7. The informal economy: morality, social capital and markets

7.1. Introduction: The informal economy

The informal economy is the final analyzed field. Informal work, generally, includes people who operate their own small business in a cash-only or unregulated way or people who work for employers, but off the books (Losby et al., 2002; p. 3). Studying the informal economy is inevitable for multiple premises. First of all, if people in poverty are encouraged to pursue divergent and even oppositional life strategies (e.g. informal work), it can “set off self-reinforcing cycles of social involution not unlike that underlie ghettoising in the US” (Wacquant, 1999; p. 1640). Second, when engaged in the informal economy, people in poverty become “disintegrated” from society and their distance to the labor market increases. For them it becomes difficult to live a “normal” life. Third, it can have serious consequences for society in general (e.g. dodging taxes), and for them in particular such as penalization. With reference to my research question; if people in poverty enduringly work off the books, they become deficient in official work experience, thereby reducing their chances in the regular market. While accumulating cultural capital in the form of work experience, it becomes difficult to convert this illegitimate cultural capital into economic capital in the official labor market. Furthermore, working in the informal economy may reduce their financial poverty, but their social position (welfare dependency) will be prolonged.

My inquiry into the informal economy prompted these questions: How can we explain the respondents’ informal work activities? What kind of activities do they employ? What are their reasons? Generally, how can we elucidate their activities? First, I present three perspectives to explain some dimensions of the informal economy: 1) the moral economy of people in poverty, 2) the negative side of social capital and, 3) the functioning of markets and additional macro-economic perspectives. After that, I show which respondents participate in the informal economy, followed by a qualitative analysis of their motivations.
7.2. Three perspectives on the informal economy

Let me outline several perspectives on the informal economy. First, there is the notion that, within the economic structure of a society, informal work results from the malfunctioning of formal markets. Second, scholars explain the existence of the informal economy as an outcome of “negative social capital,” social capital that provides people in poverty the necessary bridges to illegal markets. The third perspective is the idea of the moral economy, an economy in which people try to optimize their social standing, avoid risks, and maintain their income. These three perspectives are not mutually exclusive, but all operate on a different level of analysis. However, as we shall see, the mixture of these three perspectives might help explain the existence of the informal economy.

7.2.1. The market perspective

The first perspective is the notion that the informal market depends heavily on the traits of formal markets. From conventional macro perspective, scholars such as Todaro (1969) argue that the informal economy can be grasped by considering the peripheries of the mainstream economy. For example, people may respond to the lack of economic opportunities in the formal economy by linking up with existing informal businesses or by inventing new activities in the informal economy. These informal economic activities may offer additional income in a low-wage labor market and can serve as an economic safeguard while a person is unemployed (Stepick, 1989; Morales 1997; Tienda & Rajman, 2000). Informal work arrangements may also be a strategy imposed by the process of economic restructuring of big firms, which to reduce costs, amplify flexibility, and reallocate their production to subcontractors (Raijman, 2001). They push workers out of the formal economy, encouraging the rise of informal work. The reasoning is simple; there exists a strong relationship between formal labor market exclusion and informal labor market inclusion: people in poverty work informally because they are excluded from the formal labor market.

Many scholars elaborate on these ideas and concentrate on who participates in the informal economy. The suggestion is that informal work is done first and foremost by people of low socioeconomic status and serves as a safety net for the poor (Pahl, 1984; Renooy, 1984; Ferman et al., 1987). It is seen as providing the poorest and most marginalized (people who do not have access to the formal sector) with opportunities to earn an income. Commitment in informal sector activi-
ties is, thus, an important survival strategy for them and their families (Berger & Buvinic, 1989). Duncan (1992) found that only those who are left out of even the poor jobs are likely to pursue informal work. He argued that formal and informal work are replacements for one another, that is, when people lose jobs in the formal economy, they turn to informal jobs to make ends meet. Analogously, others see informality as a practice of the very poor and of those who by ethnicity or immigration status cannot find a job in the formal labor market (Connolly, 1985). Jensen et al. (1995) found that the percentage of families engaging in any informal activity varied somewhat across income categories. Lower income families were more likely to participate in the informal economy. Other scholars question the relationship between socio-economic status and informal work (Portes & Sassen-Koob, 1987), arguing that many informal activities require human and physical capital that the poor lack.

Campell et al. (1993) reported that when families have access to formal income they are less likely to participate in the informal economy. This explanation is directly contradicted by research, primarily by British scholars, who found that those in a privileged position in the formal economy are most able to develop and sustain informal economic activities (Pahl & Wallace, 1985). Pahl and Wallace (ibid.) suggest that those households that have the assets, means, and ambition to engage in the formal economy will also be more likely to participate in the informal economy. They argue that this leads to economic polarization, that is, industries and prosperous households engage in both formal and informal work, while economically minor households have little access to either. The informal market is not easily accessible, even for the most disadvantaged. Accordingly, there is some evidence that individuals already in the formal economy have much better chance of engaging in the informal economy than do others (Pahl, 1984; Hoyman, 1987). Surveying the literature, it becomes notoriously difficult to find out who participates in the informal economy. Is there a connection between poverty and informal work activities, or do the affluent participate in the informal economy as well?

At last, authors addressed the notion that the informal economy functions as a springboard to the formal economy. People who are engaged in the informal economy improve opportunities to enter the formal economy (Rath, 1995; Meert et al., 1997; Bolt et al., 1998; Kloosterman & Van der Leun, 1998). During informal work activities, people develop skills and gain work experiences, maintain
social connections, generating opportunities to work in the formal labor market; they accumulate various forms of capital, and these forms of capital can be converted in the formal labor market.

