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Informal Economic Activities and Deprived Neighbourhoods

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June 2006

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Informal Economic Activities

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ABBREVIATIONS	
ACC	Active Citizens' Credits
BCS	British Crime Survey
DCLG	Department for Communities and Local Government
DETR	Department of Environment, Transport & Regions
DfEE	Department of Further Education & Employment
DSS	Department of Social Security
DTI	Department of Trade & Industry
DWP	Department of Work & Pensions
DNs	Deprived Neighbourhoods
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
FIWE	Formal & Informal Work in Europe
GHS	General Household Survey
GDP	Gross National Product
HCA	High Crack Areas
ILO	International Labour Office
JSA	Job Seekers Allowance
LETs	Local Exchange Trading Schemes
NRU	Neighbourhood Renewal Unit
NEF	New Economics Foundation
ODPM	Office of the Deputy Prime Minister
OECD	Organisation for Economic Co-operation & Development
ONS	Office of National Statistics
SBS	Small Business Service
SEU	Social Exclusion Unit
SIC	Standard Industrial Classification
SNA	Systems of National Accounts

Summary

Key questions

In attempting to address the economic problems of deprived neighbourhoods, there is growing appreciation among researchers and policy-makers of the fundamental importance of informal economic activities, and an awareness that these activities have been neglected within research and policy development. Following consultations with policy advisers and research managers in various government departments, the Neighbourhood Renewal Unit (NRU) commissioned this report. Its aim is to review the existing evidence base relating to informal economic activities within deprived neighbourhoods and provide insights to shape future policy development. The report addresses four key questions:

- What are the defining characteristics of informal economic activities? What is the most appropriate and practicable notion of such activities with regard to deprived neighbourhoods in the UK?
- What role do informal economic activities play within the economy and labour markets of deprived neighbourhoods? What are the patterns of movement into, within, and out of the informal economy?
- To what extent are informal economic activities both a drain *and* a positive force for economic activity within deprived neighbourhoods?
- What are the impacts of policies upon the operation of informal economic activity in deprived neighbourhoods? What are the challenges and opportunities for further policy development?

Defining characteristics of informal economic activities

This review adopted a definition of informal economic activities that identifies three major types: *informal paid work*, *illegal economic activity*, and *informal unpaid work* (comprising *self-provisioning* and *mutual aid*). This definition recognises the wide spectrum of informal economic activities and that these activities are not just unregulated or unseen, but also largely unremunerated.

Although informal economic activities cannot be considered in isolation from each other, there are clear advantages in identifying these sub types in order to both capture the *breadth and complexity* of informal economic activities and provide an *appropriate framework for analysis and policy development*. For deprived neighbourhoods, such a definition indicates the need for greater clarity in research for understanding the dynamics of these activities and how

they are rooted within specific deprived neighbourhoods, as well as identifying a range of options for policy development.

The definition avoids the tendency of much current research and policy development work to adopt a narrow focus on only the monetised or 'cash-in-hand' element of informal activity. Narrow definitions of this sort lose sight of the potential of the sector as they fail to acknowledge the *importance of mutuality and reciprocity found in non-market based exchange*. Such elements are particularly important within deprived neighbourhoods given the restricted ability of many of those living in such areas to participate within commodified, market exchange relations.

Central to understanding and defining informal economic activities is their *intense relationship with 'formal' economic activities*. It is for this reason that the report avoids the use of 'informal sector' and 'informal economy', as such terms infer a degree of separateness from formal economic activity which does not exist in practice.

Extent of current research into informal economic activities and deprived neighbourhoods

The review demonstrates (up to Dec 2004) the limited amount of contemporary research literature of all types currently available on informal economic activities within the advanced industrial economies in general, and deprived neighbourhoods in particular. Where research and policy work does exist, it has a tendency to focus on the 'cash-in-hand' element of informal work.

There are numerous gaps in knowledge and understanding of all aspects of informal economic activities. Some of the most important include:

- details of engagement in informal economic activities with respect to different ethnic groups, age/life-cycle, and gender roles
- the relationship between deprived neighbourhoods and the wider local/regional economy in terms of the market for informal goods and services
- public attitudes towards informal economic activities
- the process and extent to which informal economic activity develops entrepreneurial skills and leads to small business start-ups
- systematic and critical evaluations of the socio-economic impacts of initiatives which have sought to promote informal economic activity
- the identification of means for assembling greater knowledge on the nature and extent of informal economic activities in specific localities to inform local level policy development

THE ROLE OF INFORMAL ECONOMIC ACTIVITIES WITHIN THE ECONOMY AND LABOUR MARKETS OF DEPRIVED NEIGHBOURHOODS

Informal economic activities play a complex and diverse role within deprived neighbourhoods. The nature and type of informal work is *rooted within the specificities of particular neighbourhoods* and is particularly influenced by the extent and nature of *formal economic activity*, the characteristics of the *local labour market*, the characteristics of the *local population*, and the insertion of the neighbourhood within the *wider local/regional economy*. In consequence the precise nature and scale of informal economic activities is likely to vary significantly between deprived neighbourhoods.

As a result of this complexity and the lack of empirical research it is *difficult to provide accurate data* as to the scale and nature of informal economic activity within deprived neighbourhoods. Estimates of the size of the informal economy are hampered by the lack of agreement about definitions and methods that depend upon a high level of untenable assumptions. Different forms of informal economic activity require the use of different indicators.

Despite the limitations of the available data, it is apparent that informal economic activity in general remains an important and growing element of contemporary society within advanced industrial economies. In deprived neighbourhoods, the vast majority of the research reveals *that the level of informal work is smaller in magnitude* than elsewhere. However, this does not mean that it is less important. Quite the opposite. People living in deprived neighbourhoods *rely on informal work to a far greater extent in their household coping practices to fulfil their needs and wants*. The problem, however, is that they are often less able to participate in such activity than their counterparts in more affluent neighbourhoods.

Generalisations concerning patterns of movement into, within and out of informal economic activity in deprived neighbourhoods are difficult to make given their complex and diverse constitution within particular places. Factors including *gender, ethnicity, age/lifecycle, employment status and migrant status*, impact upon engagement with different forms of informal work in different neighbourhoods, although knowledge on these issues remains very limited. However certain generalisations can be made:

- With respect to *gender*, women are especially important within the realm of self-provisioning and mutuality, and undertake a particular role in certain types of paid informal work (childcare, cleaning, care work) and illegal work (prostitution and sex work). By contrast male labour dominates certain areas of paid informal work (eg construction), and involvement in illegal economic activity is predominantly male and concerned with drugs, tobacco, alcohol, and people trafficking.
- In terms of *age/lifecycle*, young males are particularly important with regards to illegal economic activity and much less involved in self-provisioning and mutual aid activities, whilst the elderly are more likely to be engaged in mutual aid activity.

- The 'official' *unemployed* are less likely to be involved in any of areas of informal economic activity compared to other groups.
- There is significant variation in engagement in informal economic activity between different *ethnic* groups. For *immigrants* there is a propensity to become involved in paid informal work and illegal working, often due to their legal status and marginalised labour market position. The poorest immigrants, asylum seekers and refugees, also rely heavily upon self-provisioning. Immigrant and ethnic groups have also become more associated with specific illegal economic activities and organised crime that exploits cross border contacts to facilitate the international movement of different goods and services.

Similar care is also needed in generalising about the different types of informal economic activities and their relationship to deprived neighbourhoods. It is not possible to identify simple causal relationships, as the nature and type of activity is embedded within distinct contexts. However, certain general patterns can be identified with respect to different types of informal work:

- *Paid Informal Work* of an independent nature is less prevalent in deprived neighbourhoods due to lower levels of demand and supply, and the relative weakness of the formal economy. Where it does occur, it is more likely to be conducted for reasons of cash mediated reciprocity.
- *Illegal Economic Activity* has a complex relationship with deprived neighbourhoods variously ascribed to marginalisation arguments or culture of poverty ones. The central hub of illegal economic activity appears to revolve around drug markets, whether local or national.
- *Unpaid Informal Work* includes both *self-provisioning*, which is driven by economic necessity more than choice and restricted by resources and skills, and *Mutual Aid*, where the cultures of participation are different to more affluent neighbourhoods. In deprived neighbourhoods mutual aid is intimately connected to coping and is more informal and one-to-one based than the group orientations more prevalent in better off neighbourhoods.

INFORMAL ECONOMIC ACTIVITIES AS BOTH A NEGATIVE AND POSITIVE FORCE FOR ECONOMIC ACTIVITY WITHIN DEPRIVED NEIGHBOURHOODS

Many informal economic activities are characterised by *fundamental contradictions* that ensure they can contribute in both a positive and negative manner to processes of local economic development. To identify 'positive' consequences of informal economic activity is neither to condone nor suggest the promotion of such activities; it is merely to indicate certain consequences, which could be interpreted as positive for the individuals involved. Positive and negative impacts at the level of the neighbourhood or community are also identifiable.

The *negative consequences* of informal economic activities are most apparent with respect to illegal economic activity and, to a lesser extent, paid informal

work. For illegal economic activity negative consequences outweigh any positive benefits. However, paid informal work is probably the most contentious area due to its intimate relationship with formal economic activity. Activity of this type can clearly be highly damaging to formalised activities (eg via unfair competition; displacement effects), but also offers important complementarities and flexibility and can encourage entrepreneurial activity and skills development.

The *positive consequences* of informal economic activities are most apparent and at their least contentious in the realm of self-provisioning and mutual aid. The ability of these actions to help meet basic needs and contribute to survival strategies, to keep local populations active and engaged, and develop stocks of social capital are all particularly important within deprived neighbourhoods.

In evaluating the balance between negative and positive consequences, an important distinction can be made between *dependent* and *independent* informal economic activities. Negative consequences are at their most severe with respect to 'dependent' informal economic activity where either formal (firms) or informal (criminal gang) institutions operate informally in order to exploit workers and evade the processes of law. In contrast, 'independent' informal economic activity is often closely aligned to the pursuit of survival strategies in a manner which often displays what are considered positive virtues of self-reliance, initiative taking, engagement and entrepreneurialism. However, there are many relationships between dependent and independent activities which means that at times the clarity of this distinction is difficult to maintain.

IMPACTS OF CURRENT POLICIES AND REGULATIONS UPON THE OPERATION OF INFORMAL ECONOMIC ACTIVITY IN DEPRIVED NEIGHBOURHOODS

Current policies from government departments on informal economic activity derive from a *desire to reduce paid informal work* (Department of Work and Pensions, Inland Revenue, Customs and Excise). However, there is also evidence of a more ambivalent view where such activities might *help tackle problems of social exclusion* (Small Business Service, Active Communities Unit, Social Exclusion Unit, Neighbourhood Renewal Unit). The tendency post-Grabiner has been for the former policies to reduce benefit fraud and tax evasion to predominate over those tackling social exclusion.

Some policy initiatives have emerged from the social inclusion agenda that seek to *formalise informal economic activity* (eg Back to Work Bonus, Test Trading, Twin Tracking, use of Phoenix Fund for projects to facilitate formalisation). However, there is very little evidence of recent policies that have specifically sought to either shift informal activity into the formal sector, or promote such activity as the basis for an improved quality of life or alternative to formal employment. Where such policies have existed there is little by way of formal evaluations of them.

Challenges and opportunities for further policy development

Informal economic activity is an *integral part* of the overall economy in deprived neighbourhoods and will continue to be so in the future. Previous modernisation perspectives conceived of informal economic activity as residual activity that will eventually disappear. Evidence suggests that contemporary processes of economic globalisation, flexibilisation and the reconfiguring of state activity have further stimulated the *growth of informal work*. In policy terms this reality needs to be recognised, as does a broad view of what constitutes informal economic activity.

For deprived neighbourhoods informal economic activity is a *major resource* in areas where resources are in short supply. The challenge therefore is whether and how to *build upon the positive elements in such a manner that complements efforts to tackle the negative aspects of informal economic activity*. For policies to be effective they need to be *adapted to local conditions* and contexts. However, establishing adequate knowledge about the nature and extent of informal economic activity within given localities for this purpose is problematic.

Strategies to address the negative impacts of informal economic activity might *focus upon the more draconian measures where the negative impact is greatest*. Greatest negative impact occurs where dependent or semi-independent informal economic activity is heavily connected to larger organisations, such as formal legitimate businesses or illegal organised criminal gangs. These areas of activity involve substantial sums and losses to the taxpayer. The current policy framework does much to address the negative impacts of this type of informal economic activity.

For strategies to promote the positive consequences of informal economic activity, the guiding principle is to find ways to positively promote the advantage of engagement in the remaining range of economic activity without unduly affecting the competitiveness of formal economic activity or creating an excessive financial burden on the state. Such strategies might include schemes to encourage *mutuality and social capital* (eg Local Exchange Trading Systems (LETs schemes), Time Banks) *acquire skills* (eg for self-provisioning), *develop entrepreneurial skills* (eg via formalisation schemes), *promote active citizenship* (eg via a tax credit system) and improve the *ability to cope* of those living in deprived neighbourhoods. Much of the current policy framework concerning informal economic activity does not address the potential positive impacts for disadvantaged neighbourhoods.

CHAPTER 1

Introduction

“Giving the informal economy a realistic role in future employment strategies could be one of the most important challenges of the next fifteen years.”

(Leadbetter and Lloyd, 1987, p.184)

1.1 Context

The challenge laid down by Leadbetter and Lloyd over 15 years ago, of looking towards the informal economy as integral to the future of work, has in reality been largely ignored. Instead, a strong focus on formal sector employment, particularly within the advanced industrial economies, has marginalised serious consideration of the potentialities of informal economic strategies. Yet given the enduring failure of certain neighbourhoods and social groups to benefit from economic growth and rising employment levels in the formal economy, it is perhaps an appropriate moment to revisit this issue.

For concentrations of localised socio-economic deprivation there is growing appreciation among researchers and policy-makers of the fundamental importance of informal economic activities and an awareness that, to date, such activities have been neglected within research and policy development. At the centre of debates concerning informal economic activity within deprived neighbourhoods (DNs) is whether it is part of the problem or part of the solution. On the one hand, the informal sector is seen as a breeding ground for entrepreneurs, an effective provider of skills and training, and a generator of valuable social capital. On the other, it is drain on the formal sector, discourages investment, displaces formal businesses and locks individuals into restrictive social networks. This fundamental contradiction is similarly evident in the policy sphere, with policies either focused on removing or reducing informal economic activity or, somewhat more rarely, seeking to utilise the positive elements of such activity as a complementary and/or transitory mechanism into formal economic activity.

1.2 Objectives and key questions

In light of these debates and as an outcome of a scoping exercise based on consultations with policy advisers and research managers in various government departments, the Neighbourhood Renewal Unit (NRU) has commissioned this report. Its aim is to review systematically the existing evidence base relating to informal economic activities within deprived neighbourhoods and provide insights to shape future policy development.

Specifically the review objectives are:

- To undertake a review of the evidence base relating to the role of informal economic activities within local economic development and how this relates to the processes and practice of neighbourhood renewal within deprived neighbourhoods.
- To critically assess the existing evidence on the role and nature of informal economic activity in deprived neighbourhoods and the effectiveness of related interventions.
- To ascertain what current or planned research is being carried out by both government and non-government organisations, which is of relevance to informal economic activity and the neighbourhood renewal agenda.
- To identify the extent to which this evidence base addresses the policy needs of the NRU and other departments in relation to the neighbourhood renewal agenda.
- To identify the implications and lessons from the review for future policy development within the Neighbourhood Renewal Unit, as well as feed into the Social Exclusion Unit's project entitled 'Jobs and Enterprise in Deprived Areas'.

The review will address four key questions:

- What are the defining characteristics of informal economic activities? What is the most appropriate and practicable notion of such activities with regard to deprived neighbourhoods in the UK?
- What role do informal economic activities play within the economy and labour markets of deprived neighbourhoods? What are the patterns of movement into, within, and out of the informal economy?
- To what extent are informal economic activities both a drain *and* a positive force for economic activity within deprived neighbourhoods?
- What are the impacts of policies upon the operation of informal economic activity in deprived neighbourhoods? What are the challenges and opportunities for further policy development?

1.3 Scope and definitions

Knowledge and understanding of informal economic activity within the UK generally, and in different types of neighbourhoods in particular, remains limited. Firstly, due to the relative lack of both official secondary data and recent primary research, there are significant gaps in knowledge concerning its precise importance, how it functions, and its intimate relationships with formal economic activity. Secondly, there are basic definitional problems associated with the notion of informal economic activity, not least because it is primarily defined as to what it is not (ie formal economic activity). It is commonly

associated with a wide range of activities from self-provisioning, through mutual aid to undeclared and illegal actions (see 2.1). In consequence it is a term deployed frequently but with quite different meanings. Clarity is further obscured by the plethora of related terms like shadow (Schneider et al. 2001), underground (Caridi and Passerini, 2001; Giles and Johnson, 2002; Fortin et al. 2000), black (Lyssioutou et al. 1999; McDonald et al. 1994; Thomas, 2000), undeclared (MacDonald, 1994; Mateman and Renooy, 2001; OECD, 2000), hidden (Dixon, 1999; Battarchyya, 1999; Giles, 1999) and non-observed (OECD, 2002), that all discuss the same phenomena.

This report makes use of the adjective ‘informal’ in conjunction with the term ‘economic activity’, and also ‘work’, when referring to all of the work beyond employment. This report adopts a broad definition of informal economic activity to include paid informal work, illegal economic activity and unpaid informal work (self-provisioning and mutual aid). This broad definition is considered central to understanding the full range, complexity and messiness of these types of activity and their interrelationships with formal economic activities. A full discussion of definitional issues and justification for the definition adopted is provided in section 2.1.

The adjective ‘informal’ is used because it is the most popular term to describe all forms of paid and unpaid work existing outside employment and provides instant recognition of what is being discussed. It also accurately portrays how social relations in this realm of economic life differ from the more ‘formal’ social relations in which official employment is embedded. However, the noun ‘economy’, which is often attached to the adjective ‘informal’ is not used. To speak of work outside employment as an ‘economy’ implies that it enjoys a degree of autonomy from the market when in fact there is an intimate interdependent relationship between informal and formal economic activities. As Gershuny (1985: 129) asserts, ‘the informal economy ... is of course not a separate economy at all but an integral part of the system by which work, paid and unpaid, satisfies human needs’. The report also avoids the use of the term ‘sector’ in relation to informal activity. In both everyday language and in the Standard Industrial Classification (SIC) index, a sector is a sphere in which a particular type of good is produced or service offered. Given that all goods and services can be produced and distributed either formally or informally, informal activity is not a sector itself but crosscuts all sectors.

With respect to the term ‘deprived neighbourhood’ (DN), the report adopts the definition of deprived areas/poor neighbourhoods as employed by the NRU and SEU, and which informs the National Strategy for Neighbourhood Renewal. This definition recognises that whilst there is no precise definition of what constitutes a neighbourhood, the term is useful in that it focuses attention on the geographical scale where the most severe disparities are apparent. This definition also acknowledges that deprivation is a spectrum, but operationalises this notion through use of the Government’s Indices of Deprivation to rank England’s wards by level of deprivation and focus attention on the 10 per cent of wards (841) where deprivation is most serious (Cabinet Office, 2001). Since 82 per cent of these wards are concentrated in 88 local authority districts, in effect it is these local authority districts that have become the focus of neighbourhood renewal policy. The Indices of Deprivation draw upon indicators

across the various domains of income, employment, health, education and skills, housing, crime and disorder, and the environment.

1.4 Review methodology

The review has involved the following stages of work:

- *Scoping*: this involved the review and clarification of research questions and the preparation and agreement of a detailed project timetable for the nature and scope of work to be undertaken at each stage of the review. It also included the production of a scoping paper covering key issues, definitions, review question, research activity, policies and contacts.
- *Literature Search*: a search of literature was undertaken to identify relevant material and 'grey literature' in the UK and internationally. Sources searched included electronic databases, existing reviews and bibliographies as well as direct contact with experts in the field. For international material the EU, the OECD and the International Labour Office (ILO) were the key sources used.
- *Literature Review*: key documents from the literature search were selected and appraised. A draft review paper was produced relating literature to research questions and identifying key issues, knowledge gaps and potential case studies.
- *Exploration of issues arising*: consultation with selected experts to clarify issues arising from the draft literature review. Selected experts were consulted including a one-day seminar attended by invited expert speakers, pertinent government policy officers and interested parties.
- *Review of selected case studies*: via existing literature and interviews with stakeholders, case studies of selected policy initiatives were explored to contextualise the chapters on each sub-sector of informal economic activity and to illustrate key points of analysis and discussion. These case studies take various forms depending upon the sub-sector to be illustrated including individual case histories, specific projects addressing sectors of the informal economy, or policy initiatives.
- *Synthesis and Reporting*: review findings were synthesised into a draft report that set out systematically the nature, scope and robustness of the evidence base in relation to the review questions. Synthesis of material permitted the identification of future research needs and a review of the range of policy issues that arose from consideration of the different sub sectors of informal economic activity.

1.5 Structure of the report

In Chapter Two there is a full discussion of issues related to defining informal economic activity. This discussion identifies three main categories of informal economic activity – paid informal work, illegal economic activity, and unpaid

informal work (self-provisioning and mutual aid) – which then provide the basis for three subsequent chapters. For each of the chapters on particular dimensions of informal economic activity, the key questions of the review are addressed and related policy issues identified. The positive and negative consequences of involvement in particular types of informal economic activity are highlighted in each chapter. It should be noted that these are considered as positive and negative consequences primarily for individuals in deprived neighbourhoods, not necessarily for government or broader social cohesion. The final chapter synthesises the preceding discussion and explores the range of policy issues that arise from consideration of the different dimensions of informal activity and the extent of compatibility and contradiction between different policy trajectories.

CHAPTER 2

Defining Informal Economic Activity

This chapter reviews the range of concepts that have been used to define informal economic activity in order to provide a working definition for use in this review. It establishes the vital importance of seeing informal economic activity as a range of different activities on a continuum, and not as a 'sector' or indeed as an economy separate to the formal economy. The various forces which arguably drive informal economic activity – modernisation, globalisation, flexibilisation, marginalisation, resistance to commodification and the manifestation of mutualisation – are examined from the point of view of their relationship to the economy as a whole. There is also an introduction to the difficulties encountered in 'measuring' informal economic activity and to the range of UK institutions of government with an interest in informal economic activity.

2.1 Reviewing debates on definitions

The phenomena of the 'informal economy' appears under many guises (Williams, 2001) and the various concepts and terms that are used to refer to it sometimes also indicate particular value stances with respect to the activity it encompasses. In his seminal work on the informal economy, Ray Pahl points out that "interest in what came to be referred to as 'informal' work developed among sociologists, social anthropologists in the 1970s largely through the study of marginal urban workers in Third World cities" (Pahl, 1984, p.114).

