several dimensions of Constitutional reform, in particular, regulations relating to firing costs, overtime, and union power, explain much more” (*ibid.*, pp. 1 and 26). Figures 3 and 4 show union enrolment rates and real manufacturing wages in Brazil during the period under review.²⁷ Hourly compensation costs in manufacturing (including non-wage labour costs) also declined markedly in Brazil during this period, as did aggregate real wages in both rural and urban areas after the mid-1990s (ILO, 2007c; IPEA, 2006). It is not evident how to reconcile the authors’ conclusions with the sharp declines in these measures.

The economic effects of labour regulations in India are addressed by Besley and Burgess (2004). These authors construct an indicator, equal to plus or minus one, of changes in labour market regulations related to the Industrial Disputes Act (IDA) and employ it in a cross-state panel data analysis for the period 1958–1992. They find that “pro-worker” amendments to the IDA were associated with lower output and employment in formal manufacturing and higher output in informal manufacturing. Their study (and others using the Besley-Burgess indicator) has come under a number of criticisms, most extensively from Bhattacharjea (2006). Regarding problems with the indicator, for example, Bhattacharjea writes of “inappropriate classification of individual amendments, summary coding of incommensurable changes as either +1 or -1, and misleading cumulation over time”. He also notes that the indicator does not account for judicial interpretation of the IDA and that the IDA is only one of at least 45 acts addressing labour at the national level (*ibid.*, p. 218). In addition,

²⁶ That is, coefficient estimates on contemporaneous and lagged (one year) variables are close in magnitude and of opposite sign. This holds most strongly for coefficient estimates on formal job creation but also for the estimated effects of overtime and firing costs on shares of formal employment.

²⁷ Bosch, Goni and Maloney’s union enrolment data are constructed from the Brazilian National Household Survey for “individuals of 18 to 65 years of age, economically active in the formal sector, and earning a positive wage” (2007, p. 17). Based on this same survey, Cardoso (2004) found the union enrolment rate for all wage earners to have declined much less, from 21.9 per cent in 1988 to 20.1 per cent in 2002.

Figure 3. Union enrolment rate, Brazil, 1986–1999 (percentages)



Source: Bosch, Goni and Maloney (2007).

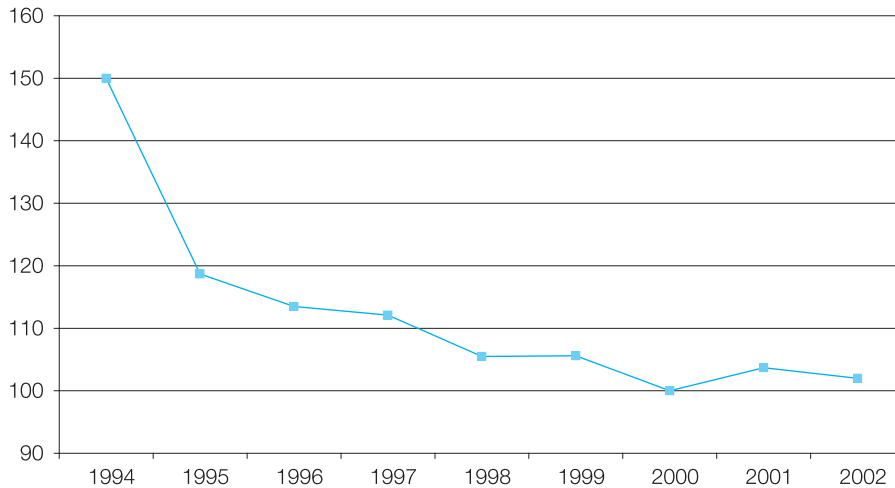
Bhattacharjea writes that “the results of their [Besley and Burgess’] econometric analysis are extremely fragile”, for instance with regard to model specification (*ibid.*, p. 212).

Several studies evaluate the effects of labour regulations in Colombia, and our reading of these studies largely concurs with that offered by Maloney and Bosch (2007).²⁸ Both Maloney and Nuñez Mendez (2003) and Arango and Pachón (2004) use micro data and find that higher minimum wages are associated with less employment and more unemployment. While these studies do not focus on the distinction between formal and informal employment, they nonetheless estimate weaker effects on self-employment than other forms of employment, consistent with the view that minimum wage increases led to higher shares of self-employment. Kugler and Kugler (2003) estimate the effects of higher payroll taxes on formal manufacturing employment in Colombia. Their study evaluates firm-level panel data from 1982 to 1996 and provides evidence that the substantial increase in payroll taxes during this period (not offset by a decrease in wages) led to declines in formal employment.