Accordingly, this first perspective focuses merely on the economic prospects of people in poverty. The informal economy can be explained by responses to the lack of economic opportunities and as peripheries to the mainstream economy. Furthermore, it serves as a safety net for the poor, as an important survival strategy to make ends meet, and as a springboard to the formal economy. Though this perspective says much about the economic structure of any kind of society, it provides little information about the informal economy and the negative side of social capital. Some authors, however, do address the relationship between social capital and its “perverse effects.”

7.2.2. The negative social capital perspective

The second perspective is that people in poverty might be endowed with the wrong kind of social capital. Although theory and research suggest the positive effects of (bonding) social capital for residents of low-income neighborhood, scholars have also noted its possible negative effects (Briggs, 1998). They addressed this “dark side of social capital”; the kind of social capital that reinforces social inequality and supports antisocial behavior (cf. Field, 2003; p. 71; Portes, 1998).

According to Field (2003; p. 83), people can exploit their social capital for purposes that are socially and economically perverse. He writes that, “a reasonable clear distinction can be drawn between productive social networks, which we might define as those that generate favorable outcomes both for members and the community at large, and perverse networks, which we could describe as those that have positive benefits for their members but include negative outcomes for the wider community” (ibid.). He refers to gang membership and other forms of crime, which have negative outcomes for the wider society. Several studies pointed at this direction. For example, first of all, one example of a negative outcome, related to bonding social capital, is when a gang member commits a crime to establish, to strengthen, his or her gang affiliation (Brisson & Usher, 2005; p. 645). A second example stems from Rubio (1996, in Richards & Roberts, 1998; p. 8). He has identified what he calls “perverse social capital,” among juvenile delinquents as well as the mafia in Colombia. The people under study are embed-
ded in social networks, and have connections, and these connections encourage
oppositional life-strategies. These strategies, then, make it even more difficult to
enter the formal labor market. The third example is a little closer to home. Ac-
according to Kloosterman et al. (1999), many migrants in the Netherlands take up
entrepreneurial activities. Lacking access to financial resources and, above all,
lacking in educational qualifications, they are directed towards the lower end of
the opportunity structure of urban economies. To survive in these competitive
markets, many migrant entrepreneurs regress to informal economic activities that
are strongly dependent on specific social networks – consisting mostly of co-
ethnics – to sustain these activities on a more enduring basis. Acknowledging that
these informal economic activities are an effect of few opportunities in the formal
labor market, the authors show how social capital seems to play an important
role.

Along these lines, scholars emphasize a relationship between negative social
capital, social networks, and perverse effects. However, it is a little difficult to
understand what the causal reasoning is of this negative social capital. Is it that
people have negative social capital and thus work in the informal economy, or
they work in the informal economy and thus have bad social capital?

7.2.3. The moral economy perspective

The third perspective is the idea of the moral economy of people in poverty,
which scholars (cf. Engbersen & Staring, 2001) use to understand the existence of
the informal economy. Researchers in contemporary social sciences drew atten-
tion to the notion of the moral economy as well (cf. De Swaan, 1989; p. 16; San-
sone, 1992; p. 6; Booth, 1993, Coate & Ravallion, 1993; Booth, 1994; Lie, 1997).
According to Sayer (2000), the moral economy perspective begins from the idea
that there is, or at least ought to be, an ethical dimension to economic exchanges:

- it shows the ways in which markets and associated economic phenomena both depend on and influence moral/ethical sentiments, norms and behaviors. Economic activities of all kinds are influenced and structured by moral dispositions and norms, and these norms may be compromised, overridden, or reinforced by economic pressures. From the perspective of the moral economy, the existence of the informal economy is explained by risk averse behavior, the “safety first” principle, and the notion that people want to maintain their present-day income. Informal economy can better be understood if we take the moral context of people in poverty into consideration.
In the social sciences, the traditional notion of moral economy reflects the work of Polanyi (1957) and Thompson (1971). Polanyi’s empirical studies challenge many of the assumptions of neo-classical economic theory. A fine example of how this functions is sketched in the work of Scott: The Moral Economy of the Peasant (1976). He studied the phenomenon of a poor, premarket people contesting the dictates of a much more modern economic order. He argues that, rather than with an eye to optimizing production or personal gain, South East Asian peasants approach the world with a “subsistence first” mentality. “Living close to the subsistence margin and subject to the vagaries of weather and the claims of outsiders, the peasant household has little scope for the profit maximization calculus of traditional neo-classical economy. Typically, the peasant cultivator seeks to avoid the failure that will ruin him rather than attempting a big, but risky, killing. In decision-making parlance, his behavior is risk-averse; he minimizes the subjective probability of maximum loss” (Scott, 1976; p. 4). According to him, special value tends to be attached to survival and maintenance of position as opposed to change and the improvement of position (Scott, 1976; p. 18). As Bourdieu puts it (1977a), there is a little conservatism in the peasants’ actions. Thus, what Scott shows is that the situation [poverty] of the peasants shapes their attitude [risk aversion, subsistence first], and central is the maintenance of position, and less the improvement of position.

Engbersen and Staring (2001) use this moral economy perspective to explain informal work activities. According to the authors, irregular work is done to maintain income and to complement curtailed benefits. It is often too risky to take up regular employment and, therefore, people in poverty, using the safety-first principle, want to maintain their present day income and do not really want to maximize utility. These people work informally, but only to a certain extent, their sense of morals limits the informal income and they withstand criminal behavior. Engbersen and Staring complement this moral economy perspective with other explanations. First, the welfare and unemployment benefit is insufficient to get by and, for that reason, people in poverty work informally. Second, taking up regular employment is a risky business, since people in poverty lose their regular safe benefit and other exemptions. Third, resentment, deprivation and the lack of state support encourage people in poverty to take up an irregular job. In summary, there seems to be a mixture of reasons to work in the informal economy.
The moral economy perspective provides a prism through which I can analyze the rationalities of people in poverty, and whether they are optimizing their income: to earn as much as possible, to receive a benefit combined with a full time job, or they try to maintain their present income. Again, as opposed to change and the improvement of position, special value tends to be attached to survival and maintenance of position.

