4 Informal employment in developed countries

Relevance and statistical measurement

Françoise Carré

This chapter presents an argument for the value of applying the definition and measurement of informal employment across all types of economies, thus applying it to developed countries where recent employment changes make it relevant and warrant attention. Measuring informal employment across all countries calls attention to areas of change in employment patterns that are shared across countries and to the global interconnection of the labour markets.

The chapter also details one area of progress in international statistics that is of interest to both developed and developing countries and will facilitate improved measurement of informal employment. Changes in employment that warrant attention include the following. In developed countries, where dependent (or wage) employment is the norm, the growth of non-standard employment such as fixed-term or intermittent work has resulted in the differentiation of wage employment. Where the labour market was conceived as primarily entailing differences in wages or skills across jobs, it now is deemed to entail discontinuities due to the work arrangements themselves. Most importantly non-standard work arrangements most often entail reduced or no employment-related social protection and sometimes reduced coverage under some labour standards, depending on the country. In addition, work arrangements that sit uneasily between waged/dependent and self-employed/independent have grown, are poorly accounted for in labour force statistics, and require improved statistical measurement and policy attention.

Somewhat in contrast, but concurrently, developing countries where non-wage employment (own-account work, self-employed employer, and contributing family workers) prevails, there is growing co-existence of traditional self-employment (craft, vending, transport, farm work) with newer forms of work arrangements that also sit uneasily between independent and dependent employment; in most countries, for policy purposes, workers in these work arrangements are treated as self-employed. Classifying these newer forms of work has presented a challenge for national and international statistics.

Informal employment, its contrast with formal employment, has mainly been considered as relevant to developing economies; however, informal employment highlights and names what are discontinuities in labour markets – the presence of distinct types of jobs, qualitative differences in work arrangements

and differential treatment under regulations, all with consequences for workers. This is a pattern that labour markets in developed countries increasingly share. The research literatures in the Global North and the Global South refer to these employment discontinuities differently, for example, as non-standard work among countries of the Global North and informal employment among countries of the Global South (e.g., Berger and Piore 1980). Nevertheless, there are underlying similarities in the ways that researchers have talked about such discontinuities in labour markets and their implications for workers; both refer to various types and degrees of labour market segmentation.

Many of these changes in wage employment arrangements in developed countries sever workers from access to employment-related social protection (Carré 2015a). The lack of access to employment-related social protection is at the core of the definition of informal employment. This is protection against life risks that affect the ability to work and earn (e.g., illness, disability, or ageing). Persons who are in informal employment either are employees of *formal* firms or of *households* but do not receive social insurance or benefits through their employment due to the nature of their work arrangement¹ or are self-employed or employees in *informal enterprises* (i.e., unincorporated economic units that are not registered with national authorities) and, as a result, do not have access to social insurance, or are contributing family workers.

Informal employment in developed countries

Examining the presence and dimensions of informal employment requires taking account of the institutional setting of those countries. Most workers in developed countries are employees; they are in dependent employment. The bulk of employment is in formal firms – with concentrated ownership of large corporations (though not necessarily large workplaces, or even large companies). Today, large formal firms are at the centre of the process of changes in wage employment that has manifested as the growth of non-standard work arrangements – what has been called the “informalisation” of employment. The policy environment for employment in the developed countries is rich in regulations and their enforcement has historically been relatively consistent.

In this environment, several changes drive the emergence and growth of work arrangements akin to informal employment and that have contributed to the segmentation of the labour market. First, and as already noted, a significant contributor has been the growth of non-standard work arrangements among wage workers. Fixed-term, temporary, casual, intermittent and other similar work arrangements as well as certain forms of casual part-time work have experienced significant and steady growth over the past four decades in European and North American countries, in particular, but also in high-income countries of other regions (ILO 2015a).