The case of Colombia provides a useful caution that badly designed and implemented labour regulations can have negative repercussions. For example, Colombia’s minimum wage was already among the region’s highest when it was

²⁸ The exception is Kugler (2000), which Maloney and Bosch interpret as providing evidence that lower job security costs led to lower unemployment, based on an analysis of hazard rates into and out of unemployment. However, Kugler emphasizes that her results are for an upturn period and that the effect of job security costs on unemployment is likely to be asymmetrical over upturns and downturns, with lower job security costs having an opposite effect on unemployment in downturns and thus an inconclusive overall effect.

Figure 4. Real manufacturing wage index, Brazil, 1994–2002 (2000 = 100)



Source: ILO (2007c).

raised further in the midst of the deep recession of the late 1990s, during which the unemployment rate more than doubled to a historical high of 20 per cent. But the case of Colombia is not representative. A study on Brazil by Lemos (2007), for example, provides evidence that higher minimum wages had the intended consequence of reducing earnings inequality without the unintended consequence in reducing employment, neither for workers in general nor for vulnerable workers. More generally, the effect of minimum wages on formal employment depends on a range of factors in addition to the state of the economy, including the difference between minimum and prevailing wages.²⁹

Maloney and Bosch cite Djankov et al. (2002), along with Friedman et al. (2000), to support the statement that “[a] substantial body of literature sees the size of the informal sector to be determined substantially by regulatory distortions or corruption” (Maloney and Bosch, 2007, p. 121). Yet Djankov et al. is better read as an example of the potentially negative repercussions of badly designed and implemented regulations rather than “regulatory distortions” as such. Across 85 developed and developing countries for 1999, their study finds a strong positive correlation between the number of procedures (including labour and social security-related procedures) required to start a company and the size of the “unofficial economy”, measured as a share of GDP and a share of the labour force. However, the number of such procedures tells us the extent to which a given state endeavours to regulate labour through firm entry (i.e. *how* it regulates labour), rather than either the overall strength of labour regulations or

²⁹ For comprehensive discussions of the workings and impacts of minimum wages in developing countries, see Saget (2006) and Eyraud and Saget (2008).

de facto working conditions in a country. Canada and China provide a telling comparison: Canada requires only two procedures to start a company – zero for labour and social security – while China requires 12 – five of which relate to labour and social security.

Friedman et al.'s (2000) main findings refer to corruption and taxes, which they summarize as follows: "Across 69 countries [developed and developing for the 1990s], higher tax rates are associated with less unofficial activity as a percentage of GDP but corruption is associated with more unofficial activity" (p. 459). Friedman et al.'s findings leave open the possibility that higher taxes might be associated with stronger regulations – on the hypothesis that the associated costs of regulations are paid for from taxes – and, thus, stronger regulations, with less "unofficial" activity.

The evidence says ...

Given what is at stake for workers in developing countries, the advocates of weakening labour regulations as a means of reducing informal employment ought to hold themselves to a high standard regarding the strength of empirical evidence. This standard has not been met. The empirical evidence is recapitulated in table 2. Some of the statistically strongest results in the literature show a

Table 2. Empirical studies on formal labour regulations and informal employment

Citations	Overview
Loayza and Rigolini (2006)	Stronger "credit, labor and business" regulations are associated with more self-employment (10 per cent statistical significance) for a sample of developed and developing countries, but not for samples of developing countries only, where the relevant coefficient estimates are of opposite sign (though statistically insignificant).
Heckman and Pagés (2004)	Statistically significant relationships between higher job-security costs and less formal employment are found in only two of seven Latin American and Caribbean countries evaluated, Argentina and Peru. Yet these findings do not have clear-cut implications for informal employment. For Argentina in this period, the share of informal employment varied by different measures; for Peru, the share of informal employment increased by all measures, even though job-security costs fell.
Heckman and Pagés-Serra (2000)	For samples of OECD, Latin American and Caribbean countries, OLS results (driven mainly by cross-country variation) show a positive relationship between job-security costs and shares of self-employment; fixed-effects results (driven by change over time) show a stronger negative relationship between job-security costs and shares of self-employment, consistent with the case of Peru noted above.
Galli and Kucera (2004)	For a sample of Latin American countries, stronger "civic rights" for workers are associated with higher shares of formal employment.
Bosch, Goni and Maloney (2007)	The authors attribute the rising share of informal employment in Brazil in the 1990s to "rising labour costs" and "regulations relating to firing costs, overtime and union power". Yet this conclusion is not supported by the study's econometric analysis nor by the patterns of declining union enrolment rates and labour costs.