In sum, all three perspectives deal with economy, in general. However, the first perspective explains the informal economy by focusing on the malfunctioning of the formal economy; the second negative social capital perspective explains the existence of informal economy by whether people in poverty possess this kind of social capital. These three perspectives will be used as starting points to explain the situation of the respondents. Step by step, I will try to grasp the informal economy activities of the respondents. First, I will give insight into who participates in the informal economy and what the activities are.

7.3. The respondents and the informal economy

According to the interviewers, talking with the respondents on informal labor was not easy. Many did not want to talk about it. Even when they wanted to talk about it, it was often difficult to gain full information. Information on informal earnings and job obtainment is oftentimes absent. Although I provide information on the prevalence of informal activities, these numbers should not to be too heavily relied upon, because the numbers might be higher because the respondents did not want to share full information, or the numbers might be lower because some like bragging about it. Nevertheless, in the period the interviews were conducted, about 47 of the 216 respondents were involved in informal economic activities. However, this is only during the research. At one particular time in their lives, about fifty percent of the respondents were engaged in a side job. Correspondingly, informal work is a common phenomenon. The next subsection provides insight into who does what.

More highly educated and younger respondents are more likely to be involved in the informal economy. The variety of activities is enormous. The most common activity is cleaning (N=6), especially they work as private housekeepers, though one respondent is a sports hall janitor, and some work for cleaning companies. Four men are in the DYI-business, and two women are child minders. Five work
informally as artists: in the music industry, selling their own paintings, or performing at concerts. Two respondents work as minor accountants, and three respondents do marketing research. One repairs bikes and sells them on the street, one woman sells home-made food at the market, one sells newspapers, one person sells lottery tickets, another runs an illegal video store, one works as a gardener, one as a hairdresser, and one in a snack bar. One woman teaches private Spanish lessons in exchange for cigarettes and coffee. Money is not always involved, for some swap goods and services that have economic value. (There is no information on informal activities of two persons). Practically all these activities are small-time jobs, which often generate an insignificant income. Hardly anyone works full time off the books. These informal activities are not bound to one particular sector, for example, sweat shops. The informal activities are not restricted to those who are formally employed. Compared to women, men are equally engaged in the informal economy.

Table 7.1 shows the relationship between the respondents’ social position and their involvement in the informal economy. The relationship is not significant, and all categories – single parents with children under five, the handicapped, the elderly, etc. – engage in the informal economy. Many respondents (N=15) who are engaged in the informal economy, are excluded from the labor market, such as the elderly and people who are tested medically unfit. In spite of this, they participate in the informal economy.

Table 7.1 Labor market position and informal work

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<td>12</td>
<td>12</td>
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<td>16</td>
<td>23</td>
<td>21</td>
<td>16</td>
<td>26</td>
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Subsidized workers and the elderly are the least likely to work in the informal economy. The working poor often combine (N=6) their formal with informal work. Two subsidized workers also work in the informal economy. Noteworthy is that 20% of the respondents who are tested medically unfit work informally. The
couples, the single parents with children over five, and the singles almost equally engage in the informal economy. Many of the respondents have no choice between formal and informal work to improve their income, simply because they cannot work in the formal economy. Every category of which is involved in the informal economy. Nevertheless, will there be a difference in ethnicity? Are migrant groups more informally active than native Dutch? Migration has often been associated with the rise of informal economies.

7.3.1. Immigrant networks and informal markets

In western societies, informal markets became synonymous with immigration. For example, studies conducted in New York City and Miami showed that almost all workers hired under informal work arrangements were immigrants (Portes & Sassen-Koob, 1987; Sassen-Koob, 1988; Portes et al., 1989). Similar results were found in other studies (Lozano, 1989; Dangler, 1994; Pessar, 1994; Leonard, 1998; Harney, 2006). Since the informal sector in the United States is feasibly most apparent in immigrant communities, there has been a propensity to explain its existence as an outcome of the influx of immigrants and their tendencies to replicate survival strategies emblematic of home countries. This led scholars to argue that the rise of an informal economy in the US is associated with immigration. However, there are many examples in the literature (most conducted in the 1980s) in which the informal economy can appear without extensive immigration and how they are present in low-immigrant communities/countries (Pahl & Dennett, 1981; Sabel, 1982; Renooy, 1984; Benton, 1990). Even so, oftentimes, there does seem to be a direct relationship between immigration and the rise of informal markets. Is this also the case for the research group? Are the informal activities restricted to former migrants? Especially the large number of articles on ethnicity, migration, and the informal economy suggest that there is a strong link between these three aspects. Table 7.2 shows the prevalence of informal work activities among the different ethnic groups (and thus among former migrants). Only those who engage in informal work activities are part of the analysis.
This table shows in view of their social position which ethnic groups engage in informal work activities. There are no standout ethnic groups within a certain social position that engage in the informal economy. The only remarkable aspect is that relatively many Turks engage in the informal economy while they are tested medically unfit. However, these numbers make it difficult to compare ethnic groups or groups with different social positions. Thus, concentrating on the numbers, there hardly is a relationship between the ethnic background and informal activities.

7.3.2. Relationship between social network and informal activities

Does a relationship exist between social capital and formal and informal labor market access? Observing the research group, more respondents work in the informal economy (N=47) than in the formal economy (N=44). Via multiple routes, they gained access to the formal labor market. In which way did they enter the formal labor market? Six found a job via the employment agencies, two via an ad, five via their social network, one is an entrepreneur, and four were able to change their voluntary work into regular work. Only five respondents were activated by the welfare agency. (I have no information on the others). Since there are no formal institutions offering access to the informal labor market, informal workers must have used their social connections to gain access. Although social connections fell short in providing access to the formal labor market, they were sufficient to give access to the informal labor market. What can we say about the
relationship between the kind of social connections and informal labor market activities? The next table shows this relationship.