It remains the case today that much of the literature on the informal economy concerns its role in the developing world (Roberts, 1991; Cross, 1995; Abzug, 1999; International Labour Office, 2002; OECD, 2002). The concept of the informal economy in the developing world encompasses a breadth of activities (ie paid and unpaid, domestic and illegal) largely due to the relative absence of formal work organisation and regulation compared to the developed world. In the advanced economies the informal is mainly associated with either illegal or cash in hand activity.

The interest in informal economy in the advanced economies emerged in the late 1970s as it became clear that significant changes were afoot in this age of 'late capitalism', specifically in terms of the shift from manufacturing to services, changes in work organisation, 'jobless growth' and the concomitant fiscal crisis of the state (Fine and Harris, 1986; Mandel, 1975; O'Connor, 1973). Both Gershuny (1979) and Pahl (1984, and earlier with Gershuny 1979) became associated with this area of research endeavour, mainly with respect to the provision of services and how work is done. In this respect they indicated the importance of three spheres highlighting shifts in the patterns of provision. Whilst the formal economy was considered to be the sphere where increasing

amounts of work to deliver consumer and producer services took place, the underground economy and the household economy retained an importance, especially in terms of ‘undeclared work’ and ‘self-provisioning’ (Gershuny and Pahl, 1979).

2.1.1 TYPOLOGIES OF INFORMAL ECONOMIC ACTIVITY

An important aspect to considering the range of informal economic activity is whether or not different actions are monetised. Gershuny (1979) distinguishes between three categories of informal economic activity:

- domestic work – all unremunerated activities that benefit members of the household
- the unremunerated production of goods and services for neighbourhoods often on a reciprocal basis
- underground economy – activity remunerated, but in such a way as to evade the regulations applicable to formal economic activity, either because of their illegal nature or desire to be immune from taxation/regulation by the state

The underground economy category is further classified into three types:

- Dependent Informal Activity – which takes place as part of formal activities but are not included in official records ie illegal work ‘off the books’ carried out by officially recognised enterprises.
- Independent Informal Activity – activity carried out on an individual basis and the products are sold on without any intermediaries.
- Semi Independent Informal Activity – activities carried on outside formal enterprises, but whose output is directed to those enterprises (ie in the form of subcontracting, non-licensed or illegal work).

It is this ‘underground economy’ – which we term ‘paid informal work’ – that has become the main focus of academic and policy maker attention in more recent years (Mateman and Renooy, 2001; European Commission, 1998; Grabiner, 2000; OECD, 2002).

The OECD (2002) refers to informal economic activity as ‘non-observed’ economy and has devoted significant resources and effort to defining and measuring it. ‘The groups of activities most likely to be non-observed are those that are *underground, illegal, informal sector, or undertaken by households for own final use*. These groups of activities may also be missed because of *deficiencies in the basic statistical data collection programme*’ (OECD, 2002, p.12). Although the terms in the OECD (2002, p.13-14) definition may vary, many of the types of activities are familiar. Thus, their Handbook also draws on the 1993 Systems of National Accounts for the definition of the terms used in the definition of the Non-Observed economy, including:

- *Underground production*, defined as those activities that are productive and legal but are deliberately concealed from the public authorities to avoid payment of taxes or complying with regulations.
- *Illegal production*, defined as those productive activities that generate goods and services forbidden by law or that are unlawful when carried out by unauthorised producers.
- *Informal sector production*, defined as those productive activities conducted by unincorporated enterprises in the household sector that are unregistered and/or less than a specified size in terms of employment, and that have some market production.
- *Production by households for own final use*, defined as those productive activities that result in goods or services consumed or capitalised by the households that produced them.

What the OECD refer to as ‘informal sector production’ would appear otherwise to equate to what is referred to elsewhere as ‘micro-enterprise’ (eg MacGillivray, et al 2001; Kilgour, 1998). The only informal characteristic appearing to be that it is ‘unregistered’, which in turn leads us to reflect upon the variance in degrees of registration of enterprises in different countries. The inclusion of recognisable forms of undeclared or paid informal work, self-provisioning or domestic work retains continuity with the pioneering work of Gershuny (1979) and Pahl (1984).

Notably the OECD definition includes, ‘illegal production’ due to its relationship to the ‘informal economy’. The difference between undeclared/unregistered activity and illegal activity is not just to do with the legality of the product (ie the goods/services provided), but also whether the producer of the good/services is authorised to do so. Nevertheless, in the real world there is a fine line between undeclared and illegal economic activity. They share the characteristic of being intentionally ‘hidden’ activities, as opposed to not being conventionally regarded as economic activities, which is the case with self-provisioning and mutual aid. However, significantly the OECD definition excludes unpaid informal economic activity, variously described elsewhere as mutual aid, neighbourhood work or community building, as do the definitions used by the European Commission and the Grabiner Report.

In contrast, following a trend established in academic work on the informal economy (Gershuny, 1979; Pahl, 1984; Leonard, 1998a; 1998b), Williams and Windebank (2002a) categorise the informal economy in terms of three different types of activity:

- paid informal work – that which is hidden and unregistered by the state but legal in all other senses
- self-provisioning – work that is undertaken by household members for themselves and/or other household members
- mutual aid – unpaid work by household members for members of other households

The advantage of this definition is that it reinstates both the largely unpaid community/neighbourhood and household spheres of informal economic activity, in terms of both production and consumption.

2.1.2 INFORMAL/FORMAL RELATIONSHIPS

The intimate relationship between formal and informal economic activities is at the heart of much debate on defining informal work. In seeking to clarify this relationship, Kesteloot and Meert (1999), building upon both Gershuny (1979) and Sharpe (1988), devise the following typology which identifies three categories of informal economic activity as a result of applying two criteria:

- whether production is remunerated or unremunerated
- whether activity is reported/regulated by the state or not

Figure 2.1 Classification of economic activities after Kesteloot and Meert (1999)

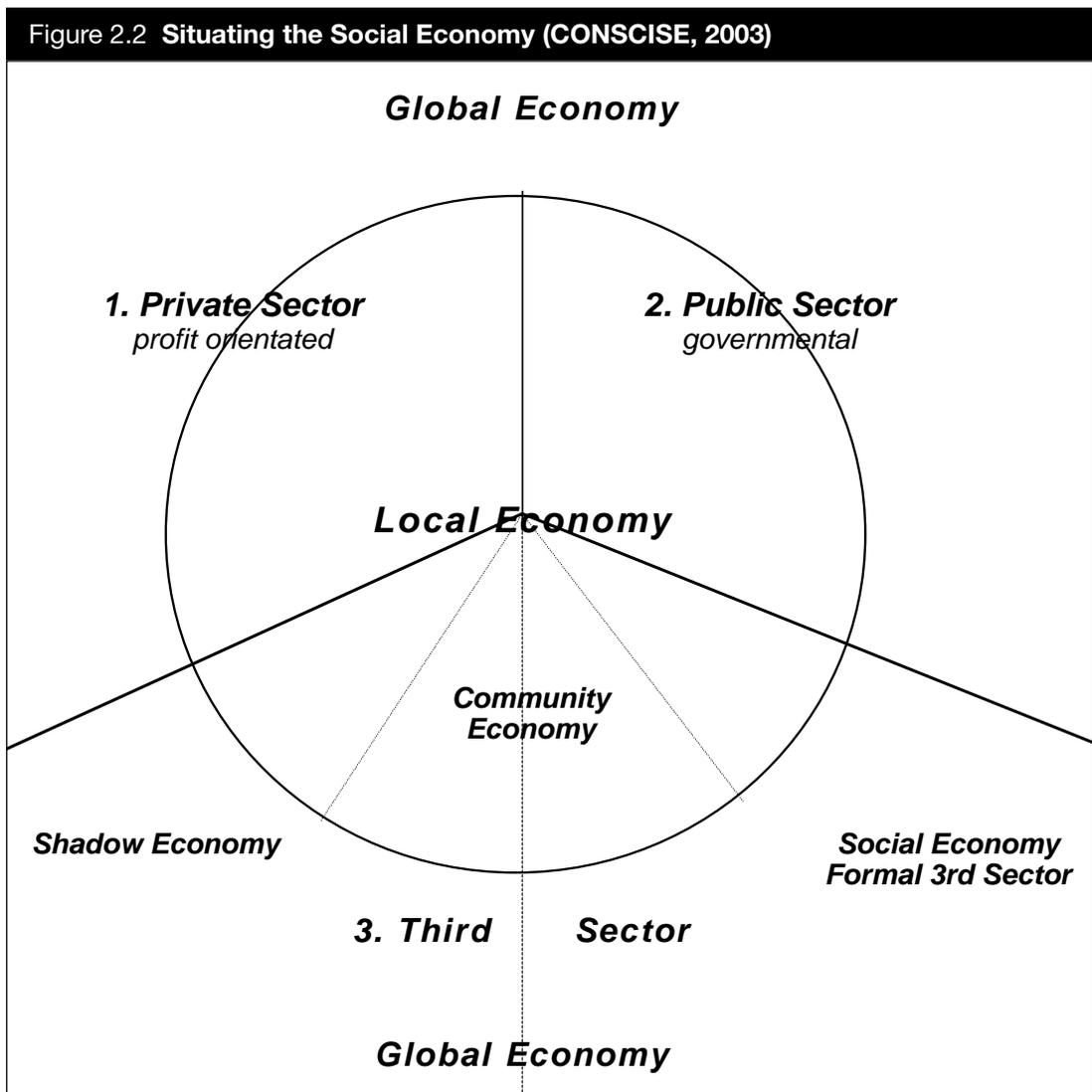
Work	Regulated	Unregulated
Remunerated	Formal Economy	Illegal Work <ul style="list-style-type: none"> • Independent • Semi-Independent • Dependent
Unremunerated	Community/Neighbourhood Economy	Domestic Work

The extent to which market relations pervade informal economic activities is a matter of dispute. In a recent report from a European Framework V research project on Formal and Informal Work in Europe (FIWE) informal work is defined as ‘production of goods and services which take place outside formal employment, ie in black or grey parts of the economy, in the civil society or the family.’ (Pfau-Effinger, et al. 2003). This group sees ‘undeclared work’ as a specific type of informal work, which is ‘market work’ and paid, which they refer to as informal employment. This contradicts Williams and Windebank’s assertion that the informal sphere is where there are no market relations. In fact there is clearly room for both motivations of cash and mutuality in paid informal work, not least through considering some mutuality as being ‘cash mediated’.

The FIWE project definition of the informal economy is redolent of the distinctions made to situate the third sector vis-à-vis the private and public sector (see Figure 2.2), and in turn the shadow (informal) economy vis-à-vis the (formal) community economy and social economy within the third sector (see Figure 2.3) which is operationalised in the CONSCISE Project (CONSCISE, 2003).

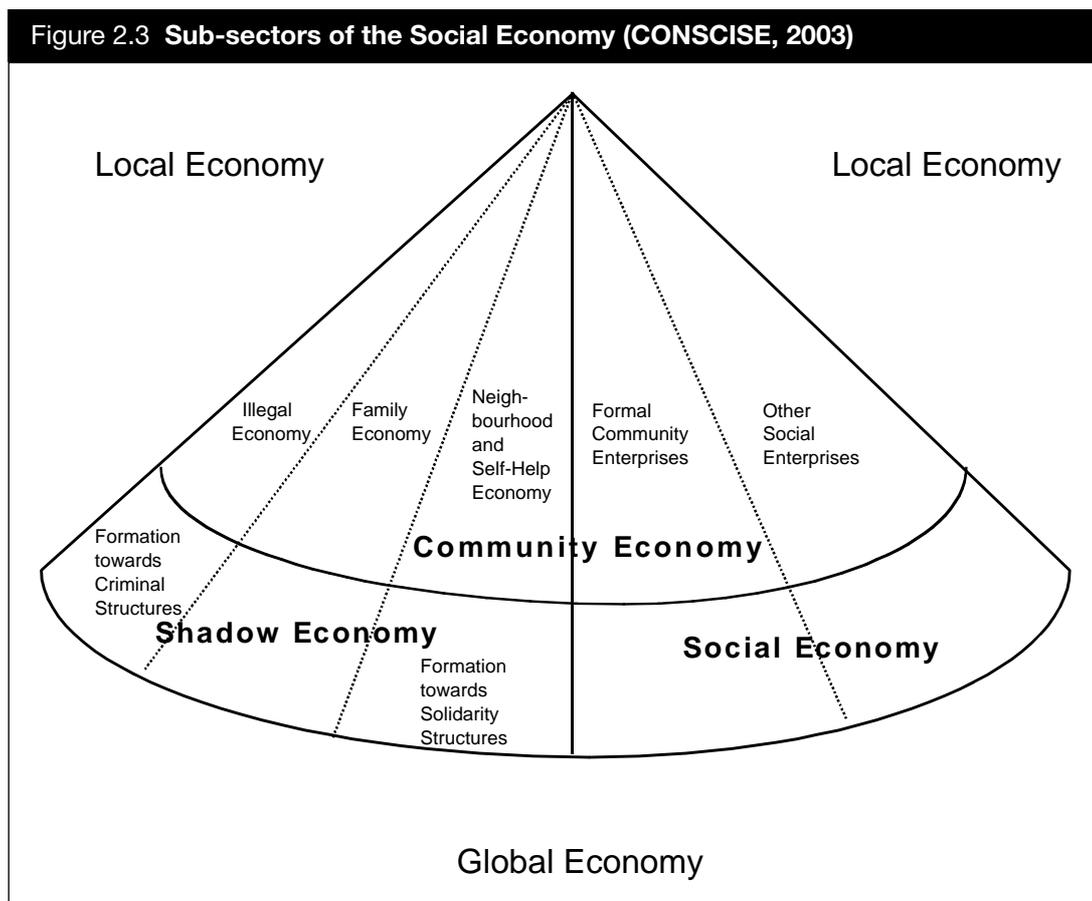
Agents situated and operating within or across the subdivisions of the shadow economy might either shift anti-clockwise to ‘formalise’ their projects into community or social enterprises in the social economy or shift clockwise to ‘formalise’ through the private sector. Either way, it seems important to note that we are dealing with fluid and dynamic relationships and not separate

'sectors'; the informal economy is therefore not to be viewed as a sphere for the marginalised and excluded, but closely linked to the formal economy (Sassen, 1997). What is central to discussion, however, is the assertion of the CONSCISE Project (2003) that certain types of informal economic activity are rooted in this third system, the characteristic mode of economic integration of which is reciprocity (Polanyi, 1968). The importance of these informal economic activities is the generation of reciprocity, mutuality and the cohesive properties of social capital, and are thus argued to be central to any strategies for neighbourhood renewal (CONSCISE, 2003; Forrest and Kearns, 2001).



The most contentious aspects of informal economic activity arise from their interrelationship with aspects of public and private economic activity. On the one hand 'what happens in the informal economy will have an impact on workers and employers in the formal economy, and vice versa. Informal enterprises create unfair competition for formal enterprises by not paying taxes or social security contributions for workers or avoiding other business costs incurred in the formal economy' (International Labour Office, 2002, p.4). On the other hand, the responsibility for the content and focus of the important unpaid work conducted through household self-provisioning and in our neighbourhoods and communities through mutual aid is often argued to lie with the state. Therefore, it may also be argued that if the state is not going to

substitute for such informal provision, it should at least financially support provision through supporting this aspect of the informal economy.



2.1.3 SPATIAL AND SOCIAL VARIATIONS IN INFORMAL ECONOMIC ACTIVITY

A crucial consideration is *spatial variation* in informal economic activities and how this relates to specific social and economic configurations rooted in different localities. Given the intimate relationship with the formal sector, it is no surprise that research demonstrates the spatial distribution of informal economic activity reflecting the spatial pattern and divisions of labour within the formal economy. For example Capecchi (1991) demonstrates for the much-cited example of the economically successful Third Italy region, how informal sector employment was a crucial element of the flexible labour market which was fundamental to this region's success. Williams and Windebank (1994) similarly demonstrate how informal economic activity mirrors and reinforces the social inequalities present in the formal economy. Thus informal economic activity is greatest in extent where the formal economy is dynamic and prosperous. Similarly in deprived neighbourhoods informal economic activities will both reflect the integration of the neighbourhood into the wider local/regional economy and the presence/absence of formal economic opportunities. Kesteloot and Meert (1999) demonstrate this in the case of Brussels, showing how the growth of the local informal economy is connected to suburbanisation and demand for domestic services, and an influx of immigrant labour among other things.

The spatial pattern of production and consumption of goods and services resulting from informal economic activity is a little researched issue. Much of the research and policy focus on informal economic activity has in fact mainly been upon informal work, to the detriment of informal consumption (Fortin, et al., 2000). There may be a case for making such a distinction in future research and policy, if only on the basis that some localities may be sites for the informal production and supply of goods and services, with other localities predominantly being sites for their consumption.

Complementary to the spatial dimension is demographic variation among those involved in different informal economic activities. There is much focus on the particular characteristics of those employed in the informal sector. With respect to informal paid labour and illegal working, immigrant workers, ethnic minorities, women and the young are particularly prevalent within marginalised labour markets. A number of studies have demonstrated the particular importance of the role of migrants and ethnic minority cultures in the informal economy of advanced economies (Mingione, 1999; Quassoli, 1999; Husband and Jerrard, 2001). With respect to the household economy a central focus is upon the gendered aspects of the informal work (Williams and Windebank, 2003b; International Labour Office, 2002). Ultimately, the variable manner in which different social groups engage in informal economic activity reflects the specificities of the local labour market; whether it be wealthy middle-class populations using extensive social networks for mutual aid, women enduring the burden of domestic activities or immigrant workers being employed in illegal sweatshops.

2.1.4 TOWARDS A DEFINITION

What emerges from the preceding discussions concerning the definition of informal economic activity are a number of key points. First, informal economic activity is diverse and covers a wide spectrum of activity. However, for analytical purposes it is possible to identify certain key sub-types which have certain common defining characteristics. Williams and Windebank's (2002a) identification of three different types of informal economic activity – informal work, self-provisioning and mutual aid – is important in ensuring that the largely unpaid community/neighbourhood spheres are placed at the centre of any definition. However, this definition excludes the important area of illegal production that is included in the OECD (2002) definition. Given that illegal economic activity is intimately related to other forms of informal economic activity and is commonly conceived of as a central element of the non-formal economy, it is important to include this aspect. It is for this reason that this report adopts a three-fold typology of informal economic activity comprising: paid informal work, illegal economic activity, and unpaid informal work (self-provisioning and mutual aid).

Second, informal economic activity is intimately interlinked with the operation of the formal sector. It is not a separate 'sector' or 'economy', but its dynamics, nature and constitution are bound up with formal sector activities. It is for this reason that this report uses the term 'informal economic activity' in preference to terms 'informal economy' and 'informal sector' (see 1.3).

Third, given the intimate relationship with the formal sector, the spatial distribution of informal economic activity reflects the spatial divisions of labour within the formal economy. Thus informal economic activity is at its most extensive in areas where there is economic dynamism and growth, where it mirrors and reinforces the social inequalities present in the formal economy. The types and scale of informal economic activities and who is engaged in them within deprived neighbourhoods will consequently reflect the specificities of their socio-economic context and the integration of the neighbourhood into the wider local/regional economy.

2.2 Forces driving informal economic activity

Prior to the 1970s the informal economy was mainly seen as pre-industrial and certainly pre-capitalist and something that would be swept away by *modernisation* (Pfau-Effinger, 2003). Here informal work was considered out of place as a more traditional and outmoded activity in the advanced economies especially, and although some level of informal work remained apparent due to migration to the 'first' world, it would gradually decline. However, the prevalent contemporary view focuses upon the clear growth and heightened profile of informal economic activity and considers that this is a consequence of *globalisation* (Sassen, 1994; 1997; Castells and Portes, 1991). This view stresses how processes of economic globalisation have changed the boundaries of markets, increased global integration and heightened competitive pressures (International Labour Office, 2002). Such changes produced responses in the private and public sector economy of downsizing, rationalisation, sub-contracting, increased flexibilisation, short term and part time contract employment which, when coupled with public spending and welfare cuts, led to the prevalence of economic informalisation.

Although the pressures that globalisation produce fall inordinately upon the developing world, they are also spread globally, creating the phenomena of a 'ubiquitous informalisation'. The conditions of globalisation favour large companies and the competitive pressure encourages 'formal firms to shift formal wage workers to informal employment arrangements without minimum wages, assured work or benefits, and to encourage informal units to switch from semi-permanent contracts with their workers to piece-rate or casual arrangements' (International Labour Office, 2002). The increase in sub-contracting, out-sourcing and variations in employment contracts are all part of a context of *flexibilisation* which is generating a more segmented labour market within which marginalised groups, largely in deprived neighbourhoods, have a specific role.

An alternative, complementary and perhaps emancipatory reading of the continued and rising importance of informal economic activity moves away from a simple economic reading of paid informal work to emphasise its importance in terms of identity, culture and consumer practices in a post-industrial economy. Conceived of in this manner informal economic activity is important to all social groups across all spatial contexts. As Williams (2003) points out there is a surviving and thriving informal economy in the advanced economies. 'The non-commodified sector has far from disappeared. Indeed over the past 40 years, it has grown relative to the commodity economy and is

now equal in size when the time spent working in these spheres is measured'. He thus refutes the onward march of commodification so that every facet of human life is transformed into marketable commodities: 'there exist spheres of economic activity that are *non-commodified* either in the sense that the goods and services produced are not exchanged, the exchanges are non-monetised or the monetary transactions are not imbued with the profit motive' (Williams, 2002).

Williams cites as evidence research by Gershuny (2000) taken from time budget studies of 20 different countries. This shows that in the UK amongst many advanced economies, unpaid work as a percentage of total work time stood at 53.9 per cent for the period 1985 to present contrasted to 52.1 per cent for the period 1960-73. Williams (2003) argues that the persistence and growth of a non-commodified sphere of unpaid work in the UK and other advanced economies can be read as a trend in two directions. Firstly, it may serve as evidence of the existence of 'cultures of resistance' to the edicts of 'commodification', to emphasise that people engage in informal economic activities for a wide range of non-market reasons. Secondly, it also serves as evidence of a move to a Post-Fordist future in which "advanced commodified economies have had to move social reproductive functions from the commodified sphere back onto the non-commodified sphere to effectively compete in a globalised economic order" (Williams, 2003).