Citations	Overview
Besley and Burgess (2004) and Bhattacharjea (2006)	Besley and Burgess (2004) find that “pro-worker” amendments to India’s Industrial Disputes Act are associated with less formal manufacturing output and employment and more informal manufacturing output, but their indicators and analysis have been extensively critiqued by Bhattacharjea (2006) and others.
Maloney and Nuñez Mendez (2003) and Arango and Pachón (2004)	In the midst of the historically deep recession of the late 1990s, minimum wages in Colombia were increased; this was associated with more unemployment and less employment, with weaker effects on self-employment than on other forms of employment.
Kugler and Kugler (2003)	Higher payroll taxes in Colombia are associated with less formal manufacturing employment.
Lemos (2007)	Higher minimum wages in Brazil are associated with reduced earnings inequality but not with lower employment, either for workers in general or for vulnerable workers.
Djankov et al. (2002)	For a sample of developed and developing countries, a higher number of procedures required to start a company is associated with a larger “unofficial” economy, measured as a share of GDP and a share of the labour force. Yet the number of procedures is more indicative of the means by which a country regulates rather than the strength of regulations or de facto conditions (e.g. while China requires five labour and social security-related procedures to start a company, Canada requires none).
Friedman et al. (2000)	For a sample of developed and developing countries, higher taxes and less corruption are associated with a smaller “unofficial” economy, measured as a share of GDP. Yet stronger regulations may be associated with a smaller “unofficial” economy on the hypothesis that the associated costs of regulations are paid for from taxes.

positive relationship between the strength of labour regulations and shares of formal employment. We have noted, for example, the longitudinal results from Heckman and Pagés-Serra (2000). Most of the studies essentially show no relationship. In short, the empirical evidence does not support the view that weakening labour regulations is an effective policy for reducing informal employment. Given the popularity of this view, we hope that this article will prove useful to policy-makers – for good policy-making is as much about what not to do as it is about what to do.

Some implications for decent work and economic development

Reducing informal employment poses a fundamental challenge for policy-makers. Historically at least, economic development is characterized by urbanization. Yet, in the Harris-Todaro model and its extensions, the process of urbanization itself gives rise to urban unemployment and informal employment, in that the urban labour force increases more rapidly than urban formal employment. These are more than abstract musings, for it is not by chance that theories

of urban unemployment and informal employment arose alongside the industrialization of developing countries following the Second World War. At the same time, it should be noted that urban informal employment is not an ineluctable outcome of urbanization and economic development. The experience of the east Asian “Tigers” would seem to defy the predictions of the Harris-Todaro model. Indeed, if Harris and Todaro had worked in those countries rather than in sub-Saharan Africa, one wonders if there would be a Harris-Todaro model at all.

A key policy recommendation that follows from the Harris-Todaro model is rural development (Fields, 2005b). Rural development is essential not just because it reduces urban informal employment (restricting rural-urban migration would do the same) but because it does so by reducing rural poverty. But rural development is not enough. Broader economic development, historically at least, is characterized by industrialization, with productivity increases in industry driving productivity increases and employment growth in the aggregate economy (Pieper, 2000). Because of agglomeration economies, industry is concentrated in urban areas (Isard, 1956).³⁰ In this sense, economic development can be seen as both the cure for (longer run) and the cause of (shorter run) urban informal employment, at least in the many developing countries unable to achieve sufficiently dynamic industrialization.

We have discussed decent work insofar as it defines formal and informal employment, but it has broader implications. Decent work is defined by the simultaneous – not sequential – pursuit of four objectives: employment and income opportunities; social protection; fundamental rights at work and international labour standards; and social dialogue.

Since urban unemployment and informal employment can arise out of the process of economic development, it is economic development itself that creates the need for stronger social protection. This is all the more so insofar as rural-urban migration weakens traditional family support. From the perspective of decent work, the very nature of economic development thus calls for addressing social protection and employment and income opportunities together, as part of the same policy package.