Table 7.3 Nature of social network and informal work activities

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<th>Network type, tend to be oriented towards</th>
<th>No</th>
<th>Yes</th>
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<tr>
<td>Family</td>
<td>26% (N=36)</td>
<td>18% (N=8)</td>
</tr>
<tr>
<td>Acquaintances</td>
<td>27% (N=38)</td>
<td>55% (N=24)</td>
</tr>
<tr>
<td>Mixed network, acquaintances &amp; family</td>
<td>45% (N=64)</td>
<td>27% (N=12)</td>
</tr>
<tr>
<td>Social workers</td>
<td>2% (N=3)</td>
<td>0% (N=0)</td>
</tr>
<tr>
<td>Total (Significant p &lt; 0.05)</td>
<td>100% (N=141)</td>
<td>100% (N=44)</td>
</tr>
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</table>

There seems to be a strong relationship between the kind of social network in which the respondents are embedded and whether they are active in the informal labor market. Those who are primarily embedded in a strong family ties network hardly work informally. Those who have a network of acquaintances have the tendency to work informally. Thus, social relations seem to matter. Unfortunately, I have little information on their social connections, and how they got the informal jobs.

Another difficulty is the causal reasoning. Do they have bad social capital and therefore work in the informal economy? Or is it precisely the other way around; do the respondents make a virtue out of necessity? To put it differently, are they excluded from the formal labor market, so they search for an informal job, use their social connections, and thereby come to these bad social bridges? Since this causal reasoning is almost impossible to decipher, the use of the social capital perspective is easier said than done. To fully grasp informal work activities, I probably need to consider the wider economic and structural aspects of a society. Hence, before I turn to the reasons why some work in the informal sector, I now focus on why most of the respondents do not work off the books.

7.3.3. Conditions to work informally

Most respondents do not work in the informal economy. Analyzing the transcriptions, it became clear that many respondents are either opposed to informal work, could not get access, did not have the right social connections, or faced the same obstacles as in the formal labor market. The first of two conditions I found for respondents to work in the informal economy is that they do not face barriers
working informally. Work, for example, has to be compatible with parenting, and
day care has to be available and flexible. If not, it becomes an obstacle to work,
both formally and informally\textsuperscript{130}. A 33 years-old Surinamese woman [354],
mother of three, is asked whether she works off the books: “\textit{where do I find an
informal job? If I go back to work, I want a formal job. First, I have to find a
babysitter. If I work off the side, I have to find day care and pay for it. If I can
find and pay a child minder, I’d rather have a legal job.}” For her, day care
[flexibility] is the decisive difficulty in taking up employment – whether it is
formal or informal. However, as we shall see, some single parents, because they
lack child support, work informally at home.

The second condition is that they do not mind the risks; it is after all illegal.
Though they receive a benefit, the respondents are under a constant surveillance
[see chapter Close Encounters of the Bureaucratic Kind]. Because they are more
monitored than the average working middle-class, the chance of being caught is
higher. Some respondents were caught by the welfare agency after working ille-
gally and ended up with severe debts. Mustafa [273] does not want to take the
risk of working on the side, and he does not have the appropriate social connec-
tions. He is asked what he thinks of working on the side: “\textit{it is like stealing. Sup-
pose I steal one hundred Euros from you, but afterwards I will get a fine of two
hundred Euros. I will end up with a loss. Do you understand? I will always lose,
after all. I believe in this principle. Maybe I can work on the side for a year, but I
will have a big chance of being caught. I will lose more than I ever earned.}” In
these deliberations, risk assessment plays an important role. In addition, Irfan
[265] cannot and does not want to work on the side. He, a Turk of 57 years-old,
cannot work anymore because he has been tested medically unfit. He needs the
money, since he has to maintain the care of three children. Besides his moral con-
siderations, he is afraid of being caught and losing his disability benefit: “\textit{if I’ll be
catching, everything ends.}” He does not work on the side, and his strategy is to
maintain his present-day income. This could be defined as a reproduction strat-
egy; a practice whereby he tends, unconsciously and consciously, \textit{to maintain his
assets} and consequently to maintain his position in the class structure (cf.
Bourdieu, 1984; p. 125 \textit{my emphasis}). So he wants to play it safe, and wants to
keep what he already has.

Thus, not every respondent works off the books for several reasons. First of all,
many face barriers working in the informal economy: for single parents, the lack
of flexible day care is a major obstacle to work in the formal as well as in the informal economy. Second, not all dare to work in the informal economy. There are certain risks involved. This is in line with their moral standards. Some simply reject working off the books. Therefore, many sufficient conditions are involved to start working in the informal economy. It is not simply a matter of choice, but a constant deliberation between what is feasible, and what is still in line with their moral standards.

7.4. Grounds to informal work

In the next paragraphs, I describe why the respondents work in the informal economy. Analyzing the transcriptions, several themes emerged. These themes, elaborated in the next sections, begin with the common idea that informal work is a survival strategy. After that, I write about respondents, who have to deal with all the state regulations, see hardly any other option than to work informally. Subsequently, the risks of taking up regular employment will be described. According to the respondents, this is one of the main reasons why they work informally. Sometimes I relate these aspects to the subject of social capital.

7.4.1. Relationship between labor market exclusion and informal work

The informal economic activity within the urban inner city was sketched by archetypal ethnographic studies (cf. Stack, 1974; Lowenthal, 1975; Dow, 1977). For example, Ferman and Ferman’s (1973) paper recognized the informal economic exchange as a means of survival among the urban poor of American cities. This study served as a major breakthrough in the field131. Many years later, hardly anything seems to be changed. For example, according to Wacquant (1999a; p. 127) those who are durably excluded from paid employment cannot readily rely on collective informal support, waiting for work that never comes. To carry on, they must resort to strategies of self-provisioning, shadow work, underground commerce and quasi-institutionalized hustling132. These activities were part of survival strategies to get by in daily life. Informal work is nothing more than a way to survive, and results from (among other explanations) durable labor market exclusion.