Alongside globalisation as a major force driving not only the paid aspects of informal work but also the unpaid elements, the state has a key role in controlling the flow of movement between formal and informal economy. 'If benefits are denied to those who refuse low-paid work or low-skills training, they may simply be driven into various forms of informal activity, creating more competitive pressure at the bottom end of the small business sector and the labour market. This in turn will require policing, more criminal prosecutions and higher expenditure on corrections' (Jordan and Travers, 1998, p.302). How far the tap which controls the flow is turned and in which direction will depend upon different political pressures informing that choice based upon an understanding of the distinctions and processes within the informal economy. However, what is certain is that for some decades, the tap has been turned in the direction of formalisation, yet despite this, informalisation appears to have been an on-going process.

2.3 Dynamics of the informal economy: size and extent of informal economic activity and its changing importance

Whilst their concern is clearly with paid informal work, the recent pronouncement of the Government's Public Accounts Committee report on Income Tax Self Assessment (Public Accounts Committee 2002a) adequately sums up the situation: 'there is no firm estimate of the overall hidden or non-observed economy, and there are data and methodological problems with the different models that have been used to attempt to quantify it'. The serious problems of measuring the size of the informal economy are magnified several

times by lack of clarity over what the informal economy includes. In a recent EC seminar on undeclared work, Michael Colledge of the OECD stated that:

Research papers on the hidden economy are often subject to one or both of two major weaknesses. First, they often fail to define exactly what is to be measured and thus possibly missed. This lack of precision regarding the measurement target is epitomised by the wide range of different terms in common use – hidden economy, shadow economy, parallel economy, subterranean economy, informal economy, cash economy, black market – to mention just a few. There is no common understanding whether they all mean the same thing, and if not, what relationship they have to one another. The second problem is the dependence of most estimation methods upon high level assumptions that cannot be justified.

(Colledge, 2003)

Thus Dallego (1990) records the wildly fluctuating estimates of the size of the informal economy in the UK. These range from the 34 per cent of GDP when assessed using a monetary approach in 1952 to 15 per cent using a similar method in 1979. Yet methods of calculation involving contrasts of unexplained differences between income produced and income spent in the economy result in much lower figures (eg 1 per cent for 1970 and 2.5 per cent for 1978). Such variance seems less a result of different time periods, but more to do with the use of different methods of measurement and different classifications of informal economy.

It is indeed recognised that the most comprehensive and best resourced effort to measure the informal economy in this way is that of the OECD. The OECD's Handbook on measuring the Non-Observed Economy (OECD, 2002) distinguishes between four sub-sections – underground production, illegal production, informal sector production, and production by households for own final use. The OECD handbook provides much advice on how to measure the non-observed economy but few actual figures on the extent of such activity in different countries. The OECD recommends that governments should quantify at least the underground, illegal, and informal sub-sections of the definition via the application of the 1993 System of National Accounts (SNA93). This requires the use of data from a wide range of sources that can be brought together and reconciled within an analytical framework which applies and does not diverge from the SNA93 definitional framework.

This strategy is adopted in much informal economy research (eg Bernabe, 2002). 'The essence of such a framework is the division of non-observed activities into groups that help their identification and measurement. Ideally the groups should be mutually exclusive and exhaustive so that non-observed production can be summed across them' (OECD, 2002, p.41). The OECD handbook identifies four examples of NOE analytical frameworks.

1. Istat Analytical framework (Calzaroni, 2000)
2. Eurostat framework (Hein, 1998; Stapel, 2001)
3. Unit and Labour Input framework (Luttikhuisen and Kazemier (2000)
4. Production Income framework (OECD, 2002, p.46).

Each model starts from a different analytical focal point. Whereas frameworks 1 and 2 commence from the identification of the origins of statistical problems and potential solutions encountered by systems of national accounts in terms of their exhaustiveness in accounting for GDP, both the third and fourth approaches are from a production perspective. The Unit and Labour Input framework for instance assumes the 'existence of a business register, data from enterprise and labour force surveys and supply and use tables' (OECD, 2002, p.46). Thus, through identification plausible reasons for the absence of data can be estimated and actions taken. Similarly, the production income framework works on the basis of identifying unreported income from production. Even with such detailed considerations and utilisation of common definitions under systems of national accounts it is accepted that 'each of these frameworks has limitations in the sense that some borderlines between the various types of non-observed economic activities are not distinct conceptually or cannot be easily determined in practice' (OECD, 2002, p.47).

Perhaps the greatest limitation is that the OECD definition of the informal economy utilising SNA93 is unable to identify agreed ways of measuring one whole third of its adopted definition – 'the Handbook does not include the measurement of many services provided by household members to themselves, such as housework or preparing meals, because they are not within the 1993 SNA production boundary. These are not regarded as being missing production' (OECD, 2002, p.12).

Thus we have to look elsewhere not only for ways of estimating the extent of self-provisioning (household production for household consumption), but also for any unpaid informal economic activity within the neighbourhood, which as we noted earlier is not included in the definition used by the OECD. Thus our estimates of the size of the informal economy when referring to paid informal work (underground or informal sector or illegal production by the OECD definition) are usually versed in terms of the percentage of GDP. It should be noted that the OECD only include illegal production where there is mutual agreement between the purchaser and seller (eg drugs, trafficking stolen goods, or prostitution). Other illegal economic activities where mutual agreement between supplier and purchaser is missing (eg theft, extortion) are excluded and deemed to be types of externality (albeit extreme forms) by the SNA. It is therefore consensual illegality in production and exchange of goods and services that are actually considered to be part of informal economic activity.

The OECD measurements of the informal or non-observed economy imply that it should be possible to measure the informal economy in terms of GDP if an agreed system of national accounts in line with the SNA 1993 is in place. Whilst manipulation of the Systems of National Accounts are the main means that have been used to measure the informal economy, they are not the only means. Another often referred to means is to contrast changes in the demand for currency to the cash equivalent of level of economic activity and assume that any difference is due to informal economic activity. This currency demand approach is the method used by Schneider and Enste (2000) and for 1997 it produced an estimate of 13 per cent GDP for the UK. It should be noted however that the UK government estimate for the same year stood at 1.5 per cent, although 'it is generally accepted among UK experts that the 'shadow' labour market economy accounts for between 8 and 10 per cent GDP'

(Mateman and Renooy, 2001, p.55). An International Labour Office Report quotes a European Industrial Relations Observatory report which estimates the UK informal economy to have accounted for between 7 and 13 per cent of GDP in 1997-8 (ILO, 2002, p.2).

For measures of the size of the informal economy in terms of household self-provisioning and neighbourhood work/mutual aid, use has been made of time budget data (eg Gershuny and Jones, 1987; Gershuny, 2000). Such data are a regular feature of satellite accounts that are now regularly part of various national population census data collected by governments of the advanced economies (Murgatroyd and Neuberger, 1997; ONS, 2003). Referring to such data Williams and Windebank assert that 'informal work comprises well over half of total work time in many advanced economies including Austria, Canada, France, the USA and the UK' (Williams and Windebank, 1999a, p.312). In particular, what the new UK experimental Household Satellite Account (ONS, 2003) may be able to provide is longitudinal data on the changes in the balance of formal to informal work, and in particular a clear idea of time spent on household self-provisioning. In addition the General Household Survey, the Home Office Active Citizenship Survey, the British Crime Survey and the National Adult Learning Survey all provide data on 'volunteering' and important assessments of time spent conducting mutual aid activities (informal volunteering as against the more formal volunteering indicated by involvement in voluntary organisations).

Knowledge of the extent of the informal economy in terms of different types of activity at the neighbourhood level, is highly limited. However the survey work conducted by Williams and Windebank (2002a; 2002b) on divergent neighbourhoods in two English cities provides important data enabling a contrast in terms of different types of work (self-provisioning, unpaid mutual aid, paid informal exchange and formal employment) to get 44 domestic tasks completed. This list was a slightly modified version based upon earlier research conducted by Pahl (1984). Whilst there were important variations between different cities (a northern and southern city) and between affluent or deprived neighbourhoods, regardless of such variations, the vast majority of the tasks were completed by self-provisioning (always over 60 per cent) and unpaid mutual aid was only used to complete, at most, 7.5 per cent of the tasks. See Table 2.1.

Table 2.1 Economic practices used by households to undertake 44 domestic services: by geographical area										
	% of 44 tasks completed	tasks last conducted using:								χ^2
		Self-provisioning		Unpaid mutual aid		Paid informal labour		Formal labour		
		%	No.	%	No.	%	No.	%	No.	
All Areas		71.4		5.0		5.5		18.1		
Deprived rural areas	53.4	67.1	15.7	7.2	1.7	5.6	1.3	19.9	4.7	89.76
Deprived Areas – Southampton	45.3	74.8	14.9	3.6	0.7	4.4	0.9	17.3	3.4	64.46
Deprived Areas – Sheffield	49.0	77.4	16.7	3.9	0.8	5.4	1.1	13.3	2.9	174.19
Affluent Suburb – Southampton	53.3	71.3	16.7	1.9	0.4	6.5	1.5	20.3	4.8	29.88
Affluent suburb – Sheffield	57.3	72.8	18.4	1.9	0.5	11.2	2.8	14.1	3.5	29.86
Affluent rural areas	53.9	63.4	15.0	7.5	1.8	4.1	1.0	24.0	5.7	28.88

Note: $\chi^2 > 12.838$ in all cases, leading us to reject H_0 within a 99.5 per cent confidence interval that there are no spatial variations in the sources of labour used.

In the future, assessments of the extent of the informal economy might make more use of the Government's Office for National Statistics data on time use from the first UK survey on this conducted in 2000 (a further full survey is planned for 2005). The survey indicates that whilst on average 3 hours and 25 minutes (ie 14 per cent) are spent each day by individuals in work or at study, almost as much time is spent on conducting household activities and family care (3 hours 6 minutes or 13 per cent of the day). Of the average 5 hours and 26 minutes (23 per cent) of daily free time available to UK residents, less than 4 minutes (0.5 per cent) is spent in formal volunteering and 8 minutes (1 per cent) in 'helping others'; although 44 minutes (3 per cent) are spent socialising (Ruston, 2003).

Ultimately 'the narrow focusing on accounting and size has tended to distract attention from the *dynamics* of the informal economy, its articulation with the economy as a whole and its spatial differentiation' and 'international comparisons, even between western European countries, show that the informal sector relates to the remainder of the economy very differently in different places, reflecting the socio-economic and, crucially, national and local political circumstances' (Thomas and Thomas, 1994). But the means to make such comparisons is, of course, necessary. On a trans-national basis, it is important to recognise that as globalisation advances 'the bulk of new employment in recent years, particularly in developing and transition countries, has been in the informal economy' (International Labour Survey, 2002, p.1). One of the dynamics of this is that whereas on the one hand an expanding

informal economy begets a larger 'school of entrepreneurialism', easing the integration of certain transition economies into the global economy (as Jordan and Travers (1998) observe with respect to the work of Szalai (1995) in Hungary), on the other hand rampant undercutting in informal labour markets generates 'hypercasualisation' (Jordan and Travers, 1998).

2.4 The UK context: institutions framing the informal economy:

The ambivalent attitudes of different governments' towards informal economic activity provides the basis for much of the existing discussion and research. In the UK and Europe much research is concerned with informal economy from the viewpoint of its illegality and is concerned to devise ways to reduce and prevent such activity. For example, much of the research conducted by the EC's DG Employment and Social Affairs into 'undeclared work' takes such a stance (Mateman and Renooy, 2001). However, state tolerance of informal economic activities, for example as a means of defusing social tensions, developing entrepreneurial skills and the self-provision of basic requirements, is also widely apparent, particularly within the developing world (Castells & Portes, 1991).

Overall in the developed world, government attitudes towards informal economic activity are characterised both by censure and a degree of tolerance. Such a position in the UK is represented in the recommendations of the Grabiner Report (2000). The UK government position on the informal economy is also informed by a new welfare policy which 'maintains that work is central to programmes for social inclusion and social justice and that the work ethic should be at the heart of welfare provision' (Jordan and Travers, 1998, p. 302). Therefore, whilst on the one hand the loss of revenues in terms of income tax, national insurance and VAT and cost of fraudulently claimed benefits that paid informal work entails is pursued by the DWP, Inland Revenue and Customs and Excise, a rather more ambivalent stance is detected in other institutions.

Table 2.2 Government Departments and Informal Economic Activity (Various sources: policy statements; web pages, position papers, etc.)	
Government Department/Agency	Stance regarding informal economy
Department of Work and Pensions	Reduce benefit fraud by detection and prosecution. Increased initiatives to encourage formalisation of work (eg Back to Work Bonus)
Inland Revenue	Reduce incidence of tax evasion and prosecution
Customs and Excise	Reduce incidence of evasion of Duty on alcohol and tobacco Reduce VAT evasion Work with Criminal Intelligence Service and Crime Squad to reduce drug smuggling
Home Office – Immigration and Nationality Directorate	Reduce illegal working by requiring employers and agencies to conduct identity checks on potential staff
DTI – Small Business Service	Increased initiatives to encourage formalisation of undeclared work with funding of projects via Pheonix Fund Good Practice Guide on Enforcement of Business Regulations established by local and central government concordat
Social Exclusion Unit	Unclear as yet – establish nature and extent of informal economy in disadvantaged areas
Neighbourhood Renewal Unit	Unclear as yet – establish nature and extent of informal economy in disadvantaged areas
Home Office – Active Communities Unit	Increased funds to encourage active citizenship initiatives
DTI – Social Enterprise Unit	Social Entrepreneurship within informal economy as one potential route to social enterprise
Countryside Agency	Unclear as yet

The Government's social policy is also driven by a desire to tackle deprivation within the most disadvantaged neighbourhoods in England. Thus the Social Exclusion Unit, and the Neighbourhood Renewal Unit of the ODPM, the Small Business Service and the Social Enterprise Unit of the DTI and the Active Community Unit of the Home Office display less hostility towards certain aspects of the informal economy (see Table 2.2). In short, they recognise its potential as a school for entrepreneurialism, and a micro-enterprise and small business coping strategy, as well as its capacity as a means of migrant integration and a generator of social capital. However, the gaze of the DWP, the Inland Revenue and Customs and Excise is firmly directed towards the paid illegal and informal economy and pursuing the recommendations of Grabiner (2000). The focus of the other state institutions (with the probable exception of the Small Business Service) however is more upon the unpaid self-provisioning and mutual aid sectors. For such reasons it is important to have both a broad and encompassing, yet internally differentiated working notion of the informal economy.

2.5 Key summary points

Debates over the definition of informal economic activity emphasise the wide spectrum of activities that constitute informal work and the close relationship between these activities and formal economic activity. The nature and extent of informal economic activity is spatially uneven. It is rooted within specific local contexts, and reflects and reinforces existing social and spatial divisions in the formal sector. This point is crucial to understanding the role of informal economic activities within deprived neighbourhoods.

- The definition adopted for this review merges aspects of the definition adopted by Williams and Windebank (2002a) and the OECD (2002) and comprises three broad categories:

paid informal work: that which is hidden and unregistered by the state but legal in all other senses

illegal economic activities: those productive activities that generate goods and services forbidden by law or that are unlawful when carried out by unauthorised producers

unpaid Informal work: composed of *self-provisioning activity* (unpaid work that is undertaken by household members for themselves and/or other household members) and *mutual aid activity* (unpaid work by household members for members of other households)

These types of activity and their relationship to deprived neighbourhoods will be explored in further detail in the subsequent three chapters of this report.

- The continuation and growth of informal economic activities is seen as an outcome of processes of economic globalisation and the increased flexibilisation of production and labour markets, as well as the continued importance of non market relations in post-industrial economies.
- Estimates on the size of the informal economy are hampered by the lack of agreed definitions and estimation methods that depend upon a high level of untenable assumptions. Different forms of informal economic activity require the use of different indicators.
- The UK government position on informal economic activity is informed by a desire to reduce paid informal work (DWP, Inland Revenue, Customs and Excise), but also there is evidence of a more ambivalent view where such activities might help tackle problems of social exclusion (Small Business Service, Active Communities Unit, SEU, NRU)

CHAPTER 3

Paid Informal Work

This chapter stresses the importance of recognising the broad range of factors driving the emergence of paid informal activity. The level of relative independence of such activity is important for a full consideration of its role in deprived neighbourhoods, as are the negative and positive consequences of the activity, and policy initiatives to address it. The role of paid informal work is discussed in terms of the profit motive, moral stances regarding work and benefits, and as a means of entry to the labour market and enterprise. But most importantly for deprived neighbourhoods, paid informal work is a source of mutual aid and reciprocity with a potential to build social capital. There is evidence that the idea of deprived neighbourhoods being awash with cash in hand work is a myth; it is in better off neighbourhoods where more people are in employment that more paid informal work is supplied and consumed. But what activity of this kind there is in deprived neighbourhoods is of importance to coping strategies.

3.1 Defining paid informal work and the factors driving this activity

3.1.1 DEFINITION

Paid informal work is most readily identifiable as ‘cash in hand’ economic activity. Its hidden nature makes it very difficult to assess its size and extent. Within the OECD’s ‘non-observed economy’ two aspects of paid informal work are apparent. These are ‘*underground production*, defined as those activities that are productive and legal but are deliberately concealed from the public authorities to avoid payment of taxes or complying with regulations’ and ‘*informal sector production*, defined as those productive activities conducted by unincorporated enterprises in the household sector that are unregistered and/or less than a specified size in terms of employment, and that have some market production’ (OECD, 2002, p.13).

It is the lack of registration or declaration of such activity that is the key feature of paid informal work and this is reflected in the definition adopted here. Paid informal work refers to ‘paid production and sale of goods and services that are unregistered by, or hidden from, the state for tax and or labour law purposes but which are legal in all other respects’ (Williams and Windebank, 2001b, p.2). It is the latter characteristic of the activity (‘legal in all other respects’) which differentiates it from illegal activity (see chapter 4), although both share the attraction of cash income for those involved. The European Commission refers to such paid informal work as ‘undeclared work’. In the Communication on Undeclared Work adopted by the European Commission in 1998 it is defined as ‘paid activities that are lawful as regards their nature but not declared to the public authorities, bearing in mind that differences in the regulatory system of Member States must be taken into account.’ (European Commission, 1998).

The specific features of different regulatory systems and their impact upon what is regarded as paid informal work is an important aspect and is one which is recurrent in this chapter. In the context above, legal regulation of work and economic activity is referred to, but the broad definition of informal economy employed by Thomas and Thomas (1994, p.487) reminds us that cultural and social factors (the more informal processes of ‘regulation’) also have an impact.

The work of Kesteloot and Meert (1999) assists us here. They draw upon Gershuny’s definition of the informal economy (see Chapter 2) to identify three types of activity:

- Dependent Informal Activity – which takes place as part of formal activities but are not included in official records ie illegal work ‘off the books’ carried out by officially recognised enterprises.
- Independent Informal Activity – activity carried out on an individual basis, the products of which are sold on without any intermediaries.
- Semi Independent Informal Activity – activities carried on outside formal enterprises, but whose output is directed to those enterprises (ie in the form of subcontracting, non-licensed or illegal work).

Such a distinction is important as it draws attention to how informal economic activity connects to formal economic activity. Each activity reflects the contribution of different factors driving it and generates different socio-economic effects and thereby has different policy implications.

3.1.2 FACTORS DRIVING THE OCCURRENCE OF PAID INFORMAL WORK

In their study for Regioplan on behalf of the European Commission, Mateman and Renooy (2001) draw on previous work by Renooy (1990) and Schneider and Enste (2000) to identify four sets of factors driving paid informal work (see Table 3.1). In terms of *market relations* in paid informal work, Mateman and Renooy identify three different sets; the market for labour, goods and services, and information. As we are dealing with ‘hidden’ activity, the ‘information’ market assumes great importance (Ruggerio, 2000) and the characteristics of social networks require a particular focus. Labour market imperfections such as reduced labour supply, job shortages, or other inflexibilities have a consequence for the extent of paid informal work. The price, availability and quality of goods and services are also important factors here.

Institutional relations between citizens and state and civil society institutions will have an impact upon the character and extent of paid informal work. Much of what is of concern here is with regard to power, sanctions, legitimacy and trust. *Individual characteristics* cover the impact of circumstances such as age, income, education, skills, gender and ethnicity upon whether there are opportunities for paid informal work and whether these are taken up. Finally, *environmental factors* are those concerning both wider economic shifts (eg in terms of broad trends – eg globalisation – or specific markets – eg housing) and prevailing cultural conditions.

Table 3.1 Factors Driving Paid Informal Work	
FACTORS	EXAMPLES
MARKET RELATIONS Labour Market Goods and Services Information	<ul style="list-style-type: none"> • Expanded small firms sector (Portes et al. 1989) • Fluctuation in demands for goods and services in relatively de-regulated sectors (Pfau-Effinger, 2003; Portes et al. 1989) • Labour supply shortages in terms of skills, numbers, quality • Flexibilisation (Atkinson and Gregory, 1986; Leonard, 1998a; 1998b; Thomas and Thomas, 1994) • Shortage of jobs (Turok and Edge, 1999) • Inflated prices of goods and services • Reduced social networks in size and diversity (Williams and Windebank, 2001a; 2001b; Perri 6, 1997a; 1997b; Granovetter, 1973)
INSTITUTIONAL RELATIONS	<ul style="list-style-type: none"> • Low levels of trust in public agencies (Mateman and Renooy, 2001) • High incidence of social exclusion • High taxation and contributions to national insurance system (Pond, 1999; Mateman and Renooy, 2001; Pfau-Effinger, 2003) • Fear of prosecution (Fernandez Kelly and Garcia, 1991) • Weak trade unions (Pfau-Effinger, 2003) • Low levels of welfare benefit (Pfau-Effinger, 2003) • Gaps in provision of public services to households (Pfau-Effinger, 2003)
INDIVIDUAL CHARACTERISTICS	<ul style="list-style-type: none"> • Household development stage (eg family building – Pahl, 1984) • Liberation from the ‘rat race’ (Handy, 1985; Robertson, 1985) • Opportunity for and capacity of those in paid formal work to undertake paid informal work (Pahl, 1984) • Extremity of poverty (underclass marginalisation from informal economy) • Income, education, skills (Ahn and Rica, 1997; Travers, 2001), Gender (Leonard, 1998a; 1998b; 2000; Evason and Woods, 1995) ethnicity.
ENVIRONMENTAL FACTORS	<ul style="list-style-type: none"> • Impacts of economic globalisation (Sassen, 1991; 1994) • International labour migration (Kesteloot and Meert, 1999; Mingione, 1999) and restrictions (Home Office, 2003b) • Cultures of work (Williams and Windebank, 1999a; 1999b; 2001a,b,c; 2002a; 2002b) • Levels of Mutuality (Pfau-Effinger, 2003; Hall, 1999; Putnam, 2000) • Level of cultural acceptance of ‘grey’ market work • Closeness of deprived neighbourhoods to potential markets of affluent neighbourhoods • Level of owner-occupation in housing markets fuelling paid informal work

3.2 Extent and role of paid informal work within deprived neighbourhoods

3.2.1 EXTENT

The extent of paid informal work in the UK is very difficult to assess due to the data and methodological problems previously discussed (see section 2.3). The Grabiner Report on the Informal Economy (Grabiner, 2000) concluded that, not including the 'tax gap' (the difference between tax collected and that which might be collected with 100 per cent compliance – ie tax evasion) it involved billions of pounds. In terms of benefit fraud it is considered that paid informal work is responsible for a considerable amount of the fraudulent claims. Income support, Jobseeker's Allowance and Housing Benefit between them account for 60 per cent of the estimated £2bn per annum lost to the Treasury through fraudulent benefit claims and error (Grabiner, 2000; Public Accounts Committee, 2003). Government estimates that around 120,000 are likely at any one time to be working and claiming benefit (Grabiner, 2000).