We have described the empirical evidence on the effects of formal labour regulations on informal employment or – in decent work terms, more generally – the effects of labour standards on employment and income opportunities. The predominant direction of this evidence is clear: it points to the coherence of simultaneously endeavouring to reduce informal employment and improve the quality of formal employment through labour regulation. But the exceptions – raising minimum wages in the midst of a deep recession, requiring a large number of procedures to start a new company – are instructive too. They suggest that the debate should be not about regulation versus deregulation as such, but rather about the optimal design and implementation of labour regulations in

³⁰ Agglomeration economies are also relevant for services, so economic development based more on services does not necessarily resolve the problem.

country- and time-specific contexts. This holds for the design of social protection programmes as well (see Levy, 2007 and 2008).

The ILO advocates social dialogue – among governments and organizations of workers and employers – as a means of informing policy design and implementation. Yet unions are sometimes regarded as either hostile – in insider-outsider theory – or irrelevant to the interests of informal workers. We did not find empirical evidence supporting the insider-outsider theory as regards formal and informal employment. Relevant in this regard is a historical study of Spain and Latin American countries which finds that potential conflicts of interest between formal and informal workers offer no basis for generalization but depend on country-specific factors, such as how repressive governments are and whether unions are included in governing coalitions (Etchemendy, 2004).

There are both logistical and legal obstacles to organizing informal workers, many of whom work in small-scale or household establishments, in a self-employed capacity, or in disguised employment relationships without a recognized employer.³¹ Domestic workers are among the most difficult to organize, yet unions of domestic workers – some claiming membership in the thousands – have been established in East Asia, South Asia, sub-Saharan Africa, Latin America and the Caribbean. As an example of the potential effectiveness of these unions, the National Federation of Domestic Workers in Peru was instrumental in the passage in 2003 of legislation providing domestic workers with social security and health care coverage, vacation time and an eight-hour working day. A confederation of national unions of domestic workers in Latin America and the Caribbean has also been established (Gallin and Horn, 2005).

Street vendors would also seem difficult to organize, but here too there have been successes. The National Association of Street Vendors in India (NASVI) claimed to represent 168,000 street vendors from 20 states of India in 2003 (ILO, 2007a). A confederation of eight national unions of street vendors in Latin America and the Caribbean was established in 2005 (Gallin and Horn, 2005). StreetNet International, established in Durban (South Africa) in 2002, is an international alliance of membership-based organizations of street vendors, including unions, cooperatives and associations (StreetNet International, 2008). The number of membership-based organizations representing street vendors, compiled by StreetNet, is noteworthy: 120 in Africa, 40 in Asia and 113 in Latin America.

The lack of a recognized employer presented the Self-Employed Women's Association (SEWA) in India (nearly a million members in 2006) with difficulties in gaining formal recognition as a union, both nationally and internationally (Gallin and Horn, 2005; SEWA, 2008). Yet SEWA addressed this concern: it was recognized as a union by the Indian Government in 1972 and joined the International Confederation of Trade Unions (ICFTU) in 2006. SEWA has served as the model for SEWA Turkey, SEWA Yemen and the Self-Employed

³¹ Other legal obstacles include exclusions by sector, occupation and establishment size, but in our view the lack of a recognized employer is fundamental.

Women's Union (SEWU) in South Africa (ILO, 2007a). SEWA also played a role in the adoption of the ILO's Home Work Convention, 1996 (No. 77) (Gallin, 2007).

Informal employment in household establishments – not domestic workers, but mainly self-employed and family workers – presents both legal and logistical obstacles to organizing. Though there may not be a recognized employer, household establishments commonly produce for a single contractor (see Anker et al., 1998, for examples from India). And in many cases, household establishments in an industry are tightly clustered, facilitating the logistics of organizing and bargaining collectively, such as for higher piece rates from contractors.

Yet the relevance of unions for informal workers is wide-ranging, going well beyond collective bargaining. This is suggested by a study of organizations of informal workers in the clothing, construction, street vending and taxi industries in South Africa (Goldman, 2003). Not only do these organizations engage in collective bargaining, but they also represent the interests of members to local governments, manage the number of members operating in an area, resolve conflicts among members, coordinate orders and bulk buying, and facilitate access to benefits and services.

This provides but a snapshot of selected organizations of informal workers, and there are many others.³² Yet it suffices to illustrate that a good many informal workers want to be organized – *they* regard unions as relevant to their interests – and that the legal and logistical obstacles to doing so are surmountable. In the face of stagnant or declining union representation in most countries of the world, this is worth bearing in mind (Visser, 2002).

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³² A background document with a more comprehensive overview is available from the authors upon request.

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