Second, work arrangements that blur the boundary between employee/dependent status and self-employment/independent status have grown, especially in developed countries. In these arrangements, *individual* workers are treated as

self-employed/independent workers and made responsible for their own social insurance (e.g., retirement contributions). But many are not independent operators; they are economically dependent. They do not have the autonomy to make decisions about how to engage with the market. In order to have tasks to perform or to access customers for whom to perform a service, many depend on a company that contracts for their work, or a digital platform run by a corporation that directly benefits from the proceeds of their work. They have little “control over their access to the market”. Nevertheless, in most countries, they currently are categorised as independent workers, as self-employed (Carré, Negrete and Vanek 2017). As a result, in most countries, they have no employment-related social protection; they purchase their own insurance without contribution from the contractor or the platform company. They bear many of the risks of autonomous economic activity but have limited or no autonomy.²

Third, labour standards violations have increased in some (primarily low-wage) industries, in some countries. These violations result in *de facto* informal employment. Because these practices amount to fraud, they are not readily visible in official statistics. Instead, country-specific studies using regulatory audit data on minimum wage violations (Weil 2005; Weil and Pyles 2005–06) or employee misclassification as self-employed (Carré 2015b) or surveys focused on multiple labour standards violations in specific low-wage industries such as restaurant, retail, or home care (Bernhardt et al. 2009) document practices in contravention of labour regulations. This third pattern, though likely of smaller scale, nevertheless matters because it has arisen over the past 20 years in settings where previously it was much less of a policy concern. (Also of note, labour standards violations are relatively new in developed countries but are frequent in developing countries.)

The implications of these changes for workers and the rise of informal employment that they represent warrant policy attention (OECD 2019) and underscore the relevance of the definition and measurement of informal employment across types of economies. A wide array of studies from the International Labour Organization, the Organisation for Economic Cooperation and Development (OECD), the European Union, and country-based researchers indicate that work in job arrangements such as fixed-term work, temporary work, casual work, on-demand economy (platform) work and other forms of non-standard work are associated with a lower level of employment-based social protection coverage, sometimes irregular earnings, more frequent unemployment, and higher poverty risk (Carré 2015a; ILO 2015a, 2015b, 2016a, for reviews). They are associated with ILO-defined Decent Work deficits.

There is some recognition that the changes discussed above result in work arrangements that meet the definition of informal employment. For example, Eurostat (the European Statistical Office) now provides information about the informal sector (i.e., employment in informal enterprises) on its website. Therefore, it has become possible and necessary to measure informal employment in developed countries. The ILO has done so with its first-ever harmonised cross-national estimates (ILO 2018a) which have extended the statistical measurement of informal employment significantly (see Vanek, Chapter 3, in this volume).

Value of cross-national measure of informal employment

The value of measuring informal employment cross-nationally is that it enables the portrayal of global employment changes whereas, until recently, there was a disjuncture in labour market analyses between developed and developing countries. Also, for policy purposes, it is critical to show the magnitude of workers in informal employment and the nature and degree of impacts, in particular, the lack of employment-related social protection or absence of labour standards coverage.³ Furthermore, for international policy debates on the quality of employment and its economic and social consequences and for their national policy implications, it is important to have an accurate cross-national statistical picture, something that has not been possible without a nearly unsurmountable task of reconciling detailed labour force statistics across all countries. The cross-national measurement of informal employment in no way detracts from detailed statistics on diverse work arrangements conducted at the national level. Data on informal employment complement these national statistics that are specific to each country's institutional context.

The cross-national measurement of informal employment also can draw attention to parallel patterns across types of economies which may not otherwise be seen as salient. For example, non-standard wage employment in formal sector firms, a pattern well established in OECD countries since the 1980s has spread; large formal sector firms in middle- and low-income countries have followed suit in the last decade, including in India, Mexico and South Africa.