Most measures of paid informal work involve calculation in terms of percentage of Gross Domestic Product. The UK Government estimate for undeclared income in 1997 was 1.5 per cent of GDP (Mateman and Renooy, 2001, p.55). Using the designation of undeclared work, and applying what is known as the 'currency demand' approach, Schneider and Enste (2000) estimated it to be 13 per cent of UK GDP in 1996/7. Although seemingly high, this rate is the lowest among those reported in Europe by Schneider and Enste, where Italy and Spain top the league with 27 per cent and 23 per cent respectively and even Sweden has a rate of 19 per cent of GDP. However, 'it is generally accepted among UK experts that the 'shadow' labour market economy accounts for between 8 and 10% of GDP' (Mateman and Renooy, 2001, p.55).

It is important also to outline the *sectors of activity* where paid informal work is most prevalent. Mateman and Renooy (2001, p.55) provide profiles of undeclared work in different European Union member states. In the UK the main sectors where such work takes place are considered to be – agriculture, social and personal services (ie cleaning and care work), construction, tourism/hotel and catering trades, and fashion/clothing manufacture. This list is confirmed in the recent Home Office consultation on illegal working. The main sectors of economic activity where they may apply enhanced checks on workers' status comprise agriculture, catering, contract cleaning, construction, hospitality, clothing/textiles and the provision of temporary workers – ie employment agencies (Home Office, 2003b).

The definitional distinctions made by Kesteloot and Meert (1999) between dependent, independent and semi-independent informal economic activities are also an important dimension. A survey of informal economic activity in Southampton found that 'the activities most commonly undertaken using paid informal work in this deprived neighbourhood were: hairdressing (16.7% of all such activity being conducted on a paid informal basis); carpentry (15.1%), child-minding activity during the day (13.3%); maintenance of domestic

appliances (13.2%); outdoor painting (12.8%); building an extension (12.5%) and car repair (10%)' (Williams and Windebank, 1999a). These are in the main, activities of a different order to those on the sectoral list, and it is argued, they may also be performed with different motivations and have a different geography.

Williams and Windebank observe that whilst it may be the case that 'this work was used primarily as a cheaper alternative to formal employment, when firms (composed mostly of men) are employed to conduct paid informal work, this was not the case when closer social relations were involved, which mostly involved women' (Williams and Windebank, 1999a). We thus have distinctions emerging in paid informal work by level of independence, type of goods/services provided, motivation and also gender, and this all points towards different roles that paid informal work performs in general, and in deprived neighbourhoods in particular.

3.2.2 ROLE

Both the conventional wisdom and much previous research suggests that paid informal work performs a role for capital under the more flexible, **profit-oriented** mechanisms of exchange relations that have emerged under post-Fordism (Castells and Portes, 1998; Leonard, 1998a; 1998b; Portes, 1994; Sassen, 1991). Under such an argument paid informal work is performed largely by the unemployed in an increasingly polarised dual labour market and within marginal or deprived areas. We would anticipate finding more paid informal work in deprived neighbourhoods than elsewhere.

It is the case however, that those who undertake paid informal work may have different motivations than purely to make a profit. This becomes more apparent if we bear in mind that there is variation in the types of paid informal work. The distinction of levels of dependence in paid informal work already noted can also be envisaged as a 'continuum of types of paid informal work, at one end more 'organised' forms of paid informal work, often low paid and undertaken by employees for a business that conducts some or all of its activity informally. At the other end are more 'individual' forms of informality, covering both work conducted by the self-employed concealing a proportion, or indeed all, of their earnings, as well as casual one-off jobs undertaken on a cash-in-hand basis, such as for a neighbour, friend or relative' (Williams and Windebank, 2001b). Thus, other roles and motivations besides maximisation of market derived profit need to be explored for paid informal activity.

In the recent research conducted on behalf of Community Links the point is made that 'most research on informal economic activity gives short shrift to the motivations of people to do this work. It is usually said that people do the work to earn extra money and left at that. Little consideration is given to the *reasons why people feel that they have to earn extra money in this way* and even less to the possibility that they do it for moral reasons' (Travers, 2001, p.2). When viewed from the standpoint of the paid informal worker fraudulently claiming benefit the **moral justifications** reported in the research bear some consideration. Among the stances on offer were the well being of children as an incentive for mothers to do paid informal work, in addition it was also 'justified'

as a means of gaining some independence from an unreliable male partner. Some of the respondents considered that welfare system 'failure' and length of time to process and sustain claims justified some level of paid informal economic activity. In addition several respondents felt that working in the informal economy whilst claiming was effectively a form of training for work, which under other circumstances might be state supported. A few felt justified in claiming whilst working on the basis that partners or more distant family were paying large sums of tax into the system. This also connects to a frequently made point that the tax system is not equitable and punishes and stifles the pioneering entrepreneurialism of many who start out in the informal economy (Travers, 2001, pp.5-8).

The issue of the informal economy in deprived neighbourhoods serving as a ***school for entrepreneurialism***, is one frequently put forward. 'If the aim of government policy during the Conservative years was to stimulate small business enterprise, and increase the rate of start-ups on the margins of this sector, then the shadow economy of cash transactions may well have allowed many new entrepreneurs a bridge into formal trading, and many others to survive a difficult period ... rather than close down' (Jordan and Travers, 1998, p.294). However, the rate at which individuals 'graduate' to the formal economy is not something on which there is reliable evidence.

It should be noted however that independent paid informal work only accounts for a certain portion of the activity as a whole; there is little opportunity to develop entrepreneurial skills when doing paid informal work for an 'employer'. Furthermore, a positive role for paid informal work may be that 'claimants who do cash work because of limited opportunities and incentives in the formal economy, or because the delays through signing off and signing on cause debt and destitution ... may well be saving taxpayers in the long run, because the alternatives are total idleness (with consequent erosion of motivation and skill) or crime (with high enforcement costs, for example through rising prisons expenditure' (Jordan and Travers, 1998, p.294).

However, Jordan and Travers do go on to point out the other side of the coin of this activity, whereby permitting this sort of role for paid informal work leads more and more micro-entrepreneurs to join those doing it. It then becomes a 'recognisable culture of strategic action' in that all such micro-enterprises are forced to enjoin due to it engendering fierce competition where non-declaration of PAYE, NI, and VAT gives a sufficient competitive edge for those doing it against those going by the book. 'Hypercasualisation' is the result and eventually 'all the protective measures that create some degrees of job security, health and safety guarantees, and barriers to exploitation, are swept away' (Jordan and Travers, 1998, p.294). Besides this, the state is also denied increasing amounts of revenue, which feasibly provide resources to tackle the concomitant problems outlined.

Paid informal work also acts as a point of ***labour market entry***. There would seem to be a sound case that in the labour markets of deprived neighbourhoods in particular, where there are lower levels of educational achievement, lower levels of formally recognised skills and qualifications as well as low levels of basic skills, social networks play an important role. The National Strategy for Neighbourhood Renewal (Social Exclusion Unit (SEU), 1998) makes exactly that

point; whilst the stigmatisation of living in a deprived neighbourhood can count against getting employment it is also that ‘knowing few people in employment doesn’t help’ (SEU, 1998, p.24). Social connections are an important means of entry to employment, especially in deprived neighbourhoods (Perri 6, 1997a). Furthermore, in order to secure employment as a consequence, it may actually pay those seeking work in deprived neighbourhoods to develop ties to people who are *not* like themselves and whose networks extend beyond or are wholly outside of the deprived neighbourhood. This, however, is not to say that access to a wider realm of opportunities will lead to actually securing a job.

There is some established literature about the role that the paid informal economy performs in *integrating immigrant labour* in deprived neighbourhoods, which are established reception areas for such groups (Quasolli, 1999; Mingione, 1999). In the face of the absence of, or delays in acquiring, necessary work and residence permits and/or possessing poor or limited language skills or, in some cases, qualifications not recognised in the host country, paid informal work provides both a safety net and a first point of labour market entry for many arriving migrants. Such people, however, also provide a ready and cheap source of labour for businesses local to deprived neighbourhoods.

Finally, and mainly for established communities in deprived neighbourhoods, paid informal work provides the backbone of *coping strategies*, and, it is argued, *mutual aid and community building*. Williams and Windebank conducted a study of 511 households in a variety of higher and lower-income neighbourhoods in two contrasting English cities between 1998-9 (Williams and Windebank, 1999a; 1999b; 2001a; 2001b; 2001c; 2002a). A major conclusion they reached with respect to paid informal work is that their ‘findings do not concur with the present perception that this work is everywhere economically motivated. Although it is firmly embedded in unadulterated economic motives in affluent suburbs, it is not so in lower-income neighbourhoods. Here, much paid informal exchange is conducted for and by close social relations for primarily social reasons or to help each other out in a way that avoids any connotations of charity, and is conducted more by women than men. In affluent neighbourhoods, meanwhile, such exchange is conducted more by self-employed people and firms for profit, is primarily used as a cheaper alternative to formal firms, and is undertaken more by men than women’ (Williams and Windebank, 2002a, p241). Other recent research in the UK suggests that informal economic activity underpins the economic life of deprived neighbourhoods (Lupton et.al., 2001; Smith, 2000) highlighting its relative importance to the well-being of residents of such places.

The evidence from Table 2.1 (see Chapter 2) shows that in affluent neighbourhoods in both Sheffield and Southampton, paid informal work is used for 11.2 per cent and 6.5 per cent of all the 44 tasks last completed, whereas the equivalent for the deprived neighbourhoods in each city is 5.4 per cent and 4.4 per cent respectively. It is important to take account of the argument that paid informal work has a role in generating mutuality and reciprocity. ‘The exchange of cash is seen as a necessary medium, especially when neighbours or friends are involved, because it prevents such relations from souring if and when somebody reneges on their commitments. Cash thus provides the social glue to allow mutual aid in situations where trust is missing’ (Williams and Windebank, 2002a, p242).

Whilst seemingly counterintuitive, the idea that cash mediated informal work represents ‘monetised mutual aid’ or ‘cash mediated reciprocity’ is an extension of the way we understand the dynamics of neighbourhoods. ‘In Philip Abrams view, neighbourliness and the moral attitudes sustaining it ... was essentially a response to economic insecurity, lack of financial resources and the absence of public welfare services’ (Bulmer, 1986, p.8).

3.3 Patterns of movement regarding paid informal work in deprived neighbourhoods

The first point to establish is that evidence demonstrates that there is more paid informal work being conducted by those in secure formal employment and with higher incomes. The research conducted in two English cities which was referred to earlier, confirms that *more paid informal work is conducted within higher income groups*. ‘As in previous studies . . . this study of English cities confirms the concentrations of paid informal work in higher-income populations’ (Williams and Windebank, 2002a, p.241). Dabinett, et.al.’s (2000) review of regeneration policies similarly indicated that informal economic activity is not more prevalent in deprived neighbourhoods than anywhere else. That *more paid informal work is conducted by those already in formal employment* is also confirmed by other research (Pahl, 1984; Williams and Windebank, 2001a). In addition, it is also the case that the Government recognise this to be so (Grabiner, 2000). Furthermore, research conducted in Europe indicates that ‘undeclared labour in the UK is mostly carried out by jobholders (including self-employed people), and to a lesser extent by casual/seasonal workers, unemployed people, benefit claimants and illegal immigrants’ (Mateman and Renooy, 2001, p.55). Williams and Windebank (1999a) also report that multiple earner households are more engaged in paid informal work than dual or single earner households, thus reproducing the inequalities of the formal economy.

What is less clear from the research of Williams and Windebank is the spatial pattern with regard to the supply and consumption of the goods and services provided on a paid and informal basis. Conventional wisdom on the basis of intuitive and anecdotal knowledge would suggest that the balance of a spatial pattern would be towards provision and supply of goods and services by residents of deprived neighbourhoods consumed by residents of adjacent or nearby more affluent neighbourhoods. However, given the degree to which suppliers of paid informal work tend to be those already in employment, this may not be the case. There is a knowledge gap here.

3.3.1 PAID INFORMAL WORK AND THE UNEMPLOYED

The remaining ‘groups’ listed by Mateman and Renooy have different patterns of movement into, within and out of paid informal work. Unemployed people can of course also be, and often are, benefit claimants (mainly Jobseekers Allowance). The point needs to be acknowledged however, that there are substantial numbers of people who are assumed unemployed and do not appear on statistics. For instance, the Policy Action Team 1 report (Department

for Education and Employment (DfEE), 1999, p.44) refers to the 'hidden or missing jobless' that are not in contact with either the employment or apparently the benefit agencies. Whilst many of those who are unemployed yet unregistered may be so because they are partners of people who are employed, living with parents and not eligible to claim benefit and therefore not doing so, some are likely to be engaged in paid informal activity.

3.3.2 PAID INFORMAL WORK AND GENDER

There is a clear gender dimension to the patterns of movement into, within and out of the informal economy. In her work on the informal economy of a Belfast housing estate Leonard (1998a) reported that whilst 49 per cent of the males on the estate who were entitled to some form of welfare benefit had some kind of paid informal work, this was the same for only 27 per cent of entitled females. The research conducted by Community Links reported earlier (Travers, 2001) indicated that both interrupted education and childcare responsibilities were conspiring to trap women into paid informal work.

In addition the gender divisions in the formal economy appear also to be reproduced in the informal economy; whilst 65 per cent of the male paid informal workers in the Belfast study were engaged in work for small scale subcontractors in construction, a similar 67 per cent of women similarly engaged were working for small scale sub-contractors in commercial cleaning (Leonard, 1998a). The same author also indicates the processes in operation regarding women and paid informal work 'Barriers to women's participation in the formal economy are likely to push women towards the informal economy. This means many women end up in the informal economy out of necessity rather than choice. The occupations that women fill in the informal economy are likely to mirror those of the formal economy thus the informal economy often reinforces the inferior status of women' (Leonard, 1998b, p.113). However, it is also the case that women in paid informal work are more likely to be involved in it as a form of cash mediated mutuality. We have also already indicated that the research study conducted by Williams and Windebank (2002a; 2002b) shows that women in deprived neighbourhoods are more likely to dominate the cash mediated informal economic activity that generates mutuality than men, but the situation is reversed in more affluent neighbourhoods (Williams and Windebank, 2001b). Clearly, women are more likely to be engaged in informal paid (and unpaid) care of children, the elderly and the infirm.

3.3.3 PAID INFORMAL WORK AND ETHNICITY

The pattern of black and ethnic minority (B&EM) involvement in paid informal work is one that varies according to parameters of culture, citizenship status and regulation. First, there is the issue of the over-representation of black and ethnic minority people in deprived neighbourhoods, and in particular the 44 most deprived local authority areas, where they are four times more likely to reside than elsewhere in England (SEU, 1998). The recent Cabinet Office Strategy Unit report on ethnic minorities and the labour market (Cabinet Office, 2003) highlights the variation in labour market participation rates of different ethnic groups, with low rates of economic activity and employment among

Bangladeshis and Pakistanis and high levels among Black Caribbeans for instance (Cabinet Office, 2003, p.18). Black and ethnic minority groups are also disproportionately more likely to dwell in the conurbations, making them significantly more clustered in urban locations (Cabinet Office, 2003, p.17).

Furthermore, the same report indicates that rates of self-employment amongst black and ethnic minority groups are quite high (Cabinet Office, 2003, p.24). Both 'pull' factors such as 'cultural disposition' and 'push' factors such as discrimination in the formal economy, are used to explain this disposition towards entrepreneurialism. There is, however, variation between different ethnic minority groups in this. Whilst Pakistani and Indian males have a higher rate of self-employment than white males, black self-employment rates have been consistently lower than all other ethnic minority groups (Cabinet Office, 2003, p.24).

If, as the research evidence generally indicates, involvement in formal economic activity (whether as employees or self-employed) generates greater likelihood of involvement in paid informal work, then we would anticipate higher rates of participation in paid informal work amongst those ethnic minority groups in deprived neighbourhoods whose rate of formal economic activity is high. Overall however, there is, perhaps for reasons of political sensitivity, a knowledge gap concerning the involvement of ethnic minority groups in paid informal work.

The gender dimension of ethnic minority economic activity, employment and self-employment indicates a very low rate of participation across all groups in self-employment, but some variation in participation in employment in general. For instance, Bangladeshi women are three times less likely to be economically inactive than Black Caribbean women. The report from the Cabinet Office (2003) highlights two main areas of focus regarding ethnic minority underachievement in the labour market; variation across ethnic minority groups in levels of human capital (skills, education, experience, and knowledge) and secondly, difficulties of access to opportunities for employment because of living predominantly in deprived neighbourhoods.

A study of the growth in paid domestic work in London (itself a result of increased demand due to income polarisation in the London labour market) reveals that this sector is both gendered and racialised (Cox and Watts, 2002). Indeed, it is increasingly the case that 'for those who are most marginalised it is informal work that is available' (Cox and Watts, 2002, p.45). The nature of such paid informal work means that its growth cannot be quantified. What this research highlights in particular is how the presence of affluent clients in neighbourhoods cheek-by-jowl with deprived neighbourhoods in the 'travel-to-work areas' of major urban areas such as London adds impetus to the growth of paid informal work, particularly of the dependent variety (see Kesteloot and Meert, 1999).

3.3.4 PAID INFORMAL WORK AND MIGRANTS

Whilst the issue of ethnic minority group movements in the informal economy appears less researched, by contrast there has been considerable amount of work undertaken on the issue of immigrants and informal economic activity in the advanced economies. This is mainly because they are a particular

constituency more likely to be involved in paid informal work either by way of being cheap, malleable labour or by operating in ethnic niche markets (Mateman and Renooy, 2001; Leonard, 1998b). Indeed, 'a substantial number of immigrants ... do not have work or residence permits, are very easy to intimidate and work in precarious and informal situations. Even many legal immigrants engage in informal work and often immigrants develop entrepreneurial activities under particular operational conditions and forms of solidarity different from those typically found among indigenous entrepreneurs' (Mingione, 1999, p.209). Whilst our concern here is with legal immigrants and certainly not with those who arrive in the UK as part of the illegal trade of traffic in human beings (which we consider in Chapter 4), there is a very grey area in between where immigrant, asylum seeker and refugee status and involvement in paid informal work interconnect.

The vulnerability of many newly arrived migrants to the UK means that any involvement they have in paid informal work will amplify their cautiousness for threat of disclosure. Furthermore, the security that such migrants seek and find within the 'operational conditions and forms of solidarity' that Mingione refers to above, amplifies the extent to which their involvement in paid informal work is concealed. The importance of strong bonds of social capital within specific ethnic minority communities is clear for migrant workers operating in the informal, or fringe formal, economy. As a consequence specific trades become a focus for immigrant labour in paid informal work – in particular – restaurants and catering, clothing and textiles, taxi-cabbing, construction, agriculture and cleaning. These areas are known to the UK government and they are keen to police these sectors to ensure that workers are bona fide in terms of their immigration status. It has led to proposals to amend Section 8 of the Asylum and Immigration Act 1996 (Home Office, 2003b).

But not only is such paid informal activity focused in terms of trade, it also tends to be spatially focused. In particular urban deprived neighbourhoods tend to also be reception areas for immigrants where cheap rooms and networks of their ethnic minority community are more likely to be located, as well as employment opportunities. In essence then deprived neighbourhoods are arenas for paid informal work involving immigrant labour.

It should be added that both the negative (and by implication the positive) consequences for individuals and households involved in paid informal work are amplified for certain groups; in particular people from black and ethnic minorities, immigrants and women with children (see Box 3.1 and 3.2).

3.4 Impact of current policies upon paid informal work in deprived neighbourhoods

The aim of this section is to review the backdrop of policies that impinge upon involvement in the paid informal economy. Firstly, it is important to recognise the political ambivalence towards paid informal work. Over the years since the creation of the welfare state, paid informal work has been generally perceived as fraudulent activity which undermines the welfare state by depriving it of financial resources through non-payments of taxation and national insurance,

but also in many cases extracting resources from it by way of fraudulent claims for benefit whilst working (Williams and Windebank, 2001a; European Commission, 1998; Grabiner, 2000). Some also make the case (and this mainly applies to dependent paid informal work; ie undeclared working by and for formal enterprises) that paid informal workers are exploited in low paid and unregulated working environments (Castells and Portes, 1991; Sassen, 1991).

Box 3.1 Negative consequences of paid informal work

- It causes a loss of revenue for the state in terms of non-payment of income tax, national insurance and VAT (Public Accounts Committee 2002a; 2003).
- It leads to 'dumping' of wages and social security payments (Mateman and Renooy, 2001).
- It weakens trade unions and collective bargaining.
- It creates unfair competitive advantage of firms who use undeclared labour over those who do not.
- It leads to competition between the independent paid formal worker and the independent paid informal worker and generates circumstances of 'hypercasualisation' (Jordan and Travers, 1998) as more formal workers are forced to 'informalise' to compete effectively.
- It leads to a loss of regulatory control over the quality of jobs and services provided in the economy.
- It erodes compliance with health and safety standards.
- It creates circumstances for the exploitation of dependent paid informal workers due to the reduction of wage rates.
- It means the loss of various employment rights (annual and other leave, sickness pay, redundancy, training, etc.).
- It leads to the stigmatisation and social exclusion of people undertaking paid informal work – eg shift from a latent stigma to an active one ; ie from 'scrounger' to 'fraudster' (Travers, 2000).