Analyzing the transcriptions, three kinds of relationships appeared between informal work activities and labor market exclusion. First of all, because so many respondents are durably excluded from the labor market, the only option to improve their situation is to work on the side. Second, because of the enduring labor
market exclusion, many end up with severe debts. Because of these debts, they turn to informal work. Third, the respondents who are tested medically unfit often suffer from state retrenchments. They are sometimes retested and have to go back to the labor market. However, they fail to get a regular job since no employer wants to hire them. Having a hard time to make ends meet and being in a financially precarious situation, they work informally.

Respondents report that they have few options to improve their financial situation. For example, Andrew [160] says that he is excluded from the formal labor market, because he lacks cultural capital: “working on the side is the only solution to improve my situation financially. You have to keep in mind the risks.” And continues: “I think the government should promote working. Employees should earn more than people on welfare.” Melanie [346] said that if you want to get ahead in society, you should have more money: “you have to work informally.” Both Andrew and Melanie do not work on the side, but their verbatims show that they think it is often the only leeway to get by.

We know that one of the causes of enduring unemployment is unemployment itself; after being outside of the labor market for a period, the chance on reintegration becomes nil. Unlike the US, the biggest risk is not to become unemployed when holding a job, but to stay unemployed once a job is lost (Visser & Hemerijck, 1997; p. 36). Moreover, because financial resources run dry, the poor supplement their benefit with a minor illegal job. The amount of money earned is not substantial. For example, Joshua [136] a Dutch middle-aged man was unemployed for several years. For him, the only manner to make ends meet became to work informally: “Because there was not a regular job available, I worked as an illegal paperboy for several years. I earned some money on the side.” Somebody tipped off the welfare agency, and ever since, he has stopped doing this.

Many suffer from debts (N=135) and many experience state retrenchments. Therefore, they cannot get by, cannot get out of these debts, and see no options to improve financially in the future. Working on the side might be an alternative. For example, Cynthia [311] a single, Dutch woman of 46 years-old, did have some minor jobs. She quit her daytime job because she could not handle the pressure, and she had severe debts. Now she has lived on welfare for more than a decade, and has worked for several years as a prostitute. She did not work via an agent, but arranged her customers via ads. She started at age twenty-nine and
ended ten years later: “to earn money, working on the side is the ultimate solution. I did it, but now I’m too old. I stopped because I didn’t receive any responses from my ads, and one old regular customer died.” It started as a solution, and as time went by, her chances in the regular labor market faded away.

The number of people living on a disability benefit in the Netherlands (16 million people) is huge – about 932,000 in the year 2000. Because the costs became too high, they were (re)tested medically to see whether they were healthy enough to go back to the labor market. While unfit, these people were out of the labor market for many years, – losing cultural, social and economic capital. When they were tested medically fit, the chance that they could get a regular job is low. Employers do not want to hire a person formerly living on a disability benefit. For example, after Melanie’s divorce, she received a disability benefit. However, after a couple of years, an institution conducted a medical check, and she was tested medically fit. After that, she officially became available for the regular labor market. For that reason, ever since, she receives a less profitable welfare benefit, and therefore her income declined. She was very disturbed. She subsequently complements the benefit with informal work. She babysits off the side: “With this money, I buy groceries. I spent almost the entire welfare benefit on rent.” The same occurred to Nicole. She is a former nurse of 40 years-old who faced many difficulties in the labor market, her health, and her relationship. Everything came together at one moment; her relationship crashed, she broke her arm and became handicapped, and finally she was not able to work. She received a disability benefit, and after a couple of years, she was re-tested, and proved medically fit. Then she had to find work, but each time she applied for a job, she was refused. Along with the market exclusion, she could not work in her old profession (as a nurse), because her qualifications were obsolete. She asked the employment agency if she could get some job training. The employment agency refused her request: “after that, I said, well, I never apply for a job. Over and out. I took a job in domestic work for once a week, off the books. I do not like people who are working on the side all week. That’s out the line.” She informally works to get by, so she “could live normally.”

In only one case, the informal economy was a springboard to the formal labor market. Miguel is a Cape Verdian man, and he lives with his three children and his eighty years-old mother in Rotterdam. In 1958, at time he was 20 years-old, he went from Cape Verde to Angola and in 1975 via Portugal to the Nether-
lands. There, he found a job in the kitchen of the Hilton hotel. “I started to work in the Hilton, illegally. Co-workers helped me to become legal. They helped me to send letters to the ministry. I worked a lot, and therefore I could stay.” After twelve years of working, he got a stroke and ever since he is tested medically unfit. “If I were healthy, I would be still working in the Hilton.” Accordingly, his informal job (and the related social capital) enabled him to become a legal citizen, and (concomitantly) he was able to go from the informal labor market to the formal labor market.

Thus, there seems to be a relationship between labor market exclusion and informal work activities. After some time outside the labor market, the respondents employ these activities. According to them, their only option to compensate their income loss is to work informally. In addition, as time went by, their distance to the labor market expands and their chance to get a job in the future lessens. Social capital is not always involved; for Cynthia used ads to reach for her customers. One example showed that the informal labor market could be a springboard to the formal labor market. However, I might assume that the others did use their social capital – I have no information on their social connections.