Progress in international statistics: the relevance for the measurement of informal employment

This chapter now turns to specific areas of progress in international statistics that have taken place to take account of employment changes across countries and to inform policy discussions at the global, national and local levels. This has been achieved through the revision of the International Classification of Status in Employment (ICSE-93) that was approved by the 20th International Conference of Labour Statisticians (ILO 2018b). Among a number of significant structural changes, the new classification, ICSE-18, most notably addresses two areas discussed in the preceding section: (1) ambiguous work arrangements (between wage and self-employment); and (2) changes in wage employment, both of which are relevant for developed as well as developing countries.

The new ICSE and its implications for classifying work arrangements between wage and self-employment

One of the main purposes of the revision of ICSE – but by far not its sole purpose – was to address the difficulty of measuring workers in ambiguous work arrangements. Workers in an (in)dependent contractor employment situation – “in between” dependent and independent employment – are found in labour

markets across high-, middle- and low-income countries. Industrial outworkers and homeworkers are found across all country-income groups, but predominantly in developing countries. Employment mediated through digital platforms tends to be organised on a contractor model across all types of economies. For example, around the world, digitally intermediated service provision – ride-sharing or food delivery work, for example – has been organised on a contractor (self-employment) model. So far, it has proved difficult to classify such work arrangements, both in developed as well as developing countries.

The new classification, ICSE-18, departs significantly from the overarching high-level divide used in classification systems until now – that between paid/wage employment (dependent) and self-employment (independent) – and which has governed the existing classification system, ICSE-93. This dichotomy is based on two dimensions: “Authority” or autonomy in decision-making regarding the activities of the economic unit; and “Risk” or financial investment in the operation.

The limitation of the existing ICSE-93 was that it conflated both dimensions: the autonomy in economic decision-making and control had been expected to counterbalance the risk or investment involved. In practice, this conflation of both criteria resulted in the assumption that a worker who is paid based on end-product (in “work for profit”)⁴ is automatically independent/self-employed while a worker receiving a wage is dependent/employee (ILO 2013b). In reality, workers now are often paid based on an end-product but also bear risks similar to those faced by independent workers (income at risk and responsibility for own social protection), yet have little or no autonomy in decision-making regarding their operation or work performance, or do not control their access to the market.

Instead, the new ICSE-18 includes two – complementary – classification hierarchies: ICSE-A based on Authority (or autonomy) to identify and classify Dependent and Independent workers; and ICSE-R based on Risk to classify workers in employment for pay and those in employment for profit. It represents a break from the Employee/Self-employed divide, and from a single classification hierarchy. Both classification hierarchies are necessary for labour force statistics; and ICSE-R is needed for the System of National Accounts.

The new classification system enables proper accounting and visibility of workers in ambiguous situations, such as those described above and who will be classified as “Dependent Contractors”, a new sub-category. On the Autonomy hierarchy, dependent contractors are classified in the Dependent workers group, along with Employees and Contributing Family Workers. On the Risk (and investment) hierarchy, they are classified as in employment for profit, along with Employers and independent own-account workers in household market enterprises. Interestingly, developing country representatives in ILO regional consultations welcomed the new Dependent Contractor category and supported its adoption. They had found it difficult to classify many of the workers in their countries as either independent self-employed or dependent wage employed.

New category of Dependent Contractors

The new classification, ICSE-18, provides an international statistical definition for dependent contractors. It is summarised in the following way. Dependent contractors are workers employed for profit:

- who have contractual arrangements of a commercial nature to provide goods or services for or through another economic unit;
 - who are not employees of that economic unit;
 - who are dependent on another entity that exercises control over their productive activities and directly benefits from the work performed by them.
- a Their dependency may be of an operational nature or economic nature such as through control over:
- access to the market;
 - the price for the goods produced or services provided;
 - or access to raw materials or capital items.
- b The economic unit on which they depend:
- benefits from a share of sales produced by the dependent contractor; and/or
 - benefits from reduced labour costs when the work performed by dependent contractors may otherwise be performed by its employees.
- c The activity of the dependent contractor would potentially be at risk in the event of termination of the contractual relationship with that economic unit.⁵