Box 3.2 Positive consequences of paid informal work

- It enables people to be active instead of being idle and losing motivation, and often becoming depressed and ill, which can be an effect of long-term unemployment.
- It provides a possible route for formal labour market participation, particularly for those with negative educational experiences, few skills and little experience (Leonard, 1998b).
- It extends the range of opportunities available to individuals and families to cope in situations of deprivation (Leonard, 1998b).
- It both relies upon and develops social networks as providers of information about opportunities and, when more developed, sources of further support (Perri 6, 1997a; 1997b).
- It enhances social cohesion and social inclusion through mutual aid and reciprocity (Williams and Windebank, 2001a; 2001b; 2001c; 2002a; 2002b).
- It enables the provision of goods and services at a cheaper rate and frequently for those in most need.
- It reduces the burden on the DWP in terms of individuals having to sign off and sign on as a fresh claimant each time they undertake a piece of work.
- It acts as a 'school for entrepreneurialism' for independent paid informal workers looking to try out and establish a business but initially uncertain about coming off benefit (Leonard, 1998b).
- It reduces the possibility that individuals in poverty will resort to more serious crime in order to cope and survive in deprived circumstances.

Secondly however, the government, through its National Strategy for Neighbourhood Renewal, wants to encourage labour market participation, promote the growth of social capital and social cohesion and bring forth more entrepreneurs. Some argue that despite government attitudes towards it, paid informal economic activity is effective at achieving these aims (Jordan and Travers, 1998; Williams and Windebank, 2001a; 2001c).

Thus the policy landscape with respect to the paid informal economic activity reflects this ambivalence. The more established regulations governing paid informal activity in the UK are operated by the Benefits Agency, the Inland Revenue, and, to a lesser extent, Customs and Excise. For individuals not claiming benefit and not earning income above their personal tax allowance threshold, such earnings are legal. National Insurance contributions however also have to be paid at varying rates on annual income above the primary threshold of £89 per week of earnings in 2003–04 for employees and must be paid at the minimum of Class 2 contributions of £2 per week for every week self-employed. However, paid informal work would become the concern of the state if the person were claiming benefit at the same time as working, but only that portion of income above the Earnings Disregard. Either way it is fraudulent not to declare it if claiming Income Support or Jobseekers Allowance (JSA).

Paid informal workers who are earning below the personal allowance tax threshold should still, if independent workers, notify the Inland Revenue and complete a self-assessment tax form. Customs and Excise only get involved if income from the independent paid work exceeds the current threshold of £54,000 for VAT registration. It is therefore rare that Customs and Excise ever pursue independent paid informal workers. Any tax liability is calculated by the Inland Revenue and requested to be paid in full, failure to do so normally resulting in civil proceedings.

If the paid informal worker is also claiming benefit then they have to declare their earnings from employment to the Benefits Agency. If that work exceeds 16 hours per week the general rule is that they will not be entitled to any benefit. If the earnings from any work below 16 hours per week are declared then benefit is reduced pound for pound earned above the Earnings Disregard, which has stood at £5 for an individual, £10 per week for a couple, and £20 per week for certain other groups (eg disabled people, single parents). In addition those claiming Jobseekers' Allowance are normally required to 'sign on' (ie declare whether they have done any work or not) every fortnight in order to prove they are available for and actively seeking (formal) employment.

This basic regulatory framework impinging upon paid informal work as outlined above works on the basis of deterrence by punitive measures to control paid informal economic activity. It has stood in place in its present form since the 1980s. However, the policy landscape relevant to paid informal work changed with the recommendations of the Grabiner Report (2000) reproduced in Box 3.3 below and through a series of measures introduced after the 2000 budget summarised in Box 3.4.

Box 3.3 Summary recommendations of the Grabiner Report**Incentives to join the legitimate economy and more information on opportunities within it**

- a confidential phone line for those who want to 'formalise'
- more measures to make it easier to leave benefit and take 'legitimate' jobs
- increased help for people to set up in self-employment

Measures to prevent

- identity fraud
- faking birth certificates
- unregistered businesses

Detection of fraudulent activity

- by use of cross checks between departments and private sector sources of information
- give investigators more powers to search for information through telephone directories
- guidelines for staff about what is legally permissible in terms of data sharing
- more cross departmental working

Punishment

- new statutory offence of fraudulently evading income tax to be tried in Magistrates Court and to extend punishment down to smaller tax offences
- require those suspected of benefit fraud to attend Jobcentres more frequently and at unpredictable times
- greater use of warnings procedure, especially for employers encouraging or colluding in benefit fraud
- consider option of punishing persistent fraudsters by removing their right to benefit for a specified period
- conduct research into sentences imposed for benefit fraud and in to the option of varying sentence lengths for persistent offenders

Publicity to deter people by

- publicising incentives for joining the formal economy and risks of staying in paid informal work
- testing the effectiveness of advertising as a tool for changing public attitudes, as far as they currently regard the informal economy as acceptable

Box 3.4 Government measures related to tackling the paid informal economy

- A National Minimum wage
- The Working Families Tax Credit, including a Childcare Tax Credit for the employed
- Introduction of Personal Advisers targeted at getting 'key groups' of benefit claimants into formal employment
- The Inland Revenue Construction Industry scheme, which targets a sector well known for labour which is 'working the lump' (working whilst claiming). This involved a registration card requirement for sub-contractors; without such a card building contractors cannot pay a sub-contractor the gross amount (ie before tax deductions)
- Other control measures including new legal requirements prior to setting up a business, a joint investigation agency involving different government departments to investigate tax, benefit and VAT fraud
- Campaigns and publicity including an advice line for people wanting to leave the informal economy and a hotline to report paid informal activity

The concerns over identity fraud are also addressed in the recent Home Office proposal to amend the list of documents that employers and employment agencies are required by law to check under Section 8 of the Asylum and Immigration Act 1996. The impact of the Grabiner Report on the informal economy and attitudes towards it are not as yet clear. It is interesting, however, that the report observes that ‘the public’ are generally sympathetic to paid informal work and this is something confirmed in research conducted on behalf of Community Links (Travers, 2001). However, little is really known about public attitudes towards informal economic activity.

It would appear important to examine the extent to which approaches towards paid informal work which display a level of tolerance of such activity have found their way into government policy. For instance, ‘Twin Track’ is a DWP pilot initiative running in two Government Office Regions (Wales and the North West), whereby under certain conditions a ‘lighter touch’ is taken with people working whilst claiming benefit, in an effort to get them into formal work via contact with a Personal Advisor.

CASE STUDY 1 A FORMALISATION PROJECT: STREET UK

Street UK is a project set up in 2000 as part of the emerging community finance agenda. Its double mission is to help self-employed people to maximise their business potential and to help those self-employed people in the informal economy to formalise their business. The latter is not an end in itself but a means to enable growth. The project has around 200 clients and they fall into two main categories. Firstly, people claiming benefits – such as disability benefit, carers allowance. Secondly, those who are not claiming any benefit but who are either under-declaring income from their enterprise activity or are not declaring at all.

A range of case examples of clients can be found on the Street UK web site (www.street-uk.com) and what is important about some of these cases is that they illustrate some of the fluidity between different aspects of broad informal economic activity. What is of importance to policy development however is the strategy that Street UK adopts. Since Street UK clients include a wide variety of people at different stages of development of their enterprises, the approach is to monitor clients’ progression in each of the areas listed below.

1. Moving from part-time to full-time work
2. Moving from home to business premises
3. Keeping basic level records
4. Keeping higher level accounts
5. Purchasing public liability and employers liability insurance
6. Hiring employees on a PAYE basis
7. Using a bank account for their business transactions and/opening a separate business bank account
8. Obtaining the required licences and permits to operate the business, eg Health and safety inspection certificates, driver instructor licence, etc.
9. Graduating off all non-work state benefits
10. Graduating from majority cash revenues to majority invoiced revenues
11. Incurring a formal business tax liability
12. Becoming VAT registered

Given the Government’s concern to combat social exclusion and deprivation, the National Strategy for Neighbourhood Renewal (SEU, 1998) presents a good opportunity to harness the positive aspects of paid informal economic activity.

Indeed, the Policy Action Team 1 Report 'Jobs for All' (Department for Education and Employment, 1999) made two recommendations concerning 'Enhancing Employability' which should have a direct impact upon the paid informal economy in such a way as to enhance its positive contribution to the neighbourhood renewal agenda. The Back to Work Bonus and Local Exchange Trading Systems (LETs) formed the basis of two recommendations that were to be taken forward by the DSS (now DWP) from 2000. More detail is provided in the case study 2 in this chapter and LETs are discussed in section 5.5.1. In addition the DWP also run the 'Test Trading' initiative which enables formalisation of paid informal work into self-employment. The Government also supports, through the SBS and Phoenix Fund, projects which are designed to 'formalise' certain types of paid informal work (see case study 1). Furthermore, there may be an opportunity to utilise the new Enterprise Areas as test-beds for new and/or more formalisation initiatives. The Enterprise Areas constitute the 1,997 most deprived wards in the UK and will become a focus for addressing barriers to enterprise.

3.5 Challenges and opportunities for policy development related to paid informal work

The challenge for policy development is to balance the negative consequences of paid informal work with its positive impacts for tackling deprivation and reducing social exclusion. This is a fairly common dilemma for advanced economies; 'States responding to the existence of an informal sector are faced with a quandary regarding wanting to encourage entrepreneurial attitudes and self-help and wanting to reduce the potentially divisive effects of tax evasion and welfare abuse' (Leonard, 1999a, p158).

Mateman and Renooy (2001) conducted a review of policies to combat undeclared labour in Europe and are of the opinion that 'successful policy is that policy which specifically tackles a mix of factors and circumstances. A successful policy should be tailor made and there are no standard recipes to be applied' (Mateman and Renooy, 2001, p.75). They do however identify a number of policy options to address different causes of the growth in undeclared work, and these constitute a 'toolbox' (see Table 3.2).

They identify four 'drawers' in their 'toolbox':

- *Changing the system:* This is most appropriate when 'undeclared work is caused by an inflexible labour market, rigid legislation or high non-wage labour costs' (Mateman and Renooy, 2001, p.75).
- *Enhancing access to the formal economy:* The poverty (or benefit) trap or over-bureaucratisation of procedures may act as a barrier to entering the labour market entry.
- *Enforcing the system:* In circumstances where undeclared work stems from the unwillingness of citizens to obey regulations or due to inadequate enforcement of the system, then the strategy is to improve that enforcement.

- *Changing attitudes and behaviour*: Different public attitudes and behaviours can lead to the sustenance of the paid informal economy. If people are unwilling to pay taxes it may be because they are unhappy about the way the state spends their taxes. There may be local cultural acceptance of certain informal economy activities – eg various cash in hand activities that might also constitute ‘gift’ payments for a ‘good turn’ – eg babysitting, house cleaning, decoration, etc. ‘It seems that some level of undeclared work is deeply rooted into the culture of peoples all over Europe’ (Mateman and Renooy, 2001, p.77).

States can also choose to ignore informal economy (eg in states in southern Europe the informal economy tends to be tacitly encouraged as a necessary survival strategy because of inadequate welfare provision). Finally, states can try to legalise the informal economy.

CHANGING THE SYSTEM	Measures to include: tax reductions, social security contributions reductions, deregulation, subsidised employment, increased flexibilisation of employment relationships and service vouchers, introducing more direct democracy (to get citizens more involved in the process) and creating one-stop shops for all employment related administration, which reduces obstacles to entering the labour market (and also enhances likelihood of inter-agency work).
ENHANCING ACCESS TO THE FORMAL ECONOMY	Measures (‘carrots’) to include: coaching and advice in tackling the ‘formalities’, business start-up grants, tax credits for the employed and training for civil servants to improve efficiency and transparency of the related systems.
ENFORCING THE SYSTEM	Measures to include: stepping up controls, increase sanctions for offending employers/employees, increase co-operation and data exchanges between appropriate authorities, a hotline for anonymous reporting of undeclared working, an efficient central population register, increasing registration and identification requirements, regular unannounced checks/house visits to benefit claimants, stricter immigration policy, strict border controls and excluding companies who have made use of informal labour from public tenders.
CHANGING ATTITUDES AND BEHAVIOUR	Main measures: awareness raising and information campaigns.

Therefore, it appears that policy development needs to take account of at least three factors in relation to paid informal work and especially with regard to deprived neighbourhoods. Firstly, as we have stressed, to establish whether the paid informal work is an activity conducted independently, semi-independently in a way that is dependent upon an ‘employer’ or single regular ‘client’, or dependently and bound closely to formal economic activity (Gershuny, 1979; Kesteloot and Meert, 1999).

In terms of policy development, governments might disregard dependent types of paid informal work, as they clearly involve unfair market competitive advantage and exploitation (both in terms of wages and conditions). As such

they are largely a matter between formal institutions (mainly firms) and their regulators (eg Inland Revenue, Customs and Excise, Companies' House, Health and Safety Executive, etc.) and current policy arrangements are in place regarding such activity.

Secondly, policy development might consider the motivations of people involved in paid informal work in deprived neighbourhoods. At least three can be identified: profit and enterprise entry, labour market entry, and mutuality as coping strategy and/or for community building.

Thirdly, there are strategic action factors which depend upon the political stance of those in authority towards paid informal work and the motivations driving it. Depending upon political stance these actions might include:

- eradicating paid informal work by deterrence and punishment (Mateman and Renooy, 2001; Grabiner, 2000)
- re-configuring the economy to formalise the activity (eg incentives to enter the formal labour market – eg formalisation projects – see case study 2)
- changing features of the system in order to regularise existing paid informal economic activity (eg shift income tax threshold or change earnings disregard levels)
- facilitating paid informal activity (eg enabling LET schemes, the Back to Work bonus and the Test Trading initiative)
- generating variations of such initiatives such as the possibility of groups of the unemployed active in similar paid informal work establishing and 'test trading' an enterprise as a social enterprise. Direct 'mentor' support from an established social enterprise could be made available. The main role of such a mentor would be to provide hands on business support services, but also to 'hold' the trading income of the new social enterprise until those working in it are collectively deemed ready to cease claiming benefits whilst working and trading formally

The main purpose of such a framework is not to identify specific measures but to establish the parameters for developing and applying measures appropriate to the circumstance and the political options for strategic action facing policy makers. Of course these options may be different for different local circumstances (eg they may apply differently in deprived neighbourhoods compared to elsewhere) and for different groups (eg immigrants, ethnic minority cultures, and single parents).

The Government's current package of policies towards informal economic activity include some of the options highlighted in Table 3.2 as previously discussed in more detail in section 3.4.

CASE STUDY 2 GOVERNMENT SCHEMES: THE BACK TO WORK BONUS AND TEST TRADING

The **Back to Work Bonus** was introduced in October 1996 with the aim of encouraging individuals and where relevant their partners to 'keep in touch' with the labour market by undertaking small amounts of work whilst still claiming Income Support (IS) or Jobseekers' Allowance (JSA). The rationale was that it would provide an incentive for claimants to move from unemployment into paid work. In effect it became a measure to condone paid (and unpaid, since this also impacts upon availability for work) informal work. It works in a complex way by the accrual of a bonus if the claimant's earnings from part time work reduce the amount of JSA or IS they are paid. They can then claim the Bonus (a tax-free lump sum of up to £1,000) if and when they move off benefit and into work proper. The bonus is accumulated from 50 per cent of the declared earnings above the 'earnings disregard' (normally £5) but this can only commence after 91 days of being on IS/JSA. It also has to be claimed within 12 weeks of leaving benefit (otherwise it is lost) and it can only be paid if the claimant starts work within 2 weeks of leaving benefit. It cannot be accrued by people over 60 claiming IS although men aged 60-64 on JSA can join the scheme. If a claimant is on IS, the claimants' partners' earnings are taken into account in the calculation of the bonus, but this is not the case if the claimant is on JSA. Evaluations of the scheme have been carried out on behalf of the DSS/DWP in recent years (Thomas, et al., 1999, Ashworth and Youngs, 2000).

Test-Trading occurs at the New Deal Options stage (stage 3) and involves the participants test-trading their business for up to 26 weeks. This normally takes place after three months in the Gateway, on approval of the business plan by the Self-employment provider (SEP). During the test-trading period the participants receive an allowance equivalent to their previous benefit entitlements and in addition a grant of up to £400 paid in equal weekly or fortnightly instalments. The money the business earns whilst in the test-trading period is either ploughed back into the business or stored in a special bank account until the test-trading period has ended. The Self-employment provider (SEP) provides a mentor who provides support for participants during the test-trading period and for up to two years subsequently. During the test-trading period New Deal for Young People participants are also required to undertake training leading to a formal qualification.

A recent evaluation of the initiative was carried out for the Department of Works and Pensions (Kellard, et.al., 2002). The evaluation report concludes *'For many people entry into (and success in) self-employment remains a difficult and at times a precarious activity and hence there are considerations about how far policies should encourage potentially vulnerable groups to choose such a difficult route. For some, the consequences of self-employment failure can have financial and personal implications, although for others the experience may enhance their future chances of making successful and sustained moves into the labour force'* (Kellard, et.al., 2002, p.7).

3.6 Knowledge gaps

Further research is required on a number of areas with regard to paid informal work and deprived neighbourhoods. More needs to be known about:

- the spatial relationship between the locations of production of goods and services and the locations of their consumption
- patterns of ethnicity with regard to paid informal work, although this is obviously a sensitive issue
- the attitude of the general public towards different types of paid informal work

3.7 Key summary points

Paid informal work is defined in terms of income generated from work that is not declared to relevant authorities, but it varies across a range from dependency on formal employers to independent activities.

- A range of factors drive the emergence of paid informal work from processes related to globalisation of the economy, to state policies regarding taxation and welfare benefit, but its role – whilst commonly associated with profiteering – is found more to be related to coping strategies, mutual aid and reciprocity in disadvantaged neighbourhoods.
- Additionally, paid informal work serves as a route into the labour market/micro-enterprise for those least able to enter the labour market and as a means of labour market integration for migrants.
- The extent of paid informal work in the UK is difficult to assess although experts set it at between 8-10 per cent GDP.
- Evidence suggests that it is a myth that paid informal work is more prevalent in deprived neighbourhoods than in more affluent neighbourhoods. But what paid informal work goes on in deprived neighbourhoods is of relatively more importance to the local economy as a means of coping with deprivation.
- The balance of current UK policy towards paid informal economic activity veers towards deterrence and punishment, which may be to the detriment of the welfare of deprived neighbourhoods where there are opportunities to generate initiatives that encourage some informal economic activity for the benefit of residents.
- However, knowledge gaps remain. In particular the relationship between deprived and affluent neighbourhoods with respect to the production and consumption of goods and services using paid informal economic activity. We also need to know more about the ethnic dimensions of the activity and attitudes of the general public towards paid informal work.

CHAPTER 4

Illegal Economic Activity

The material in this chapter reiterates the importance of including illegal economic activity within the broad definition of informal economic activity. It is proposed that economic activity that involves producing goods and services which are either unlawful, or produced and supplied by unauthorised providers is included in this definition. Furthermore, the focus is upon activity that involves exchanges where there is evident mutual agreement of producers and consumers. The unlawful nature of such activity makes it particularly difficult to both identify and assess. This chapter reviews what limited evidence there is for such activity in deprived neighbourhoods with a focus upon drug markets, illegal trafficking, illegal working and prostitution. A distinction is again made between independent and dependent illegal economic activity, where the latter is associated with formal firms and also organised criminal gangs. It is suggested that the main policy attention and the draconian measures should be focused upon such dependent illegal economic activity.

4.1 Defining illegal economic activity and the factors driving this activity

A dominant stereotype of informal economic activity is that it involves, not only 'cash in hand' work, tax evasion and benefit fraud, but also criminality. Yet many researchers in the field (Williams and Windebank, 1998; 1999a; 1999b; 2000a; 2000b; 2000c; 2000d; 2001a, 2001b, 2001c; 2002a; 2002b; Gershuny, 1979; Gershuny and Pahl, 1979) do not include illegal economic activity in their definition of informal economy. This is mainly because such activity is deemed illegal anyway. Yet as we shall see, not only does illegal economic activity have an important presence in the economy of deprived neighbourhoods, but it can also relate closely to other forms of informal economic activity.

Thomas (1992), the ILO (2002), and the OECD (2002) each include illegal economic activity under their umbrella term for the informal economy. Thomas (1992) observes that 'while the output of the irregular sector is legal, the output of the criminal sector consists of goods and services that are illegal, such as theft, extortion, drugs, prostitution in some countries' (Thomas, 1992, p5). The ILO (2002) remind us that 'there are, of course, criminal activities in the informal economy such as drug trafficking, people smuggling and money laundering ... There are also other illegal activities, including deliberate tax evasion. But the majority in the informal economy, although they are not registered or regulated, produce goods and services that are legal' (ILO, 2002, p.3). The clearest definition of illegal economic activity is that used by the OECD, where it is referred to as '*illegal production, defined as those productive activities that generate goods and services forbidden by law or that are unlawful when carried out by unauthorised producers*' (OECD, 2002, p.13).

There are two important qualifications to the OECD definition which distinguish it from the perspectives of both Thomas and the ILO on this matter. Firstly, it makes clear that illegal economic activity does not just include the production of goods and services which are illegal according to the laws of the state in which they are produced and/or supplied (eg trafficking in drugs, some forms of pornography, firearms, etc.). It also includes the production of goods and services, which are otherwise legal, but which are being carried out by someone *unauthorised* to produce them. This specifically would cover illegal workers (mainly illegal migrants or asylum seekers barred from working, but also child labour) or firms. Secondly, in order to distinguish mainstream criminal activity from illegal economic activity (for purposes of estimating contributions to GDP), the OECD consider that the latter must 'fit the characteristics of transactions' – ie that they are mutually agreed by the parties (supplier and purchaser) to the transaction, just as would be the case in legal transactions. They are, in other words, consensual transactions.

It is quite appropriate to treat differently activities which have an economic motivation involving transactions which are *not* consensual (eg theft) or where one party is unable in the eyes of the law to give consent (eg children and those sectioned under the mental health acts), as primarily criminal acts. This is because such acts have a clear victim, and are usually reported and investigated by the police as crimes.

Thus prostitution involving payment for sex between two parties is primarily informal economic activity (in the UK and in many states) as it involves consenting parties to the transaction. It is only the acts of soliciting and living off immoral earnings that are illegal in the UK. However, even these actions would be deemed as illegal economic activity under the OECD definition since the parties to the transactions (regardless of whether they are soliciting or living off immoral earnings) are consenting parties to the transaction. However, the exploitation and forcing of one party by another to have sex for payment with a third party, whilst involving economic motivations, would be unambiguously criminal activity. Thus, Thomas' (1992) example of theft as part of illegal economic activity would not fit the OECD definition; it is unlikely to involve consent between the two parties and is thus, first and foremost criminal activity.