7.4.2. State regulations, risk aversion, flexibility and reciprocity expectations

Authors like Gutmann (1977, in Henry, 1991; p. 6) addressed the relationship between state regulations and informal work. The increasing transformation of market economies into mixed economies involving state intervention and a considerable redistributive economy has been seen as an added stimulus for the emergence of informal economic exchange. It is argued, for example, that the development of centralized government and state taxation policy has played a significant role in generating informal economic activity. Gutmann argued that the redistributive economy and the welfare state, increasing employment protection legislation are actually creating the grounds for capitalist employers to go outside the system, employ workers off the books, and thereby facilitate the irregular economy (this is something else than the manner in which welfare is distributed via bureaucracies).

Some empirical results point in this direction. For example, Jensen et al. (1995) found that both economic and non-economic reasons were important for participation. They show the flexibility that goes with informal jobs and that the benefits will not be curtailed if individuals work off the books. State regulations seem to
play a decisive role in the decision to work informally. From this perspective, the state (and its legislation) unintendedly creates informal markets. Earlier I described the manner in which people in poverty have to deal with the state and its regulations (see especially chapter 3 & 4). The state has developed many rules, laws, and regulations pertaining to welfare beneficiaries. The central concern is that all these laws and regulations often make it difficult (or rather diminish the chance of escaping welfare) taking up employment. The regulations, subsidies, and exemptions make it complicated to fully know their future income after accepting a job. People are often entitled to rental subsidy (distributed via the ministry of housing), but as soon as they go back to work, they might partly lose them. However, if they choose to work in the informal economy, they will not lose either their benefits or their additional subsidies. Avoiding the risk of losing income, it can be safe to work in the informal economy while receiving a benefit. In the next subsections, I describe how the respondents deal with the risks of taking up regular employment, the lost subsidies, the day care flexibility, and the reciprocity expectations in the informal labor market.

We saw that receiving a benefit is accompanied with difficulties: recipients of welfare are supervised and checked for eligibility. However, formal employment can also bring about risks. During the first two months, an employer can fire a fresh employee without consequences. But the idea of being fired is not the problem. The problem is that – after being fired – it often takes months before the state deposits the new benefit. Because s/he misses a regular income after being fired, s/he might face some financial trouble. And they are already low on their dough. Therefore, it is often safer to merge a welfare benefit with regular employment. If one of the two incomes slips away, they can always rely on either one. For example, a Surinamese single mother of three, 27 years-old [148], works formally while at the same time she receives a benefit. She did not inform the welfare agency during the first three months of her job – her probation time: “what do I care, nobody lives by the rules, why should I? I was on (job) probation for two months. If I received a contract immediately, I would have informed the welfare agency. Suppose I didn’t get the job, do you know through how much trouble I have to go to get the benefit again?” Because she committed fraud (which the officials noticed), she ended up with debts: “that’s part of my life, and I have to learn to deal with it.” Although she did not work informally, what she did was illegitimate; she obtained a benefit while she worked.
Caitlin [319], single parent of two, 49 years-old, practices a similar strategy. She does domestic work on the side and explains: “I work on the side, otherwise, I will not get by. You should not work at some office because others will notice. For that reason, every week, I visit a friend to ‘drink coffee’. I can work on the side every afternoon, so I can make a lot of money. That is something I resent. I do it, so I can visit the zoo with my children.” She works informally to pass, to get by, and only to a certain extent. However, she starts to work part-time formally within a couple of weeks (after the interview), and her income will be supplemented by the welfare agency to the objective minimum income. She also keeps her informal job. She can work full-time, but then she will receive as much as her informal job, plus her formal part-time job. Nevertheless, she starts to work part-time, informal and she receives partly a welfare benefit, so she obtains money from the state, the formal, and the informal labor market (three fields). If she starts working full-time and she will fail in her new job, she will face some difficulties to go back to the old (safe) situation of informal work and welfare. However, if she combines all three earnings, and one of the incomes slips away, she still has two other resources to count on. For her, what she does now is the safest way to deal with her precarious situation.

To a certain extent, beneficiaries are allowed to work. However, if they work many hours, they might lose their rental subsidy (distributed via the ministry of housing). Consequentially, if they work many hours they lose subsidies, and if they work few hours they are entitled to full rental subsidy. For people in poverty, this threshold determines the amount of legal working hours. For example, an Antillean married man, 44 years-old, [107] works in the music industry, while at the same time receiving a benefit. If, during one month, he works many hours, he might lose his rental subsidy. If this is the case, although he does not like to work informally, the exceeding working hours are off the books. He does this to be sure of some income. In this situation, formal and informal work operate as a continuum and the dichotomy between formal and informal work can be questioned (cf. Harding & Jenkins, 1989). People are constantly moving in a gray area. They are neither fully working of the books, nor are they constantly working legally. They move between the formal and informal field135, and this movement is partly determined by legislation.

For single parents, one of the chief constraints on employment take up is probably the lack of flexible day care for their children. Therefore, sometimes, women are
forced into the informal sector because the formal sector fails to accommodate their household responsibilities (Moser, 1984; Beneria & Roldan, 1987). Scholars argue that women choose informal sector employment because of its compatibility with their household work (cf. Berger & Buvinic, 1989; Dignard & Havet, 1995). They contend that the informal sector is better suited to allowing women to merge household work with paid work because many informal sector activities can be undertaken from the home. The next case shows how public policy fails to accommodate the situation of Jasmine [231]. She could get a regular job via the employment agency, but the welfare agency refuses to provide day care for her children. She reacted by gaining information from her social connections on working for adult chat lines (via telephone). She worked for two years, at home, for this company illegally to get by. She could finally pay all the bills. She had to quit because the company was invaded, and later on, she was investigated by the welfare agency. Besides feeling undermined by the state, the central reason for working on the side is the flexibility that goes with black work; she did not have to arrange day care. For her, the problem of child support was solved, and she could combine her illegal work with household responsibilities.