Following this 2018 revision, guidelines on how to measure dependent contractors are being developed by the ILO in consultation with National Statistical Offices (NSOs), a process that is expected to take a few years. As noted earlier, dependent contractor work arrangements exist across all types of economies. Initially used in selected industries like publishing in developed countries, dependent contractors can now be found in other sectors and occupations. Industrial outworkers and homeworkers in developing countries who are doing piece rate work for orders issued by a garment sub-contractor in a global supply chain also are candidates for classification as dependent contractors. These workers are not small-scale independent operators, though they own the workplace and equipment and pay for electricity. To receive work orders through the production chains of larger companies, they depend on the sub-contractor for instructions, for supplies, and take a price set by the ordering company. So-called freelance workers and platform intermediated workers/“gig workers” likely would also be classified as dependent contractors.

Developing measurement guidelines for the Dependent Contractor category is challenging due to the large variety of circumstances and relationships that yield dependency for a worker. Initial testing in Denmark and Chile indicate that measurement guidelines may need to allow for some variation in survey questions across types of economies and possibly industrial sector.⁶

Employee sub-categories

Improvements provided by ICSE-18 also include, within the Employee category, four detailed sub-categories: permanent employees, paid apprentices/trainees/interns, fixed-term employees and short-term/casual employees. The latter two sub-categories cover the prevailing non-standard forms of employment for employees. In combination with variables on social protection coverage, data on these categories will provide the share of workers in non-standard wage employment that also are informal.

Further improving the reporting of informal employment

The ICSE-18 also provides cross-cutting variables, several of which have significant relevance for informal employment. The “Type of workplace/Place of work” variable is identified as “essential” for the compilation of coherent statistics on work relationships and for the identification of important groups of interest. It will be useful for classifying many of the occupations of informal workers, including home-based workers, street vendors and market traders.

Also, the 20th ICLS resolution has clarified the definition for domestic workers. This category of workers is the subject of an ILO Convention (C 189). In a number of countries, domestic workers have been excluded from main labour standards regulation and often employment-related social protection. Therefore, it is important for countries to have an international definition for this category of workers and to monitor the number and work arrangements of these workers.

Conclusion

Significant changes in employment patterns across developed, emerging and developing economies have occurred in the past two decades. Employment arrangements have become more diverse, and many arrangements sever workers from access to social protection through work. These trends raise the importance of the application of the definition of informal employment across all economies, developed as well as emerging and developing ones. Cross-national measurement is needed to keep track of the consequences of informal employment for workers and to inform global policy discussions. Progress has been made in international statistics to better measure employment changes. This chapter has highlighted key changes that enable a more accurate representation of employment patterns and better reporting of informal employment across countries. Official statistics have been better at classifying formal workers than informal workers, though the latter dominate employment in low-income countries. The changes included in ICSE-18 will help represent informal workers more accurately across all country income groups.

Notes

- 1 Employees in such arrangements may also lack coverage under labour standards.
- 2 So far, this pattern is not considered fraud under the laws of most countries and the ambiguity has not been addressed with a regulatory change.
- 3 A relevant policy concern is that if countries tie access to key features of social protection to a form of dependent work/employment, how should they think about connecting (or reconnecting) workers to social protection who are severed from it due to features of their work arrangement, as, for example, when it is not clear whether there is a direct employer?
- 4 Statistical classification term meaning that the basis for pay is the end product rather than effort spent and that the worker directly bears financial risk, or benefits, from the results of the enterprise, be it a one-person enterprise.
- 5 ILO, “The 20th ICLS Resolution Concerning Work Relationships,” presentation by M. Frosch at the International Statistics Institute, World Statistics Congress, IPS-320, Kuala Lumpur, Malaysia, 18–23 August 2019.
- 6 Papers for International Statistics Institute, World Statistics Congress, IPS-320, Kuala Lumpur, Malaysia, 18–23 August 2019.