Furthermore, when trade of illegal goods and services (eg class A or B drugs) or legal ones that are provided by unauthorised producers/suppliers (eg alcohol or tobacco without payment of duty) occurs by consensual agreement between supplier and consumer, a specific set of problems are posed for the authorities. This is because such economic activity is likely to be more successfully hidden than when there is a clear victim of the criminal component of the activity. Illegal economic activity is thus more likely to involve a higher degree of concealment and, in most cases and also in areas of deprivation, public condonement, since it forms part of a coping strategy within a culture of poverty. There are clear implications for the society and economy of deprived neighbourhoods therefore. On the whole there are strong negative consequences. As Sullivan (1999) points out, there are long term risks with involvement in illegal economic activity, including acquiring a criminal record and poor health. There are also broader negative effects for the neighbourhood via the associated criminal activity that certain illegal economic activity generates (eg stealing to fund drug use).

On the basis of the OECD definition we are therefore mainly concerned with the provision of illegal goods and services (or legal ones provided by unauthorised producers) on the basis of a ***consensual agreement between producer and consumer***.

The ***factors driving*** illegal economic activity are many. In terms of motivations, the pursuit of financial gain is a principal driving factor. However there are a range of other individual and cultural factors (related to status, perceived glamour, etc), which also need to be considered and are discussed further in section 4.3.

In terms of structural and institutional features, there exists strong market demand for illegal goods which stimulates market supply, as has historically always been the case. The supply and demand of illegal goods and services has become increasingly globalised with the relative ease of movement across national borders, improved communication technologies and heightened global polarisation of wealth. This has fuelled growth in the advanced economies of trade in drugs, sex and people. In addition there is a case that the bifurcated labour markets, a feature of the dual labour market thesis (Atkinson and Gregory, 1986) is that it confines the perspective on marginalised groups to the informal economy and to a greater propensity for involvement in illegal economic activity. We discuss this further in section 4.3 below.

Finally, government decisions on what is legal and illegal activity (for example over the use of drugs, or immigration, asylum and labour laws), are clearly central to dictating the relative amount of economic activity located within the legal and illegal sectors. This boundary line varies significantly over time and across different states.

4.2 Role and extent of illegal economic activity within deprived neighbourhoods

4.2.1 ORGANISED AND INDEPENDENT ILLEGAL ECONOMIC ACTIVITY

Just as there is a distinction to be made within the economy of paid informal work between dependent, independent and semi-independent informal activities (see 3.1.1), so we can also conceive a similar distinction in illegal economic activity. The main distinction is between informal economic activity carried out by ***organised criminal gangs*** and that which is a result of ***independent actions of individuals***. These are, of course, not mutually exclusive; individuals may be driven by their own inability to sufficiently access formal or paid informal labour markets to become involved in criminal gangs. They may also become ‘culturally coerced’ into criminal activity. The ‘role’ of illegal economic activity in deprived neighbourhoods is therefore to be a labour market of last resort (Cross and Johnson, 2000), although we cannot rule out a significant cultural role that illegal economic activity plays in deprived neighbourhoods (see 4.3).

We have already indicated the difficulties inherent in measuring the size of the informal economy. The difficulty of assessing the extent of illegal economic activity within deprived neighbourhoods is multiplied by reason of the magnitude of the illegality and the even greater tendency for it to be hidden from public gaze. Although we can review the extent of illegal activity in terms of a number of distinct markets that have pre-occupied the UK government, it is not possible to assess the extent to which such activities are associated with or involve the residents of deprived neighbourhoods. The markets of specific concern are the illegal trade in: Class A and B drugs, sex, alcohol, tobacco, counterfeit currency, identity fraud and illegal labour. The markets for all of these involve the mutual consent of supplier and consumer. Whilst the work processes that the illegal labour may be applied to and the actual consumption of alcohol, tobacco and sex are perfectly legal in themselves, they are illegal on the basis of the suppliers/producers of them being unauthorised. What is more, the evidence at the disposal of the government indicates that a significant market share of each of these activities is under the control of criminal gangs, often organised on an international basis.

4.2.2 DRUGS MARKETS AND DEPRIVED NEIGHBOURHOODS

The trade that is of most concern to governments is the trade in illegal drugs. This is, of course, a global trade and recent UN estimates claim that it is the most profitable underground business worth \$400bn a year, almost 10 per cent of international trade, and second only to the arms trade. The UK trade in illegal drugs was estimated to be worth between £10-20bn per year in 2001 and accounted for 8,000 of Britain's 50,000 prison population (Bowcott, 2001). The impact of such a sizeable economic activity in deprived neighbourhoods cannot be discounted and 'it will be difficult to regenerate neighbourhoods without tackling drug markets' (Lupton, et al. 2002).

However, whilst the UK continues to pursue a policy of education and containment of the problem among users through its local Drug Action Teams, the economic implications of this trade for the labour markets of deprived neighbourhoods (eg in terms of displacement) receive less attention. 'Drug Action Teams appeared to lack the organisational capacity to operate at neighbourhood level and regeneration partnerships had not generally adopted a strategic role in relation to drug markets' (Lupton, et al. 2002).

The literature makes it clear that drug markets and deprived neighbourhoods are closely connected although such 'markets are not synonymous with neighbourhoods. Heroin and crack selling takes place within neighbourhoods not throughout them' (Lupton, et al. 2002, p.7). The key features of deprived neighbourhoods which make them places where drug markets are likely to operate have been outlined in a Home Office report (Burgess, 2002, p.6). Among the reasons listed are cultural ones; local people do not reject drug use and local attitudes and values may in fact support such activity. It is also argued that impressionable young people for whom violence, aggression and law breaking are attractive may actually admire drug users and suppliers. The economic logic that people can earn more money selling drugs than by any legal means is not entirely ignored by the NRU report.

A recent Home Office Report makes a clear case that 'areas of concentrated poverty are likely to provide fertile ground for the development of drug markets, because of higher levels of both drug use among people in disadvantaged circumstances (Parker and Bottomley, 1996; Ramsay and Partridge, 1998) and because of the likely existence of criminal networks that can be readily turned to the supply and distribution and illegal economies in which stolen goods can be exchanged (Burr, 1987). We should not be surprised to find drug market activity in these places. However, just as all deprived neighbourhoods do not exhibit similar levels of crime (Bottoms and Wiles, 1986), there is no reason to suspect that they should have similar levels, or types of drug market activity' (Lupton, et al. 2002. P.14). What is apparent in these neighbourhoods is a contradictory attitude towards drugs markets (Burr, 1987). Despite the negative impacts of drugs markets in terms of crime, nuisance and poor image, some individuals involved in drugs markets are still tolerated. Whilst there is an acceptance of dealing in soft drugs and associated trading in stolen goods, there is also strong resentment of traders in class A drugs and related crime, such as break-ins to old peoples houses and personal experience of thefts.

Whilst Lupton et al. (2002) were able to report that all of the eight neighbourhoods in their study had markets for illegal drugs, the majority of which had been established for a number of years and were vibrant and busy, there were local distinctions. In particular, the study highlights two main types of markets found in deprived neighbourhoods and they are characterised as *central place markets* and *local markets*. Central place markets are long established with widespread reputations. They are mainly inner city centred, mixed tenure locations. The markets were more likely to be vulnerable to competition, to have some openness and street selling with buyers from outside the area as well as local, and to have ethnic minority group involvement at street level. The local markets were also established, but had no specific reputation, buyers would be mainly local, and there would be established and closed trade. It would be mainly members of the white majority group in society involved at street level. These local markets were mainly outer city, white, working class, post-war council estates. Those involved were connected with established criminal networks and the illegal economy as well as the drug trade.

Lupton et al. (2002) report that research suggests 'illicit earnings of £20,000 by people using crack and heroin together and a lower average of between £4,000 and £6,000 are required by users to support their habit.' A median expenditure of £170 per week was calculated. Thus to maintain such a level of use Lupton et al. (2002) found that those involved would develop a number of means to finance their habit, the most common of which was shoplifting. Others included burglary, car crime, robbery, fraud, sex work and sale of drugs; although the second most commonly reported way to finance drug purchase was legal means.

There are no clear figures as to the numbers of drug users in deprived neighbourhoods. The study by Lupton et al., (2002) interviewed 55 users in the eight neighbourhoods, but there is no clear picture of the percentage that such a figure would be of total users in all or each of the neighbourhoods. The size of the populations of the eight neighbourhoods were reported to be difficult to calculate because they ran across ward boundaries. But it was reported that they

ranged between 10,000 and 20,000 population. The report indicates that in one of the neighbourhoods (Seaview) a drug service worked with 400 young people in 1999–2000. Elsewhere in the report another service (also in Seaview) reported seeing 3,523 individuals in one year.

With regard to the drug sellers, Lupton et al. (2002) characterise their operations in terms of a classic pyramid structure, with a handful of suppliers serving middle-level sellers who in some cases worked with small scale sellers and runners. So in one location around six suppliers provided goods to 20-30 middle-level dealers who in turn supplied 60-70 occasional dealers and 30-150 runners. At minimum then the drug market of deprived neighbourhoods would probably provide work and income at different levels for about 116 people and a maximum of around 256. There is no clear idea of the earnings of such dealers, so we are unable to accurately assess the average turnover of a drug market of a deprived neighbourhood.

A major conclusion of relevance to the illegal economy is that ‘the market for crack, in particular, was providing a significant economic opportunity for young people whose formal labour market prospects were weak. It will be difficult to regenerate neighbourhoods without tackling drug markets’ (Lupton et al., 2002, p.56).

A recent report from the Home Office (2002a), a supplement to the National Drugs Strategy, focuses upon tackling crack cocaine and identifies it, because of its links to a particular culture of use centred upon ‘crack houses’, as having special links to deprived neighbourhoods. The strategy to tackle crack therefore centres upon identifying ‘High Crack Areas’ (HCA’s) on the basis of numbers in treatment for crack addiction, of arrests and testing positive for use, and numbers arrested for supplying crack. Also calculated are volume of seizures of the drug, volume of acquisitive crime, and other related indicators such as the presence of street sex markets, and multiple deprivation index scores. There were 37 HCA’s identified for target early in 2003 and these were: Birmingham, Brighton & Hove, Coventry, Hackney, Islington, Leeds, Manchester, Nottingham, Rochdale, Slough, Stoke on Trent, Waltham Forest, Sandwell, Bradford, Bristol, Croydon, Hammersmith & Fulham, Kensington & Chelsea, Lewisham, Middlesbrough, Oxford, Salford, Southwark, Tower Hamlets, Wandsworth, Brent, Camden, Derby, Haringey, Lambeth, Liverpool, Newham, Reading, Sheffield, Stockport, Trafford, and Westminster. The vast majority of these are among the most deprived 88 local authority areas in the country.

4.2.3 ILLEGAL TRAFFICKING AND DEPRIVED NEIGHBOURHOODS

Of other illegal economic activities the trade in smuggled tobacco is estimated to have cost the Exchequer £3.5bn in lost revenues through the evasion of duty and VAT in 2000–1. This amounts to over 33 per cent of the duty and VAT that was collected for that year (£9.5bn) and is equivalent to 1p on the basic rate of income tax (Public Accounts Committee, 2002a). ‘Customs estimate that 70-80 per cent of smuggled cigarettes are being transported into the country by organised criminals in freight, principally in deep-sea containers or ‘roll-on roll-off’ ferries’ (Public Accounts Committee, 2002a). The loss in revenue to the government is 75 per cent more than the £2bn that is estimated to be lost per

year due to benefit fraud. By contrast the loss of revenue from alcohol duty fraud of all types was small beer. ‘The estimated overall revenue lost due to all types of alcohol duty fraud in 1999–2000 was £800m, mainly through imports into the UK without payment of duty’ (Home Office Public Accounts Committee, 2002a). There appears to be no current research on the spatial distribution of this activity and none that specifies its relationship to deprived neighbourhoods.

4.2.4 ILLEGAL WORKING AND DEPRIVED NEIGHBOURHOODS

A more recent concern has been the growth in illegal working in the UK, most of it thought to be a direct consequence of illegal immigration and also changes in the legislation, which further restricts the access of asylum seekers to the formal labour market. Annex B to a recent consultation paper produced by the Immigration and Nationality Directorate of the Home Office stated that – ‘there is no accurate means of estimating the numbers involved in illegal working. The most reliable indicators suggest that the number could run into several hundreds of thousands’ (2003b). What the Government has been able to identify is the key sectors and trades where illegal working is particularly prevalent. These are listed in the aforesaid Annex B as – agriculture, catering, contract cleaning, construction, hospitality, clothing/textiles and the provision of temporary workers (Home Office, 2003b). As deprived neighbourhoods have high ethnic minority populations and they provide relatively cheap residential locations, they often act as important reception areas for illegal immigrants, particularly if there is an existing host ethnic group for migrants to locate within. However, there are no available figures to enable informed spatial comparisons, nor any understanding of where illegal immigrants are actually working, even if they are resident within deprived neighbourhoods.

Related to illegal working is the increasing crime of identity fraud, usually thought to be for purposes of gaining access to employment and welfare rights in the UK. A recent Government report on fraud and error in income support estimated that ‘of the overall estimate of £2bn in fraud the Department [of Works and Pensions] consider that organised fraud totalled around £100m in 2000–01’ (Public Accounts Committee, 2002b). The organised fraud comes under two main headings. Firstly, instrument of payment fraud (eg theft of order books within the Consignia delivery system), totalling around £77m. Secondly, ‘Identity fraud (under £20m) including hijacking of legitimate identities, and using false documentation to establish false identities after entry to the United Kingdom. It can reflect the activities of larger criminal networks engaged in people and drug smuggling’ (Public Accounts Committee, 2002b).

4.2.5 PROSTITUTION AND DEPRIVED NEIGHBOURHOODS

Whilst it is likely that prostitution represents a significant proportion of the illegal economy, it has proved impossible to get an estimate of the current extent of such activity, either in terms of numbers involved or ‘turnover’. A study by Matthews (1997) provides an approximation of the level of the market in female prostitution in London in 1997 (see Table 4.1 below). The London prostitution market has altered since 1997 due to the increased

involvement of different criminal gangs and the influx of many illegal migrants working in the trade. Elements of Matthews' methodology for estimating the extent and type of market can be duplicated and where necessary added to for London and other localities. The spatial distribution of prostitution is influenced by factors of supply and demand, and in deprived neighbourhoods the prostitution market is closely related to and sponsored by other illegal activities such as drugs and illegal immigration.

Table 4.1 Number of People Involved in and Annual Revenue from Prostitution in Greater London (Matthews, 1997)

Type of Prostitution	No. of Active Prostitutes	No. of clients per week	Revenue from prostitution per year
Street	635	7,620	£9.5m.
Private Premises	640	16,000	£40m.
Massage/Sauna	2220	46,620	£93m.
Escort	1260	5,000	£37m.
Hostess Clubs	500	5,000	£15m.
Total	5255	80,240	£194.5m.

Prostitution is not illegal in the UK, although soliciting for trade and living off immoral earnings is. This presents a dilemma as to whether the earnings from prostitution can be considered liable to income tax. Thomas (1992, p.287) relates in an amusing footnote how, in her appeal to the High Court in 1990, one Lindi St.Clair (aka Miss Whiplash) appealed against the payment of £58,781 in back taxes on the grounds that if the Inland Revenue and Government collected this they would be living off immoral earnings!

This raises the wider issue of whether any strictly illegal economic activity (as we have defined it earlier) should be included in any assessment of GDP within National Systems of Accounts. Definitions of illegal economic activity based upon the presence of consensus between trading parties, would seem to permit and warrant their inclusion in GDP assessments. 'Some would argue that GDP should encompass the production of all goods and services for which there is market demand. This clearly includes the production and distribution of illegal drugs. Yet this position seems inconsistent with the expenditure of considerable resources in the attempt to impede the same activity. It is therefore unclear whether illegal activity should be regarded as belonging to the underground economy or being outside the purview of economic activity altogether' (Carter, 1984).

4.3 Patterns of movement in relation to illegal economic activity in deprived neighbourhoods

Earlier we identified that whilst forces of globalisation as well as institutional configurations and regulations within particular states were major factors driving illegal economic activity, there were also individual and cultural features motivating the patterns of movement into, within and out of illegal economic activity. Whilst there is no clear evidence that illegal economic activity is any higher in deprived neighbourhoods than in affluent ones in the UK, the pressures driving individuals and certain groups towards such activity are likely to be higher in deprived neighbourhoods. Some of these pressures were discussed earlier (Burgess, 2002; Bottoms and Wiles, 1986).

In the case of those groups, who may be, as earlier indicated, unauthorised to produce certain goods and services (eg 'illegal immigrants') economic desperation and survival may be sufficient to drive them towards such activity. Cross and Johnson (2000) employ the dual labour market thesis in an endeavour to explain this with respect to dealing in crack cocaine. The dual labour market thesis is based on the idea that in the advanced economies there is a primary sector of the labour market, where there is job security, high wages and adherence to regulations that protect workers and their working conditions. In the secondary sector of the labour market the obverse conditions are in evidence and consequently this sector is occupied by those who are more '*marginalised*': women, ethnic minorities, migrant labour, and those who are less skilled and educated.

Those who are unable to gain access to either the primary or secondary sectors of these markets may secure access to the informal economy, where networking (and social capital) compensates for any lack of skills, credentials or experience. Illegal economic activity and criminal activities may also attract those who are already active in the secondary or informal sector of the labour market. Cross and Johnson (2000) argue that it may be that the criminal sector is made up of those individuals who cannot even access the informal sector. This 'rational choice', sector of last resort perspective perhaps ignores other less economically driven behaviours and motivations regarding the illegal economy. It also paints a rather simplistic portrait in contrast to that available in segmented labour market theory.

Indeed, others take a '*cultural*' perspective regarding the motivation towards illegal economic activity. For instance Hobbs (1988) makes the case that the East End of London, largely due to its peripheral/marginal location with respect to the City, has developed an entrepreneurial working class with a long history of waves of migration and engagement with casual labour conditions, notably with regard to dock labour. It is not just coping and a matter of survival that dictates movement in and out of illegal economic activity in East London; it is a cultural thing. 'Within the culture there exists a whole range of individuals whose abilities to utilise entrepreneurial culture varies from the incompetent to the highly skilled. Some of their activities are illegal, others are legal or more

commonly what Henry (1978) has called 'borderline activities' (Hobbs, 1988, p.140). Hobbs is thus arguing that it is the specific locational conditions of the East End of London that has moulded a culture wherein the propensity to 'dabble' in the illegal economy is not only likely but 'acceptable' and in some cases 'expected'. The observation was also made of neighbourhoods in East London, where among young males in particular, illegal economic activity was not merely a means of making a living, but also a question of status (Cattell and Evans, 1999); the tentative steps towards a criminal 'career'. Using a cultural perspective there is a danger of creating social pathologies, through which specific communities are viewed as responsible for their own problems. But the approach does permit geographical variations in the propensity for involvement in illegal economic activity to be highlighted.

Specific prevalent institutional conditions pertinent to different states with respect to the status of *immigrants* might, as indicated earlier, mean they will have a greater necessity and propensity to travel across the boundaries distinguishing activities in the secondary labour market, the paid informal economy, and the illegal economy. However, when migrants arrive illegally, it is more likely than for legal migrants that their status as illegal migrants will insert them directly into the illegal economy (Reyneri, 2003; Mingione, 1999). In such circumstances (as Reyneri, 2003 notes) it is not the migrants skills, credentials, experience or education that limits their access to the secondary or informal labour market, but their illegal status. 'The breakdown of the immigrant population in Spain and above all in Italy, shows that most migrants come from urban areas and undeveloped countries, are highly educated young women and men, are not long-term job seekers and their families are not at all the most deprived in their countries' (Reyneri, 2003).

Reyneri (2003) suggests that the widespread perception that 'new migrants are desperate people who escape undeveloped countries to survive and enter, without authorisation, European labour markets that do not at all need them, causing an oversupply of labour and being able to find only marginal and undeclared jobs in the underground economy does not square with the economic reality'. For Reyneri this reality sees 'inflows of unauthorised migrants [which] have replaced in the poorest jobs of the underground economy, local workers who have managed to get declared and better working conditions' (Reyneri, 2003, p.1). This revisiting of the reserve army of labour thesis (Castles and Kosack, 1985) would seem to imply that the governments of advanced economies might turn a blind eye to such immigration for the purpose of 'stoking up' labour market competition and improving economic competitiveness against international rivals. This is an issue we shall return to in section 4.6.

The issue of *ethnic minority groups* in relation to illegal economic activity in deprived neighbourhoods is a sensitive one. First and foremost it must be stressed as we have indicated earlier (Burgess, 2002) that the prevalence of illegal economic activity in deprived neighbourhoods is intimately connected to poverty. The over-representation of people from ethnic minority groups in deprived neighbourhoods, ie four times the number than nationally (Social Exclusion Unit, 1998) largely results from such poverty and results in a greater exposure to such networks of illegal economic activity. It is reported that markets for certain drugs have strong associations with different ethnic minority

gangs (Lupton, et al. 2002, p.22; Dorn et al., 1992). Furthermore, 'there is some persuasive evidence from data sources such as the BCS [British Crime Survey], and from views of those active in African-Caribbean community groups, that within centres of African-Caribbean population, including within cities in which the majority of crack users will still be white, primary crack use may be particularly damaging to African-Caribbean communities' (Home Office, 2000a). It is also the case that African-Caribbean communities are more likely to be centred in the most deprived inner city neighbourhoods where crack markets are more likely to be. Yet 'dealers operating in these markets come from all ethnic backgrounds' (Home Office, 2002a). However, the BCS indicates that 'the vast majority of crack users in the UK are white ... Hence the majority of crime associated with crack, including supply, is carried out by white crack users' (Home Office, 2002a, p.9).

It is not just drug markets however where ethnic minority group involvement in illegal economic activity may be found in deprived neighbourhoods. There are records of East European and Chinese 'snakehead' gang involvement in people smuggling associated with illegal labour in specific trades, including construction, agriculture and the sex trade.

Of increasing concern in deprived neighbourhoods is the apparently growing involvement of **young people** in illegal economic activity. This is certainly the case in terms of drug markets where predominantly young males in gangs control the drug markets of deprived neighbourhoods and are 'highly visible' (Lupton, et al. 2002, p.27). Indeed the vast majority of illegal economic activity in deprived neighbourhoods involves males; but the profile of involvement would appear to be younger when it comes to drug markets. The BCS suggests that while crack is less widely used than heroin or cocaine among the 16-24 age group there are still between 15,000 and 45,000 users in Britain (Home Office, 2002a). For young people in deprived neighbourhoods with few or no formal education and skills, involvement in illegal activity can provide the potential for independence and relatively high incomes, as well as status and credibility.