If welfare beneficiaries take up employment, they might lose tax exemptions, rental subsidies, and partly their health care compensation (since distributed via other institutions, the welfare office and its officials have nothing to do with these exemptions and subsidies). Because these subsidies change, their new regular (formal) income is difficult to know beforehand. Nevertheless, if they keep on living from a benefit and work informally, they know exactly what their monthly income will be. The respondents prefer the safety of informal jobs, over the risk of a formal job. Shannon [321] elucidates this: “people, who took up employment, received less income from employment. There is no incentive to work. At least not in my situation. I will receive less rental subsidy. I understand it, working on the side. How they do it, I do not know.” In the next subsection, I give examples of how this process operates.

Amber [151] a Dutch, 43 years-old mother of two, did some work on the side to get by: “I really didn’t know how I could get out of this mess. I started to work for a friend, in her shop, as a cleaner for six weeks. After that, I worked off the side via ads in the local newspaper.” Therefore, her social network provided illegal jobs. In these social networks, the expectations between the two parties are crystal
clear; earnings and tasks are negotiated in advance. However, her social network ran dry, so she had to search for a new market – via ads – to sell her qualities.

Sonya, a Turkish woman [245], said [see chapter Bonds in everyday life: The weakness of weak ties] that if you ask for a nickel, others will ask two nickels back. “These days, nothing is for free,” she says. To get by, she does some chores for her Turkish friends, and teaches in handicraft and painting. She did not say anything about these illegal activities to the welfare agency. She earned about fifty Euros a month: “in my situation, it is normal to earn a little off the side.” She rejects drug selling and other criminal activities, but understands those who earn a little off the books. She draws a boundary between criminal behavior and her petty “wrongdoing.” Her social network, although low on trust, provides a consumption market of her homemade products.

Kelsey [212], a Cape Verdian woman, earns a little money by selling homemade food at a Cape Verdian association: “in the weekends, I earn a little off the books by selling food. I save money so I can buy train and bus tickets. Traveling illegally on public transport, I feel embarrassed. I want my kids to stay out of trouble, so they have to buy bus tickets. And receiving only a welfare benefit, I’ll get in trouble.” She uses this money to pass, to get by, and to keep her children from getting into trouble.

Elizabeth [133] is a 26 years-old single parent of one, who works on the side, while living on welfare. She did some domestic chores: “my superiors went to their work. I was in their house for three hours. Money was already on the cabinet. I knew exactly what to do.” What she had to do and what she received was exactly known beforehand. There were no surprising changes, nor difficult regulations. That is why the reciprocal relation with her informal employer is more obvious than the reciprocal relationship with her “formal employer” – mediated by all the state regulations.

Kayla’s husband [166] worked informally. Most of the time he did chores for family, friends, and acquaintances: “they call you, and you get some money to do a job.” He earned up to 50 Euros a day: “Cash, that’s a lot of money.” Her husband is formally employed now and, according to him, in this situation of employment he is unable to work informally.
Hence, first, for people in poverty, there is a big difference in working in the formal labor market compared to the informal labor market. The difference is that in the informal markets they know exactly what they will earn. The respondents have a strong sense of reciprocity, they want to work, and want to gain from the exchange, but also want to have full information on the barter. In this manner, the outcome of the exchanges within the informal economy are known beforehand. However, because of the tax regulations and exemptions, the outcome of the exchange in the formal economy is often uncertain. This transparency is – due to all the state regulations – missing in the formal market, which causes people in poverty to opt for informal work. Second, other cases made clear that people in poverty attempt to extract income from multiple fields: the formal labor market, the state, and the informal labor market. They do this, not so much to maximize their income, but to be ensured of some income. If one income ceases to exist, at any time they are secured from other income. Third, it also became clear that informal work is done because policy often fails to accommodate flexible day care; women combine household responsibilities with informal homework.

7.5. Conclusion

First, the respondents, despite their poverty status, have access to the informal economy. They have social and cultural capital, which provide the possibility to access the informal labor market. Second, formal and informal activities are not mutually exclusive, since six respondents combine their formal with informal work. However, the majority of the informal workers do not have a regular job. Third, informal work is not restricted to particular (ethnic) groups. Fourth, there exists a patchwork of different activities: from cleaning big companies’ offices to small time entrepreneurial activities. Thus, they have resources to employ informal activities, have access, and social connections. And sometimes, the informal labor market is a facilitator to work in the formal labor market.

As for the conditions under which informal work can take place, first of all, there must be a market in which people operate. Without connections they cannot find illegal work, without a market they have nothing to exchange, and without qualifications, they cannot do anything. The second condition: compared to the formal labor market, they face the same obstacles as in the informal market. The inflexibility of day care is one of the impediments why people cannot work informally. Third, when some respondents express their ideas on informal labor, they say that
they do not have the courage to do it, or they think it is just not the right thing to
do. If they do it, they consider the risks involved and justify it by saying that they
do not informally work full-time.

I outlined several central reasons why these respondents work in the informal
economy. First, they have to survive. People in poverty often have to deal with
state retrenchments, have few options to enter the regular labor market, and there-
fore work off the books. In order to survive, they often need income from three
different fields: from the formal labor market, the state, and the informal labor
market. Second, they face many state regulations, and these regulations cause
them to choose the relatively safe informal income above an insecure formal in-
come. If they take up regular employment, they often do not receive as much in-
come as their benefit. Third, and this is the consequence of the state regulations,
reciprocity expectations are clear in the informal economy but opaque in the for-
mal economy. In line with the second argument, they often do not know what
their income will be in the formal labor market, but they do know what their in-
come is in the informal labor market – because informal income does not inter-
fere with all the state regulations. There is a mixture of reasons why the informal
market exists, and these reasons are not mutually exclusive. In the first place, the
informal economy can best be explained by obstacles to enter the formal labor
market, and secondly by the effects of the state regulations and subsidies. The
final consequence is that people in poverty develop their modern version of the
moral economy. They try to preserve their income, are risk averse, while attempt-
ing to maintain their social position. Because they try to maintain their position,
this strategy contributes to the perpetuation (instead of improvement) of their
situation.

