

## **Need not Greed: Understanding and harnessing your local informal economy**

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Dave, an unemployed single father of three children, says that his benefits only feed his children for three days. As he wants to bring up his children himself, rather than paying someone else to do so, he cooks, cleans and takes them to and from school. Once they are in bed he goes to work informally as a taxi driver to make ends meet. People, such as Dave, living in some deprived areas of the UK, are engaged in informal paid work, out of 'need not greed', in response to poverty. These are hard-working, ordinary people trying to survive day by day.

The informal economy is a complex and important part of many local economies in the UK. Research by Community Links over the last seven years suggests that it is an integral part of the socio-economic fabric of some communities in deprived areas. Current government employment, regeneration and anti-poverty targets do not take account of the significant numbers of people operating outside the system, and so will not be met. To understand local informal economies in deprived neighbourhoods, and to develop relevant policy and robust services, strategies by statutory agencies need to change.

Community Links, an innovative inner city charity running community-based projects in east London ([www.community-links.org](http://www.community-links.org)), has taken a particular interest in informal economic activity. Why? Because jobs, unemployment and the availability of cash-in-hand work have a significant impact on the lives of the local people with whom we work and are integral to their experience of poverty.

### **Need not greed: In response to poverty**

Our latest research report '*People in low-paid informal work: Need not greed*', (Katungi et al., 2006), explores experiences of people on low incomes, working informally, including those working cash-in-hand and those claiming benefits and not declaring their work. With poverty at the root driving much of the informal work, '*Need not Greed*' explains the paradox of how informal paid work takes people out of absolute poverty, as they can now pay for some basics like the heating and paying off some debts. But at the same time it traps people in relative poverty because they are now working outside of the mainstream. So they cannot access those mechanisms designed to support them out of poverty: tax credits, national minimum wage and a pension. Three basic issues underpin most informal work in this study: low benefit rates, low wages and rules which limited the hours that some people can work.

*"Informal paid work is not the problem to tackle; it is what makes it tick. If these conditions of low pay, asylum-seekers with no right to work, and families with young children who can't work because they couldn't afford childcare are not tackled, then informal paid work would be impossible to tackle..."* (Erick, aged 30, Katungi et al., 2006, p6)

### **What is the informal economy?**

The 'informal economy' is known by several names: the hidden economy, cash-in-hand work, or moonlighting. We use the following definition: '*Informal work involves the paid*

*production and sale of goods or services which are unregistered by, or hidden from, the state for tax, benefit and/ or labour law purposes, but which are legal in all other respects*'. (Small Business Council, 2004, p3) Illegal activities such as drug dealing or prostitution have been excluded, as have exchanges of unpaid work.

For self-evident reasons, measuring the informal economy is a challenging undertaking. To date measurement has largely been based on macro level analysis of expenditure and income (for example, Chen, 2003; Schneider, 2002b). The EU estimates that the informal economy accounted for 7-16 per cent of GDP in the EU in the 1990s (Williams & Windebank, 2002). In the UK the annual informal economy represents 12.3 per cent of GDP or around £120 billion (Schneider, 2002a). Although the UK has one of the lowest levels of informal economic activity in the EU, the trend over the last decade, across all OECD countries, is rising.

At a micro-level there is virtually no statistical evidence about local informal economies in the UK. To address this Community Links has developed a comprehensive research method to analyse informal economic activity at a borough-wide level, identifying numbers of people working informally, their occupations, earnings and motivations (Neale & Wickramage, 2006).

### **Motivations**

In advanced economies most informal paid work is conducted by more affluent workers with good contacts in employment networks and the relevant skills to secure another job 'on the side'. Relatively little is known about the informal work which goes on in deprived areas in the UK. Our aim is to understand the issues and develop solutions to support more people, should they wish, to move into formal paid work.

In some deprived areas, informal paid work is a normal part of everyday life; people move in and out of such activities over time as circumstances change. Problems caused by low wages and benefits are exacerbated by several factors including high rents and the costs of childcare. Times of crises such as a death in the family where extra money is needed quickly may result in unexpected debt. Disincentives and mistrust created by the complex tax and benefit system present further difficulties.