Box 4.1 Negative consequences of illegal economic activity in deprived neighbourhoods

Illegal economic activity is mostly associated with negative consequences

- Economic activity is illegal and those involved run the risk of prosecution or even imprisonment by the state. Prosecution can have further negative consequences for future employment within formal economic activities.
- Those involved also generally place themselves at risk and outside the protection of the law enforcement agencies.
- As a consequence of an increasing amount of involvement by organised crime in illegal economic activity in the UK, those involved in one area of such activity (eg illegal drugs) often become embroiled in other activities (eg prostitution).
- The implications of the presence of drugs in a deprived neighbourhood (eg crack houses) usually leads to other illegal economic activity (eg soliciting for sexual trade) and also other crime (eg burglaries, vehicle crime), particularly to finance drug use. High levels of crime have multiple negative social consequences and sap the will and determination of local communities (Burgess, 2002).
- The presence of illegal activity drives out other businesses and discourages new businesses locating within the area, reducing job opportunities and discouraging business formation.
- It reproduces a culture that is hostile and suspicious of participation in the formal economy, thus reinforcing processes of social exclusion.
- There is an employment displacement effect as those who can 'earn' cash in hand through illegal economic activity are less likely to take up formal work through the formal labour market.
- There is loss of revenue to the state through non-payment of income tax, national insurance and VAT.
- The secrecy and cultivation of closed social networks that involvement in illegal economic activity usually requires is detrimental to building bridging social capital between different groups and communities, thus contributing to the isolation and decline of social fabric in deprived neighbourhoods.

Box 4.2 Positive consequences of illegal economic activity in deprived neighbourhoods

- Considered in purely economic terms illegal economic activity provides goods and services that people want at costs they can afford, which is a major consideration in deprived neighbourhoods.
- It provides 'career paths' and incomes – in some cases quite lucrative ones – for people without the need for formal education and training, especially when compared to the available alternatives, especially in deprived neighbourhoods.
- As with most informal economic activity, the illegal version also develops some entrepreneurial skills.
- Develops strong, if very exclusive, bonding social capital.
- For young males illegal economic activity seems to meet a need for respect, self-esteem and status amongst peers in deprived neighbourhoods, where there would appear to be fewer alternatives sources to provide this.

4.4 Impact of current policies upon illegal economic activity in deprived neighbourhoods

Since the activities that we are dealing with here are illegal in terms of providing goods and services forbidden by law, current policies focus upon deterrence and punishment. The adoption by the UK government of the recommendations of the Grabiner Report has impacted upon illegal economic activity (see section 3.6). In particular increased inter agency working between those responsible for enforcement and a focus upon particular trades and market sectors (see case study 3).

CASE STUDY 3 GANGMASTERS

The government are becoming increasingly concerned at the criminal associations of gangmasters, traditional hirers of casual labour in the agricultural industry, and their connections to abuses of illegal immigrant labour.

'Ministers have been told that illegal gangmasters employing thousands of foreign workers on low wages, are fleecing the Treasury of £100 million a year in unpaid tax. Government research has uncovered a scam involving about 400 illegal employers who are individually evading up to 5 million pounds in tax. Many of the gangmasters, who recruit teams of cheap labour on behalf of employers for up to £3 an hour, pay illegal immigrants just £1 an hour and pocket the difference.'

To help foreign workers understand their rights the 'Operation Gangmaster' project has circulated 60,000 pamphlets, including 10,000 in Russian and Polish. In response to the demand for workers, MAFF has increased the number of permitted seasonal agricultural workers from 10,000 to 15,500. Taken from a press release by Ian Burrell, The Independent (UK), January 29, 2001

Stop-Traffic Moderator <http://www.stop-traffic.org>

4.5 Challenges and opportunities for policy development related to illegal economic activity

Beyond continuance with existing measures relating to the illegal economy, there are three areas that might be taken into account for further policy development.

First, alternatives to illegal economic activity (which are likely to involve diversionary activities, particularly for young males in deprived neighbourhoods) could be promoted. The Home Office Drugs Strategy Directorate, for instance, supports a number of sports based social inclusion programmes for young people through its Positive Futures programme (see case study 4). More and varied projects of this type for young people in deprived neighbourhoods, alongside strategies to diversify the social networks of individuals in cases where they are limited to others involved in such activity (Perri 6, 1997a, 1997b), may be beneficial developments. One such scheme

which provides alternatives to drug use and dealing is Progress2work which is run by Jobcentre Plus. The scheme assists unemployed people through education, training and work placement.

CASE STUDY 4 POSITIVE FUTURES

Positive Futures is a national sports based social inclusion programme managed within the Home Office Drugs Strategy Directorate which began in March 2000. Positive Futures is a relationship strategy based on the principle that engagement through sport and the building of mutual respect and trust can provide cultural 'gateways' to alternative lifestyles away from drugs and criminal activity.

The programme is currently delivered through 67 project partnerships, 24 first phase, 33 second phase and 10 Football Foundation local partnership projects located throughout England and Wales. An additional 37 projects – Positive Futures third phase – have been selected and approved, and are in the process of becoming operational.

Source: www.drugs.gov.uk

Second, awareness of how legislative shifts may make legal tomorrow what is part of the economy of illegal activity today. The case of the gambling industry, which was illegal economic activity until the 1960 Betting and Gambling Act, illustrates this point, and particular sectors of activity might well become legal in the future, albeit heavily regulated and policed. There has been discussion in the British press for some time about possible legalisation of the trade in class B drugs, particularly cannabis, as well as some debate about legalising prostitution and licensing brothels. Some local authorities (eg Liverpool, Edinburgh) have considered establishing official tolerance zones for the sex trade.

Third, with respect to the drugs markets of deprived neighbourhoods the report by Lupton et al. (2002) indicates that Drug Action Teams (DATs) should be resourced sufficiently to enable them to address drug market issues. 'In none of the seven areas where the DAT was able to provide information to support the research did its co-ordinator have any detailed knowledge of the drug markets in the neighbourhoods we were studying ... Thus the DATs in these areas were not developing detailed knowledge or co-ordinated responses at the neighbourhood level' (Lupton, et al, 2002, p.53).

4.6 Knowledge gaps

- Market information is extremely difficult to obtain when it comes to illegal economic activity.
- Given that much illegal economic activity involves gangs and that these appear to be involved in more than one type of activity and in more than one deprived neighbourhood, improved means to share knowledge across the range of agencies involved (including where necessary internationally of course) would appear to be in order.
- Clarification of the definition of illegal economic activity should be a starting point for reducing knowledge gaps.

4.7 Key summary points

- Illegal economic activity is defined as ‘illegal production, defined as those productive activities that generate goods and services forbidden by law or that are unlawful when carried out by unauthorised producers’ (OECD, 2002, p.13). This definition includes the provision of illegal goods and services (or legal ones provided by unauthorised producers) on the basis of consent and mutual agreement between producer and consumer.
- An important distinction can be made between informal economic activity carried out by organised criminal gangs and that which is a result of the independent actions of individuals.
- Markets of specific concern are the illegal trade in: Class A and B drugs, sex, alcohol, tobacco, counterfeit currency, identity fraud and illegal labour, all areas where criminal gangs are increasingly dominant.
- Drug markets in particular would appear to be both more prevalent in deprived neighbourhoods and to be a gateway to other illegal economic activity.
- Whilst illegal trade and trafficking in alcohol, tobacco, people and identities might move through and touch upon deprived neighbourhoods, drugs and prostitution would appear to have specific local market types that emerge within parts of deprived neighbourhoods.
- The opportunity to make significant income from involvement in illegal economic activity is a major attraction, particularly for disaffected young male residents of deprived neighbourhoods, who have few equivalent opportunities open to them. Both marginalisation and cultural factors emerge to explain the tendency for deprived neighbourhoods to be a prime site for illegal economic activity.
- The provision of alternative futures for young males in deprived neighbourhoods is an important policy trajectory for deprived neighbourhoods. To date, interventions, which focus mainly on drugs (eg Drug Action Teams), seem to have focused very little on the market economics of involvement in the activity in favour of a concentration on criminal and health impacts.

CHAPTER 5

Unpaid Informal Work

This chapter considers the role of unpaid informal work, comprising mutual aid and self-provisioning, within deprived neighbourhoods. As in all neighbourhoods, such work is of considerable significance, but within deprived neighbourhoods it is particularly important as a coping practice pursued out of economic necessity, often in the form of one-to-one aid. This chapter examines factors that constrain unpaid informal work and the largely positive consequences of such activity. As an area where policy has to date been limited in scope, various potential areas for policy development are introduced.

5.1 Defining unpaid informal work: mutual aid and self-provisioning

There has been a growing interest in developing the ‘third-sector’ of community, voluntary and self-provisioning activity, as another means of welfare delivery to complement public and private sector provision. This chapter considers the role of unpaid informal work, here focusing upon mutual aid and self-provisioning, to better understand the significance of these types of activities within deprived neighbourhoods.

Mutual aid in this report refers to unpaid work undertaken by household members for members of households other than their own (eg Davis Smith, 1998; Field and Hedges, 1984; Lynn and Davis Smith, 1992). As Chapter Two discussed, such activity covers a spectrum ranging from formal organisations at one extreme, to one-to-one aid at the other. When mutual aid occurs under the umbrella of organisations, associations and groups, it is commonly referred to as ‘formal’ volunteering/community engagement/mutual aid. When it takes place on a one-to-one basis, it is usually referred to as ‘informal’ volunteering/community involvement/mutual aid (eg Coulthard et al., 2002; Davis Smith, 1998; Field and Hedges, 1984; Kershaw et al., 2000; Krishnamurthy et al., 2001; Lynn and Davis Smith, 1992; Prime et al., 2002). This distinction between formal and informal mutual aid is central to understanding the nature of this activity and proposals for policy development.

‘Self-provisioning’ refers to unpaid work conducted by household members for themselves or for other members of their household that would otherwise have to be undertaken by formal labour. It includes such varying activities as routine domestic work, do-it-yourself and emotional (eg care) work. Self-provisioning should not be seen as a set of tasks but rather, as a particular set of social relations within which any task can be conducted, namely unpaid work conducted for oneself or other household members. In order to distinguish self-provisioning work from purely leisure activity, the definition used here employs a notion of a ‘third person’ (eg Gardiner, 1997; Gregory and Windebank, 2000;

Oakley, 1974; Reid, 1934; Walby, 1997). That is, if the activity could be replaced by formal labour, then this is seen as unpaid household work rather than leisure.

5.2 Extent and role of unpaid informal work in deprived neighbourhoods

5.2.1 MUTUAL AID

To investigate the extent of mutual aid in deprived neighbourhoods, the 2000 General Household Survey (GHS) is here used (Coulthard et al., 2002). Using the Index of Multiple Deprivation produced by the DLTR, the 2000 GHS divides all wards into ten types, ranging from the most to the least deprived. In so doing, it reveals that participation in both informal and formal forms of community involvement is significantly greater in affluent wards (see Table 6.1) thus supporting the focus upon developing community involvement in deprived neighbourhoods found in government reports (eg Home Office, 1999; Social Exclusion Unit, 2000).

Table 5.1 Spatial variations in the extent of participation in formal and informal community involvement: by Index of Deprivation (grouped by deciles)												
% of respondents	Most deprived wards							Least Deprived Wards			All	χ ²
	1	2	3	4	5	6	7	8	9	10		
Been involved in a local organisation, with responsibilities	7	7	12	12	15	12	15	22	20	18	13	116.82
Been involved in a local organisation without responsibilities	7	5	7	7	8	7	9	8	7	11	8	20.65
Done favour for a neighbour in past 6 months	65	72	73	78	76	74	71	77	77	78	74	15.98
Received favour from a neighbour in past 6 months	64	68	71	77	75	74	71	74	74	76	72	16.06

Source: General Household Survey 2000

However, Table 5.1 also reveals that deprived wards possess different participatory cultures than affluent wards. Twice the proportion of the population engages in community-based groups in the most affluent compared with the most deprived wards. The proportion engaging in informal community involvement in the most affluent and deprived wards differs by a much smaller overall amount. Thus in deprived wards the major type of community

involvement in which two-thirds (65 per cent) of people are already involved is one-to-one aid. In contrast, engagement in formal organisations is of much reduced significance. In the most deprived 10 per cent of wards in England and Wales, just 7 per cent of respondents participated in a local organisation with responsibilities over the last three years (compared with a peak of 22 per cent in the eighth decile of least deprived wards) and 7 per cent in a local organisation without responsibilities (compared to 11 per cent in the most affluent wards).

5.2.2 SELF-PROVISIONING

In relation to all other forms of informal work, one of the principal roles of self-provisioning in deprived neighbourhoods is that it operates as a 'coping practice'; a means of providing goods and services to meet needs and wants. Findings of attempts to measure the volume and value of inputs of self-provisioning via time-budget studies (eg Gershuny, 2000; Murgatroyd and Neuberger 1997; Roy 1991) indicate a large amount of time is spent engaged in self-provisioning. The 2000 UK Time Use Survey, for example, identifies that the average daily time spent on formal employment and study is 3 hours and 25 minutes, 3 hours and 6 minutes on self-provisioning and 12 minutes on mutual aid (see Ruston, 2003). Self-provisioning therefore occupies 46.1 per cent and mutual aid some 3 per cent of total work time. This configuration is not unique to the UK. Self-provisioning occupies roughly the same amount of time as paid work throughout the advanced economies, and over the past forty years, an increasing proportion of people's total working time has been spent in unpaid domestic work.

Unfortunately, current time-use data does not allow the extent of self-provisioning in deprived neighbourhoods to be analysed. To do this, it is necessary to turn to studies of 'household work practices' (eg Leonard, 1994; Pahl, 1984; Wallace, 2002; Williams and Windebank, 2003a). This technique documents the work practices that households use to get a variety of everyday tasks completed. Here, we report comparative data collected in a range of urban and rural deprived and affluent localities between 1998 and 2001 on household coping capabilities and practices. As Table 2.1 revealed earlier, nearly three-quarters of the selected 44 tasks were last conducted on a self-provisioning basis, reinforcing the above time-use data concerning the magnitude of this sphere. Such a sphere of activity thus represents a key coping practice employed in deprived urban neighbourhoods and beyond. As Williams and Windebank (2001a) find in their study of deprived neighbourhoods, self-provisioning activity can also lead to employment opportunities even if the participant did not recognise or intend this to be a future consequence of their actions at the outset.

5.3 Patterns of movement in relation to unpaid informal work in deprived neighbourhoods

5.3.1 CHARACTERISTICS OF MUTUAL AID

The vast majority of unpaid one-to-one aid in deprived urban neighbourhoods (some 70 per cent) takes place between kin who are not living in the same household. Such activity represents a key component of their coping practices (see Williams and Windebank, 2000a, 2001a; 2001b; 2001c; 2002a; 2002b). As Paugam and Russell (2000: 257) explain:

‘When a large part of the population shares the same unfavourable social conditions, familial solidarity does not arise from a logic of compensation nor from the logic of emancipation – it becomes a collective fight against poverty. Reciprocity in the exchanges is then functional. In order to face adversity, everyone gives and gives back, therefore, everyone gives and receives. This is why we are more likely to find examples of lasting familial solidarity in these regions where unemployment and hardship are higher, because it is based on a reciprocity imposed by the need to resist collectively.’

Beyond kin, however, and unlike earlier studies (eg Young and Wilmott 1975), Williams and Windebank (1999b, 2003a) in their study of deprived urban neighbourhoods find that little unpaid mutual aid takes place. Instead, they uncover that norms of reciprocity were heavily imbued with payment (see Williams and Windebank, 1999a, 2003a). Helping others beyond kin on an unpaid basis seldom occurred. This reflects an ‘inner-outer’ logic in unpaid exchange relations and shows how the principle of non-equivalent, spontaneous balancing of needs cannot be generalised outside of the ‘inner’ sanctum of kin. Outside of this inner kinship space, there is indifference and even hostility towards helping others. In the outer circle of friends, neighbours and others, unpaid help was not seen as something that should be provided.

Indeed, unpaid non-kinship exchange occurred only when it was felt to be unacceptable, inappropriate or impossible to do anything different. If at all feasible, interviewees avoided non-kinship unpaid exchange (see also Nelson and Smith, 1999). On the one hand, interviewees expressed great anxiety about owing a favour if they accepted an unpaid offer of help from somebody. As one unemployed woman put it,

“I usually like to pay people who do work for me, so if I need to, I can feel free ... but a friend laid my carpet and wouldn’t take money. I owe him now and I really hate that hanging over me”.

On the other hand, they also expressed concerns that if they helped others, the favour would not be returned. As one respondent in a lower-income household asserted,

“most people don’t return favours these days so I don’t do anything for anyone else unless I’m paid for it”.

In consequence, the widespread preference was for money or gifts to be involved in one-to-one non-kinship transactions. This avoided any obligation 'hanging over you' to reciprocate favours but at the same time, the wheels were being oiled for the maintenance or creation of closer relations without being 'duty bound'. Seen in this light, the prevalence of unpaid mutual aid in deprived populations is simply due to their inability to pay for help rendered. Accepting an unpaid favour from a friend or neighbour was a result of their lack of choice. It was not in most cases a choice borne out of the existence of trust and/or close social relations (Putnam, 2000). This perhaps explains why a far greater proportion of one-to-one help received by higher-income households in deprived urban neighbourhoods is paid (79 per cent) than is the case in lower-income households (23 per cent).

Table 5.2 examines how participation varies by gender and ethnicity. This reveals relatively little variation in the extent of participation of men and women, but demonstrates significant variations in levels of formal involvement between ethnic groups. Whilst the ratio of participation in formal compared with informal involvement is 1:3.4 amongst the white population, it is just 1:4.4 amongst the black population, 1:6.2 amongst the Indian population and 1:3.6 amongst the Pakistani/Bangladeshi population. This GHS data thus reinforces the work of Foster (1997: 230) who states, 'while black and ethnic minority communities have strong traditions of volunteering, their culture in Britain remains relatively informal, and this is reflected in the way in which their voluntary activity is undertaken'.

Table 5.2 Extent of participation in formal and informal community involvement: by gender and ethnicity								
% of respondents	Men	Women	White	Black	Indian	Pakistani/Bangladeshi	Other	ALL
Been involved in a local organisation, with responsibilities	12	14	14	10	4	[7]	5	13
Been involved in a local organisation without responsibilities	7	8	8	4	6	[7]	10	8
Done favour for a neighbour in past 6 months	74	74	75	62	62	[51]	65	74
Received favour from a neighbour in past 6 months	71	73	73	54	69	[49]	55	72

Source: General Household Survey 2000

Figures in brackets possess insufficient sample to be statistically significant

5.3.2 CHARACTERISTICS OF SELF-PROVISIONING

As Table 2.1 revealed earlier, although a greater proportion of the domestic workload is conducted using formal labour in affluent wards than in deprived neighbourhoods, relatively affluent populations still engage in a wider array of self-provisioning than their deprived counterparts. However in deprived neighbourhoods, where people are more likely to be sick/disabled, to be in rented accommodation and to be jobless, self-provisioning is composed mostly of routine (eg everyday housework) or essential tasks (eg repairs when a water leakage occurs). As such, participation in self-provisioning is primarily a matter of economic necessity.

The results from Williams and Windebank’s (2003a) study reveals that in deprived urban and rural localities, 44 per cent and 46 per cent of self-provisioning respectively was primarily motivated by economic necessity, while in the affluent urban and rural localities, this was the case for just 10 per cent and 11 per cent of such work (see Table 5.3). Table 5.3 also demonstrate that self-provisioning in deprived neighbourhoods is much less likely to be undertaken for the pursuit of pleasure or because it was an easier solution to completing a task than in more affluent areas. In deprived neighbourhoods, households are less able to engage in non-routine, creative and rewarding self-provisioning activity. Such activity is more routine, compelled more by necessity than choice or an interest in the intrinsic satisfactions, and carries smaller material and psychological benefits. Just as in the formal realm, the capabilities of people to use self-provisioning vary and the sizes of the rewards differ. Self-provisioning is often not a substitute for money income but rather the companion of money income.

Table 5.3 Reasons for conducting domestic tasks on a self-provisioning basis				
Reason (%):	Urban DNs	Affluent suburbs	Rural DNs	Affluent rural
Economic	44	10	46	11
Ease	18	37	24	40
Choice	21	24	18	22
Pleasure	14	32	12	27

Source: English Localities Survey (Williams and Windebank, 2003a)

In terms of gender differences, nearly two-thirds of women’s total working time remains spent in self-provisioning, whilst for men, this activity still represents under a quarter of their total working time (Gershuny, 2000). Women still conduct the vast majority of the routine domestic work and much of the growth in men’s participation can be put down to the growth in their participation in non-routine domestic work (eg DIY activity). Williams and Windebank (2001a) find that these gender inequalities evident in self-provisioning appear greater in deprived than affluent neighbourhoods. This, however, is solely because routine housework is more likely to be externalised in affluent neighbourhoods, taking the work away from women household members and putting it on low-paid formal domestic workers, who are nearly always other women.

With respect to ethnicity, as Table 5.4 illustrates, a recent study of deprived urban neighbourhoods in Southampton and Sheffield reveals that ethnic minority households adopt different coping practices according to which ethnic minority group is being analysed (Williams and Windebank, 2001a). Whilst Asian households and mixed ethnicity households rely relatively heavily on formal labour in order to get work completed, this is not the case for black households.

There remains little understanding of how self-provisioning is used at different stages of the life cycle. One key issue, is whether a domestic skills deficit is apparent amongst younger generations, and whether this is worse amongst more marginalised populations.

Table 5.4 Household coping abilities and practices in deprived urban neighbourhoods: by ethnic composition of households

	Tasks completed		% of tasks conducted using:							
	Av. No.	%	Self-provisioning		Unpaid community work		Paid informal exchange		Employment	
Av. No.			%	Av. No.	%	Av. No.	%	Av. No.	%	Av. No.
All	20.7	47.1	15.8	76.1	0.8	3.8	1.0	4.9	3.2	15.2
White	20.7	47.2	16.1	76.9	0.8	3.7	1.0	4.8	3.0	14.6
Asian	22.0	50.1	15.7	71.3	1.1	1.1	1.0	4.5	4.2	19.2
Black	20.4	46.3	14.8	76.5	0.5	0.5	1.1	5.4	3.0	15.5
Mixed	18.6	42.3	11.8	70.7	0.5	0.5	0.9	5.4	3.5	20.9

Source: Williams and Windebank (2001a)

5.3.3 CONSTRAINING FACTORS FOR PARTICIPATION IN UNPAID INFORMAL WORK

A number of different factors that constrain participation in unpaid informal work can be identified:

Lack of social network capital: This takes two forms. Firstly, people feel that they do not know others well enough to either ask or be asked to do something. Jobless working-age households perceive themselves to have very 'thin' and 'narrow' social networks to which they can turn either because of their inability to repay a favour or their physical inability to do so (ie many no-earner households include the physically disabled or retired). Indeed, given that the long-term unemployed mix mostly with other long-term unemployed, have relatively few friends or acquaintances who are employed (Kempson, 1996; Morris, 1994), and are less likely to have kin living locally (Williams and Windebank, 2001a), the unemployed have fewer people to call upon for aid than the employed. Even where kin or employed acquaintances are present,

however, the widespread perception was that one would not ask them for help because they would perceive you as 'on the take'. Secondly, it is not simply that one's social networks may be short or not very dense, but there is a widespread view that they are excluded from participating in groups on the grounds of class, gender and/or age.