This chapter drew attention to the existence of the informal labor market. The
informal labor market is the effect of the (conflicting) relationship between the
state (and its regulations) and the formal labor market. The changes in subsidies,
contradictory regulations, and the lack of state support (e.g. for flexible day care),
cause people in poverty to work informally. Furthermore, if we take all the con-
straints of the other fields into consideration (the labor market, the state bureau-
cracy), informal work seems to be the most reasonable choice to get by in daily
life.
Furthermore, their distance to the regular labor market is increased, resulting in fewer chances for upward mobility; they did accumulate cultural capital, but they cannot add this work experience to their résumé. In spite of everything, it is difficult to convert this illegitimate cultural capital into economic capital in the official labor market. At last, because of their resourcefulness (i.e. informal work) it can be questioned as to whether it is useful to change the height of the benefits (as an incentive to go from welfare to work). After all, lowering the benefits results, perhaps, in more informal work activities.
Notes

121 See also the literature overview of Losby et al. (2002).
122 Wilson (1987, 1996) generally known as a structuralist, argues that, though the lack of jobs was the ultimate cause behind the inner-city destitution, cultural and behavioral patterns perpetuate the conditions of the poor (Small & Newman, 2001; p. 35). One of these seemingly cultural and behavioral patterns is working on the side or off the books in the informal labor market.
123 For example, Portes (1998; p. 15) identified at least four negative consequences of social capital: exclusion of outsiders, excess claims on group members, restrictions on individual freedoms, and downward leveling norms. However, there is a strong tendency to link social capital with the last aspect mentioned: social capital contributes to inequality by exerting a leveling-down effect on people’s aspirations (Ledeneva, 1998; Harper, 2001; cited in Field, 2003, p. 80). Portes suggest that when group solidarity is cemented by a shared experience of adversity and opposition to mainstream society, then individual members will be discouraged from trying to leave and join “the enemy.”
124 Another example might be the work of Banfield. This American anthropologist used the term “amoral familism” to explain the behavior of peasants in southern Italy, which he saw as the result of strategies aimed solely at improving the immediate family’s own short term position. While this might serve the family well, it undermined all attempts at securing wider cooperation (Banfield, 1958, cited in Field, 2003; p. 87).
125 There is a clear patron-client relationship visible in the work of Scott. In his view the subsistence ethic shapes peasants’ attitudes towards and responses to the demands of supra-village elite groups.
126 There is not only a material exchange, there is also a relevant symbolic dimension. He writes: “To fall below this level is not only to risk starvation; it is to suffer a profound loss of standing within the community and perhaps to fall into a permanent situation of dependence” (Scott, 1976; p. 9). However, Scott warns to sketch a dichotomy between swashbuckling capitalist risk-taking on the one hand and immovable peasant conservatism on the other (Scott, 1976; p. 25).
127 I am fully aware that their analysis is based on the “Landscape of Poverty”-project.
128 One Surinamese woman hardly understood the question on informal work, [361]: “I do not understand the concept. We are not familiar with side jobs in Suriname.” She is unfamiliar with the informal economy, because the dichotomy formal-informal economy is not vividly present in her home country.
129 See for example Vinay (1985). She showed how women may begin in formal employment but move into informal work when children are born, returning to formal work when children are older.
130 Ferman and Ferman argued that capitalism generate its own historically specific types of informal or irregular economies and that the very origins of irregular economies, “lie in structural conditions and processes in the larger society, and cannot be divorced from them” (cf. Henry, 1991; p. 3).
131 He writes: “Nowadays, individuals durably excluded from paid employment in neighborhoods of regulation cannot readily rely on collective informal support while they wait for later work which, moreover, may never come. To survive, they must resort to individual strategies of ‘self-provisioning’, ‘shadow work’, underground commerce and quasi-institutionalized ‘hustling’” (Wacquant, 1996; p. 127).
132 In the statistical database, these numbers are hardly available.
The two reasons of greatest importance were that informal activities were a way to help out neighbors and that they constituted a way to survive. While low-income participants were more likely to be motivated by economic concerns, there were more similarities than differences between the poor and the non-poor respondents. The authors highlighted several self-reported reasons for engaging in informal work: to help out neighbors, because you have to survive, lets you work at home, not enough good jobs around, you can set your own hours, you can be your own boss, because income is not taxed, no transportation worries, and regular job would cut your benefit.

Harding and Jenkins write: “Even the most formal contexts are comprehensively penetrated by, and implicated in informal social relationships” (Harding & Jenkins, 1989; p. 175).

Nelson (1999) explored gender differences in three varieties of economic activities that supplement regular employment and housework. Gender differences were found in the content of these activities, their location, the time devoted to them, the degree to which they were delineated from other activities, and the opportunities they provided for sociability.

A study of street traders in Columbia found that the majority preferred informal self-employment to formal wage employment (Nelson, 1988 in: Leonard, 2000: p. 1076). The reason cited was because most traders felt they could achieve greater economic security engaging in street vending than in formal employment. This was because formal employment tended to be sporadic and short-term.

The respondents do want to work, and they are not low on work ethic, but simply they want to work to get something in return. This norm is so basic in social life that we can label them *Homo Reciprocus* (cf. Becker, 1956)

Surveying the literature, many authors have different perspectives on the informal economy. However, I follow the line of Portes, Castells, and Benton (1989). They maintain that the informal economy is widespread, irrespective of the level of a country’s development, and apart from of the existence of immigrant labor. I also reaffirm that the informal economy “has served as a crucial survival strategy for the poor, as a significant provider of jobs to the unemployed, as a training ground for entrepreneurs, as a source of new businesses, and as part of a cost reducing strategy for modern businesses” (Gerber, 1999; p. 1).