*"Those with no qualifications, never had a decent job, single mothers with childcare issues, like me, those who are in debt, like me, asylum seekers who are not allowed to work or whose qualifications are not recognised, it's people in these categories. One may have one, several or all of the problems combined together. It's very difficult to get out of that situation and find formal work because so many barriers are in your way."* (Miriam, aged 39, Katungi et al., 2006, p13)

Informal paid work has a positive role in many people's lives, keeping them from poverty, providing greater flexibility in childcare arrangements and developing confidence, skills, and social capital (Travers, 2001; Katungi et al, 2006). However as they are not part of the 'mainstream', informal workers are unable to access government programmes designed to provide ladders out of poverty e.g. tax credits and other 'in work' benefits, pensions, national minimum wage and workers rights. People may become trapped in low-paid, low-skilled work, with little future.

Jane, a lone parent of four children, was heavily indebted to 'loan sharks'. Jane was on benefits and had tried to set up her own business without success. At the same time her

partner left her and the children and the debts from the failed business. She was offered informal paid work by a “good Samaritan” which she could start straight away to help pay off her debts. If she declared her earnings she would lose benefit, “my family’s lifeline”, and not be able to support her family. She could wait to find a formal job because “my family was being threatened if I didn’t pay up.” (Katungi et al., 2006, p32)

### **‘Sticks’ versus ‘Carrots’**

Punitive measures, or ‘sticks’ used to tackle the informal economy, have been the favoured approach, as recommended by the government’s Grabiner report (Grabiner, 2000). These measures have limited success as they drive people further underground, when poverty is the decision to work informally. Enforcement and regulation can play a role in harnessing the informal economy, but more ‘carrots’ of supportive policies will encourage people to make the transition to formal work.

Attitudes are shifting towards more supportive approaches to address informal paid work when it is done in response to poverty. For example, a cross-government working group has been established to look at the national picture, recognising that informal work and enterprise can aid both economic growth and social inclusion. However existing policies from different government departments remain eclectic and often contradictory. There is no clear, cross-government strategy to help low-paid informal workers make the transition to formal work.

*“Our needs as a family were way beyond the benefits I was getting. So my informal work was basically sort of a coping mechanism. I needed some extra cash, I went out when I could, I earned it; I did not steal the money, that’s how many people feel when they are working in this way. If the government can solve the problem around childcare, many parents in my situation would be working.”* (Sarah, aged 46, Katungi et al., 2006, p28)

### **Truly meeting targets**

Targets by local councils, regional agencies and national government to address issues of employment, ‘worklessness’, business creation, poverty and regeneration will not be met, because they do not take into account the significant number of people who operate outside the system. Those who are ‘uncounted’ are not being reached by present strategies, and yet represent a significant proportion of some local economies.

So what needs to be done? Community Links puts people at the heart of change. Part of our founding statement says that “we appreciate that those who experience a problem understand it best”. We believe that we must work *with* people to develop relevant solutions - and not do things to them. To ensure that we address their issues effectively we need to focus on the individual and their needs, and ensure that individuals rather than institutions inform our policy initiatives.

In partnership we have developed a menu of recommendations and practical solutions which must be implemented to benefit all informal workers (visit [www.informaleconomy.org.uk](http://www.informaleconomy.org.uk)). Our recommendations include reframing and raising the level of debate; refining local and regional economic, employment and regeneration strategies which recognise the importance of local informal economies; establishing local informal economy support teams; educating stakeholders, including children and young people to change the ‘norm’, businesses, policy makers, support agencies; and strengthening the evidence base.

Our analysis of informal economies will continue as we work with people to transform their own lives. Our aim is to support more people, should they wish, to make the transition from informal to formal paid work. We are looking for partners and funders to join a national informal economy campaign network, pilot practical projects, and conduct further research. Visit [www.informaleconomy.org.uk](http://www.informaleconomy.org.uk) to get involved.

For Dave, Erick, Marian, Jane and Sarah, who are working to support their families, these changes cannot come soon enough.

## Further Information

Visit [www.informaleconomy.org.uk](http://www.informaleconomy.org.uk)

The International Labour Organisation (ILO) library has over 7,000 articles and books about the informal economy. Visit [www.ilo.org](http://www.ilo.org)

Community Links continues to build an extensive bibliography (approx. 500 references to date). Download from [www.community-links.org](http://www.community-links.org)

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