

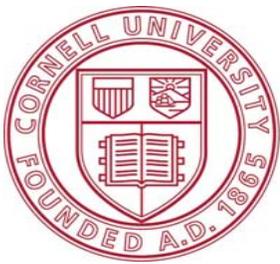
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# **Informality: A Labor Economics Perspective**

**Gary Fields  
Cornell University and IZA**

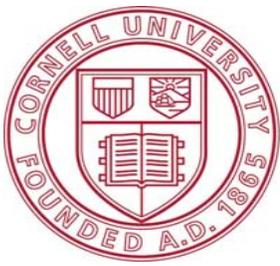
**March, 2011**



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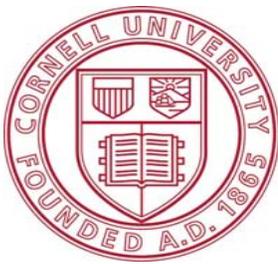


## I. Who is “informal”?



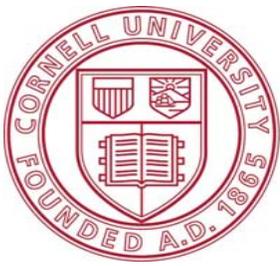
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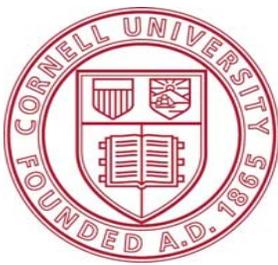




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**A: We would probably all call them “informal.”  
But what does that mean?**



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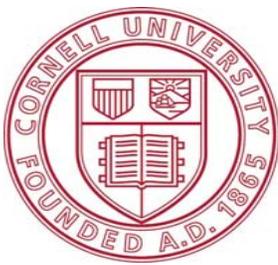


## From Lewis Carroll's *Through the Looking Glass*

**“When *I* use a word,” Humpty Dumpty said in rather a scornful tone, “it means just what I choose it to mean – neither more nor less.”**

**“The question is,” said Alice, “whether you *can* make words mean so many different things.”**

**“The question is,” said Humpty Dumpty, “which is to be master . . .that’s all.”**



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**It's time to stop being Alice-in-Wonderland-ish.**

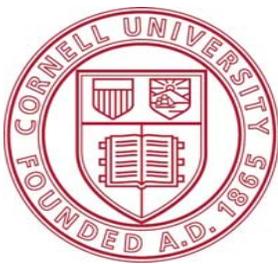
**Regarding the various definitions:**

**“Informality” cannot simultaneously**

**a) mean any one of these -  
either “informal sector” or “informal economy,”  
or “covered by social security” or something else -**

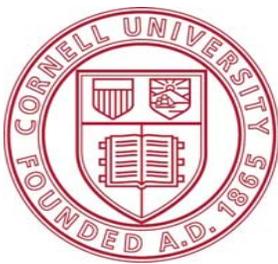
*and*

**b) mean all of these.**

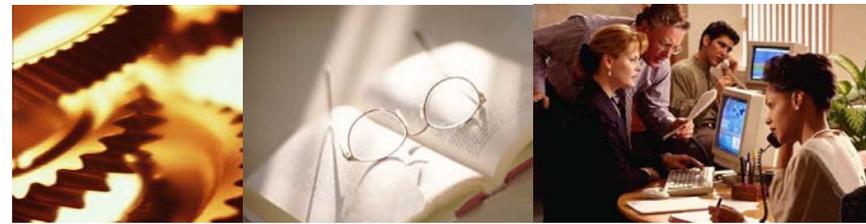


**From a labor economics perspective, what our field needs:**

- 1. If we are going to use the terms “informality,” “informal employment,” and “informal sector,” we need consistent definitions of these terms.**
- 2. If we are going to use these terms, we need empirical implementations that match the definitions, as for instance we have with “unemployment.”**
- 3. Otherwise, let’s use terms like “protected” and “unprotected,” “registered” and “unregistered,” “wage employment” and “self-employment,” and so on.**



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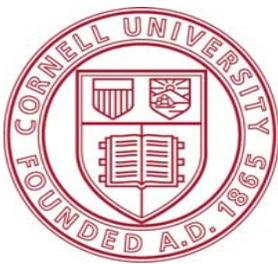


## **II. What elements do Kalavati and Angela's stories share?**

**They are all doing what they are doing “involuntarily.”**

**Why “involuntarily”? Because there are not enough jobs with protections for all who want them and who are capable of performing them.**

**This is the essence of how most labor economists working on developing economies think about working without protections.**

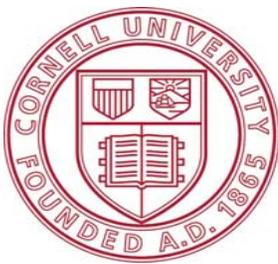


### **III. What labor economists know is not so (using the word “informal” because that’s what the authors use):**

- 1. Informal work is bad/pathological/ ...**
- 2. Informal work is to be discouraged/done away with/...**

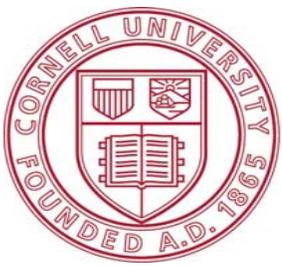
#### **Why?**

- 1. Because informal work is a vital source of livelihoods, especially for the poor.  
(NCEUS: 93% in India)**
- 2. To work informally is preferred to not working at all.**



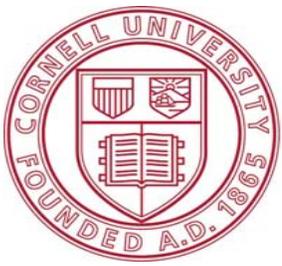
**IV. What labor economists are developing:  
Analysis of the fundamental duality *within* the so-called  
informal sector relative to the so-called formal sector.**

- 1. There are those who would rather be working in jobs  
with protections but cannot.**
- 2. There also are those who could be working in wage  
employment and/or in jobs with protections but who  
choose not to.**



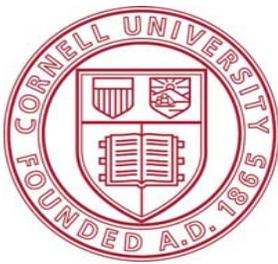
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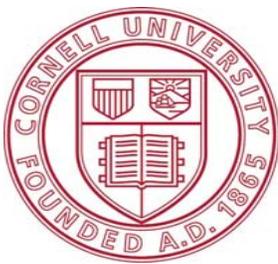


**V. What we do not know, and would like to know,  
is:**

**a) How many of those working “informally” are doing so  
by choice?**

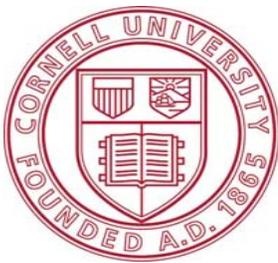
**versus**

**How many of those working “informally” have no choice?**



## **b) How do informal sector and formal sector earnings compare?**

- **Informal workers earn less than formal workers on average but . . .**
  - **Informal workers do not earn *uniformly* less.**
- **Much remains to be learned about both unobservables and unobservables.**

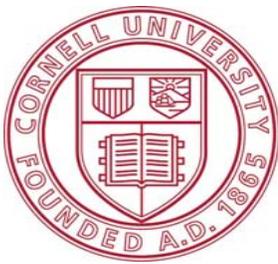


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**c) What is the best way to model all this  
in different countries?**

- **Parsimonious**
- **Realistic**
- **Policy-relevant**



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**A substantial research agenda lies ahead.**