Lack of time: For many households, employment results in little free time. This time barrier is acutely felt in multiple-earner households, unravelling yet another facet of the work/life balance. It is not simply that employment is reducing the time available to spend with children and kin and undertake self-provisioning tasks, but also the availability of people to maintain wider networks of social and material support. This is particularly important for low-income households. These households often find that all members of the household are employed in order to 'make ends meet' and often operate a 'split shift' system if children are present. The result is not only little free time to be with other household members but a lack of time to maintain and build local social and material support networks. The outcome is that the struggle of lower-income households to earn sufficient to make ends meet often results in the demise of their support networks, spiralling them yet further down the path of needing more money in order to pay for formal services such as child-care provision.

Lack of human capital: Human capital influences participation in unpaid informal work in a number of ways. First, people perceive themselves to lack the skills necessary to help out others or undertake tasks themselves. Second there is also a physical inability to engage in such activity. Households in which there are the sick and/or disabled feel unable to reciprocate and engage in far lower levels of self-provisioning than other household-types. Finally there is the issue of confidence. Many who are unemployed quite simply lack the confidence to attempt tasks. As many jobless households responded when asked about doing work, 'I couldn't do that' or 'I'd mess it up'.

Lack of financial capital: Lack of money prevents engagement in unpaid informal work. Such households often have little in the way of equipment (eg ladders, power tools) to be able to offer to help somebody and/or lend and this constrains their ability to travel to provide help to others. Similarly, households often lack the money to acquire the goods and resources necessary to engage in self-provisioning (Pahl, 1984; Smith, 1986; Thomas, 1992; Williams and Windebank, 2003a). Overall, some 52 per cent of households in deprived urban households asserted that they would engage in greater amounts of self-provisioning if they had more money. Such an explanation was particularly prominent amongst jobless households. Some 70 per cent of no-earner households perceived money as a barrier to their participation in self-provisioning activity compared with just 43.2 per cent of multiple-earner households.

Institutional constraints: People feel inhibited about engaging in informal work for others for fear of being falsely reported to the authorities for engaging in 'cash-in-hand' work (see Williams and Windebank, 2003a).

Environmental barriers: Given the environment and residential accommodation within deprived neighbourhoods and the negative images that

many residents have of their own areas, there is evidence of an attitude that ‘it just wasn’t worth it’. Indeed, many assert that they would engage in more self-provisioning, especially in the realms of home maintenance and improvement, if they lived somewhere else. Self-provisioning is also much lower amongst tenants compared with owner-occupiers due to their lack of responsibility for maintenance and repair.

Box 5.1 Negative consequences of unpaid informal work

- Engagement in unpaid informal exchange might substitute for formal employment; thus reducing additional job generation opportunities and keep wages low within the household sector. However, as the majority of such unpaid informal work in deprived neighbourhoods is conducted precisely because people cannot afford to pay formal labour to get work completed, this substitution effect is likely to be marginal.
- Concerns exist that the ‘third sector’ is being developed as a substitute, rather than complement to, public sector provision which reinforces power inequalities (eg Fine, 2000; Eisenschitz, 1997). Elements of the third sector resent being seen as a cheap option for service delivery and feel overburdened and unequal partners in their developing role within deprived areas.
- Valuing and recognising certain aspects of unpaid informal work such as the importance of one-to-one mutual aid and self-provisioning in certain spheres (eg childcare) is opposed by the ‘voluntary sector’ lobby who have a self-interest in maintaining a focus upon more formalised, community-based action.
- Populations in DNAs display a relative inability to engage in self-provisioning to get necessary work completed compared with affluent populations, and what takes place tends to be mundane and routine activity conducted out of economic necessity. Self-provisioning reinforces, rather than reduces, the socio-spatial inequalities produced by the formal labour market.
- The persistence of strong gender divisions in domestic work constrain the ability of women to compete on equal terms with men in the formal labour market.

Box 5.2 Positive consequences of unpaid informal work

- Encourages local solutions to be sought to local problems (eg Cattell and Evans, 1999; Forrest and Kearns, 1999; Home Office, 1999; Silburn et al., 1999; Wood and Vamplew, 1999).
- Delivers support to those in need (eg Portes, 1994; Williams and Windebank, 2000a,b,c,d) and provides an additional *potential* means by which households can meet their needs and wants if they do not have the money to purchase goods and services in the formal labour market.
- Develops skills that might be used in formal employment and can lead to self-employment.
- Mutual aid bolsters community spirit (eg Gittell and Vidal, 1998; Hall, 1997; Putnam, 2000) and promotes local democratic renewal (eg Social Exclusion Unit, 2000).
- Self-provisioning provides a source of pleasure and a source of identity, meaning and worth beyond formal employment.
- Participation in unpaid informal work might suggest alternative futures of work, thus giving people ideas on how work could be alternatively organised to the present. However this seems unlikely since for most people, such activity represents a complementary, rather than alternative, coping practice (Burns and Taylor, 1998; Burns et al., 2003).

5.4 Impacts of current policies upon the operation of unpaid informal work in deprived neighbourhoods

5.4.1 MUTUAL AID

A number of recent UK government reports address the issue of community involvement and adopt a similar approach to how it should be cultivated (eg Countryside Agency, 2001; DETR, 1999; DSS, 1999; Social Exclusion Unit 1998, 2000). However, the key policy document published to date in this respect is the Social Exclusion Unit's Policy Action Team no. 9 report on *Community Self-Help* (Home Office, 1999) which, unlike other reports, has the issue of community engagement as its principal focus. Although the report recognises formal and informal forms of involvement, rather than viewing these types of engagement as a spectrum of activity, they are instead conceptualised as a hierarchy of types (following Arnstein, 1969). As the report puts it:

'Few people go straight from a situation of no involvement to one of active engagement with their neighbourhood. Knowingly or not, most are on a 'ladder of involvement', with simple acts of good neighbourliness at one end and a regular commitment with a formal voluntary or statutory organisation, or a position of community leadership at the other' (Home Office, 1999:30).'

Based on this 'ladders to community involvement' model, community-based groups are thus conceptualised as a 'mature' form of community involvement that other activities evolve into, and that these should be developed in order to help people 'graduate to greater engagement with their community' (Home Office, 1999:30). What are referred to as 'simple' acts of one-to-one aid are thus seen as relatively marginal compared to participation in community-based groups and the report pays little attention to the further development of these informal types of community involvement.

This focus upon formal involvement may in part be seen as reflecting the wider conceptual shift whereby greater importance is now being placed on weak rather than strong ties (eg Granovetter, 1973; Gittell and Vidal, 1998; Perri 6, 1997a; 1997b; Putnam, 2000). In this view, the emphasis on cultivating formal groups can be seen as a way of developing weak ties (ie connections to people more likely to be different from oneself). However this emphasis also reflects the roots of New Labour in a historical tradition embedded in co-operative self-help endeavour, which has sought to harness collectivist forms of involvement, and negatively associated one-to-one aid with the opposing individualist tradition associated with neo-liberal thought (see Burns et al., 2003). Finally, the focus upon fostering voluntary groups needs also to be understood as a pragmatic response by policy-makers. Funding formal organisations and evaluating the impacts is something that is relatively straightforward compared to the challenges involved in promoting 'simple' acts of community interaction.

The consequence of an approach that focuses upon formal involvement is a predisposition towards developing a participatory culture more characteristic of affluent than lower-income areas, whilst the significance of the one-to-one aid, which is more characteristic of deprived populations, is downplayed. Although the Higher Education Active Community Fund is one notable example of the way in which one-to-one aid can be directly nurtured, many other initiatives that could facilitate one-to-one help tend not to do so at present. The Experience Corps for those over 50 years old, Community Champions, the Community Empowerment Fund and the Community Chest, all strongly emphasise engagement in some form of association or group rather than in terms of more informal mutual aid.

5.4.2 SELF-PROVISIONING

Currently, there is an absence of consideration given to policy that enhances people's capacities to engage in self-provisioning, although there are a host of indirect and unintended impacts of apparently unrelated policies that have often negatively impacted upon the capabilities of people to engage in self-servicing activity. For example the decline of subjects such as metalwork, woodwork and home economics in the school curriculum has led to the demise of a range of core skills required for self-provisioning, especially amongst younger generations. Policies regarding maximum working hours, child-care provision, elder-care, equal opportunity, family support, regulation of the labour market and so on, all indirectly impact on the capacities and capabilities of people to engage in self-provisioning. For example, promoting formal child-care provision whilst failing to recognise and value provision by parents, reduces the worth afforded to childcare undertaken on a self-provisioning basis by parents. Similarly, regulating the length of the working week has a direct bearing upon the amount of time available to engage in self-provisioning.

The current policy thrust of 'employment-led social inclusion' which emphasises the formal labour market as the 'best route out of poverty', largely fails to either recognise or value self-provisioning or its potential role in mitigating poverty and social exclusion. Epitomising this is that people are now paid to look after each other's children (and actively encouraged to do so) but not their own. So far, there has been little discussion of whether encouraging people to engage in unpaid informal work, might be used as an additional complementary means of mitigating poverty and social exclusion. The rationale for exploring alternatives to employment-led social inclusion is well expressed by Giddens (1998) among others (eg Sen; 1998, Rifkin; 1997).

5.5 Challenges and opportunities for policy development related to unpaid informal work

5.5.1 MUTUAL AID

Recognition that different forms of mutual aid represent a spectrum rather than a hierarchy suggests that policy development should consider how both formal and informal aid could be developed in a manner that recognises differences in the prevailing participatory culture of different populations and areas. A greater focus upon the cultivation of one-to-one aid however does present a number of challenges. For those officials charged with managing existing initiatives (eg Community Champions, Community Chest, etc.), fostering participation in groups is relatively straightforward to monitor and evaluate. Giving money to individuals to engage in informal mutual aid is far more difficult to manage. For this reason, a range of bottom-up and top-down policy initiatives are required to facilitate the development of one-to-one mutual aid in a manner that is more easily monitored and evaluated.

Bottom-up initiatives to harness one-to-one mutual aid

There are a number of possible initiatives that take into account the current attitudes towards engaging in mutual aid in deprived neighbourhoods with regard to the provision of help on an unpaid basis. These all promote one-to-one mutual aid in a manner that recognises that people want some form of tally-system or payment when helping others. These include Local Exchange Trading Schemes (LETS), time banks, mutual aid contracts and employee mutuals (see case study 5).

Although these initiatives are themselves 'formal groupings', their primary importance is not their organisational character but that they nurture one-to-one aid. However, it must be recognised that even the most prominent of these bottom-up initiatives are presently small-scale, piecemeal projects that are alone incapable of harnessing mutual aid on a broad scale, especially in lower-income populations who do not at present widely participate in such initiatives. Thus the promotion of mutual aid would also require top-down initiatives.

CASE STUDY 5 BOTTOM UP INITIATIVES PROMOTING ONE-TO-ONE MUTUAL AID

Local Exchange Trading Schemes (LETS) These non-profit making associations encourage people to help each other out by putting persons in need of help in touch with those who are willing to help out (see North, 1996, 1999). Recently, there has been considerable interest from policy makers in their potential as bridges into work for unemployed people. Here, however, the intention would be to employ them in a different manner. Rather than use them as springboards into employment, they could be used as vehicles for facilitating one-to-one reciprocal exchange. The advantage of utilising them for this purpose is that this is precisely the role in which they are most effective. A recent study based on a postal survey of all LETS co-ordinators, 2,515 postal questionnaires to participants, in-depth action-orientated research and interviews with key figures in UK LETS finds that they are most effective as capacity building vehicles that develop acts of one-to-one reciprocity rather than as routes into employment or self-employment. Indeed, some 76 per cent of members asserted that LETS had helped them to develop a network of people on whom they could call for help (Williams et al., 2001). However such schemes need to be better related to the needs of lower income and jobless populations otherwise they will remain vehicles mostly used by the 'disenchanted' middle-class rather than marginalised populations.

Time Banks These reward one-to-one acts of mutual aid by paying one 'hour' for each hour of work, which can at any time be 'cashed in' by requesting an hour's work in return from the system (see Boyle, 1999; Cahn, 2000). As such, time banks record, store and reward transactions where neighbours help neighbours. Starting in the USA (see Cahn, 2000), time banks have been promoted in the UK by the New Economics Foundation (NEF). By late 2002, 40 time banks were operational with 88,000 hours having been traded compared with 15 in late 2001 trading 9,760 hours. As such, time banks remain in their infancy in the UK. However, there is little doubt that they are rapidly expanding (Seyfang and Smith, 2002; Williams, 2001). The most recent national evaluation of time banks suggests that they are being far more successful than LETS in lower-income communities, not least because government has clearly stated that participation in such schemes has no consequences for tax or social security benefits (see Seyfang and Smith, 2002).

Mutual Aid Contracts In September 1998, Manningham Housing Association in a deprived neighbourhood of Bradford introduced a pilot scheme to encourage mutual aid amongst its new tenants. Applicants for social housing were requested to fill in a 'social needs audit' of their present neighbourly interactions, the tasks that they could offer their potential neighbours and the work that they would like to have undertaken for them. Having returned these audits, the Housing Association chose 22 tenants whose offers and requests closely matched and asked them to sign a voluntary 'mutual aid' contract before handing them the tenancy. The activities involved include car maintenance and repair, computer training, baby-sitting and a DIY club. Although this pilot scheme is yet to be evaluated, if successful, this scheme could be replicated in the context of many social housing projects both in rural and urban areas.

Employee Mutuals Advocated by Leadbeater and Martin (1998), these are intended to be localised bodies that the unemployed, employed and firms can voluntarily join through the payment of a weekly subscription fee. Akin to LETS, members earn points on a smartcard from their work for the Mutual, which enables them to 'buy' goods and services from it. As such, they are a 'new institution for collective self-help' that matches local demand for work with local supply, enabling people to get completed the many one-off jobs that need doing but that they are unable to afford to do formally. Such institutions could potentially take on board the role of being the representatives of those who engage in informal mutual aid and thus give them a voice equivalent to the formal voluntary sector.

Top-down initiatives to harness mutual aid

Top-down initiatives that could help people to engage in mutual aid range from approaches that attempt to fundamentally shift the nature of incomes and the operation of the labour market (eg basic incomes schemes) to initiatives that encourage active citizenship, such as changes to the New Deal programme, and the introduction of active citizens' credits (see case studies 6 and 7).

A basic income scheme would aim to provide every citizen with a basic 'wage' as a social entitlement without means test or work requirement. It would arguably provide individuals and groups with increased resources for taking charge of

their own lives (eg Fitzpatrick 1999; Jordan et al., 2000; Van Parijis 1995, 2000a, 2000b). However, even amongst its advocates it is now accepted that a fully individualised and unconditional basic income could not be introduced in one operation, if only because of the way in which it would upset the current distribution of incomes and labour supply. Aside from the extremely high costs of a basic income scheme, the scheme is however insufficient by itself if the desire is to cultivate engagement in mutual aid. Possible initiatives that actively encourage ‘active citizenship’ (see Atkinson, 1998; Elson, 1988; Gough 2000; Lipietz, 1992; Williams and Windebank, 2003a), might include a revised New Deal or an Active Citizens tax credit (see case studies 6 and 7)

CASE STUDY 6 CIVIL-ISING NEW DEAL

The principal critique of workfare-type regimes is that there is a compulsion element whereby people are forced to do work that they would not otherwise conduct (eg Peck, 1996, 1999, 2001). To overcome this, the ‘voluntary and community’ sector of the New Deal programme could be extended to allow the unemployed to define the ‘social contribution’ that they wish to make. This would also release the unemployed to take greater responsibility for the nature of their integration into the world of work. To achieve this, individuals could be empowered to stake a claim under the ‘voluntary and community sector’ of New Deal concerning their contribution to society. Work that might be acceptable could include being a principal carer of a young pre-school child or an elderly dependent person as well as organising and running community groups such as LETS and credit unions, for which an ‘activity benefit’ paid at a higher rate than the zero-activity benefit level would be received. An example of a similar initiative is to be found in Australia, where there has been some recognition that various activities are socially legitimate for those who are claiming out-of-work benefits. For example, care work can be accredited, and lone parents and one parent in a couple, can claim a ‘parenting allowance’ (Hirsch, 1999). A key problem with this proposal is that it fails to modify the meaning of a ‘working citizen’ amongst those not eligible for New Deal. As only the unemployed are eligible, these new forms of work might be seen as a second rate and second class ‘economy’.

CASE STUDY 7 ACTIVE CITIZENS’ CREDITS (ACC)

‘Active citizens’ credits’ (ACC) would accredit active citizenship by recording, storing and rewarding participation in caring and other work conducted for the good of the community. Under this non-compulsory scheme, individuals engage in a self-designed portfolio of work of their choosing for which they would be reimbursed. This would be non-compulsory in that individuals could freely choose whether or not to participate. Individuals would also decide what portfolio of work they wish to undertake. The goals of such a scheme comprise: to recompense and value work which currently goes unrecognised and unvalued; to encourage active citizenship without recourse to compulsion; to harness informal work; to create a ‘full-engagement’ society by enabling people who wish to make a particular ‘social contribution’ to do so; to incorporate the multidimensionality of social inclusion and exclusion into policy-making, and to tackle poverty through means other than merely insertion into employment. By embedding this within the tax credit framework (see Table 5.5) the scheme would promote a society founded upon the ‘working citizen’ without a radical policy overhaul, and an integrated tax/benefit system. Table 5.5 lists the additional tax credits required (see Williams and Windebank, 2003a for more detail).

Table 5.5 A comprehensive UK tax credit framework

Tax Credits	Qualifying condition
Employment Tax Credit	Working as a full-time employee or self-employed
Pensioner Tax Credit	Reaching pension age
Disability and Sickness Tax Credit	Absence from work on grounds of sickness, injury or disability
Training Tax Credit	Engaging in approved forms of full-time education or training
Active Citizens Tax Credits, comprising: Parents Tax Credit Carers Tax Credit Community Worker Tax Credit	Participating in caring activities and other work for the good of the community Principal full-time carer of a pre-school child Principal full-time carer of a dependent adult Engaging in full-time work for the good of the community

5.5.2 SELF-PROVISIONING

There appear two main area for policy development related to self-provisioning and deprived neighbourhoods: the development of the capacities of those that live in deprived neighbourhoods to engage in a wider range of self-provisioning, and, more contentiously, the potential to formalise routine self-provisioning tasks.

Improving capacities for self-provisioning within deprived neighbourhoods

There appears to be a strong case for enhancing the capabilities of people in deprived neighbourhoods to help themselves. This is exemplified by the desire of people to engage in rewarding, satisfying and creative self-provisioning activities (eg DIY). But given the stark inequalities between people's capacities to do so, policies would need to focus on developing capabilities, especially in deprived neighbourhoods, to participate in such self-provisioning as an additional means of meeting needs and desires.

To facilitate people to engage in the more creative and rewarding forms of self-provisioning, the constraints discussed earlier (see 5.3.3) would need to be tackled. Possible solutions include:

- Providing community 'tool banks' with cheap and easy access to DIY tools. This could be either through private/public sector partnerships with major DIY retail chains or through community-based not-for-profit sector organisations.
- Introducing initiatives that bridge the 'skills deficit' with regard to self-provisioning.

- Giving greater recognition and value to self-provisioning activity. Child-care by parent/s for example, would be accorded the same value as when people look after other people's children. One way forward in this might be the provision of a 'parents tax credit' discussed previously (see case study 7).

Formalising self-provisioning

There is the potential of developing policies that would help relatively affluent groups to formalise routine, mundane and repetitive self-provisioning activity. This would create a significant demand for formal jobs in the under-developed household services sector of the economy for those in deprived neighbourhoods and beyond. However development of policy in this way would raise serious concerns relating to the quality of the jobs created and could create a regressive 'servant culture' in contemporary Britain. However it does appear to be a popular policy option being pursued at present in many other advanced economies (see case study 9).

Policy development that sought to formalise routine and repetitive self-provisioning task would have to confront a number of barriers relating to the ease of access to formal providers, reliability of businesses, their quality control mechanisms and their standardisation of the products that they offer. These barriers could be dealt with:

- at the level of the various sub-sectors through representative trade bodies (eg for domestic building work, landscape gardening services, provision of child-care services, etc.) which would be able to research barriers on a sector-by-sector basis to identify possible solutions. The introduction of widely recognised and trusted kite-marks for proficient firms might be one way forward
- by setting up at the local level institutions enabling people to source the formal provision of such household services. This institution would act as a guarantor of the quality of provision by scrutinising firms/self-employed individuals both before accepting them and during their participation, to ensure that sufficient levels of service are being maintained. One possibility in this regard is the Employee Mutual discussed previously (Leadbeater and Martin, 1998) (case study 5)
- evaluation of the ways in which the formalisation of household services has been undertaken in other advanced economies. In France, for example, the 'cheque-service' system has been used to give purchasers of domestic services the incentive to shift this activity out of the 'cash-in-hand' economy and into the formal realm (see case study 8). In the Netherlands, meanwhile, the Melkert initiative has sought to facilitate employment in domestic services for the unemployed (see case study 9). Other policy initiatives exist elsewhere in the world that could be similarly evaluated (eg Cancedda, 2001)

CASE STUDY 8: INITIATIVES TO HARNESS DOMESTIC SERVICE EMPLOYMENT: THE CASE OF FRANCE

The Cheque Emploi Service (CES) was introduced in 1993 to simplify the process of hiring and paying a domestic worker and making social security contributions. Salary cannot be less than the minimum wage, plus a 10 per cent indemnity for paid leave. The Titre Emploi Service (TES) was created in 1996 and allows work councils, regional and local authorities and welfare associations to guarantee financial assistance to their own staff members who hire domestic workers in their homes. Modelled on the restaurant ticket system, the TES service vouchers are issued by an authorised organisation and are purchased by another organisation which can top up their value before making them available to employees who use them to purchase household services from an approved provider. This and other measures to support demand – such as tax incentives for families, the childcare home care allowance (allocation de garde d'enfant a domicile, or AGED) and family assistance for the employment of a registered childminder (Aide a la famille pour l'emploi d'une assistante maternelle agreee, or AFEAMA) – resulted in an increase of 190,000 jobs in family-related services between 1991 and 1997 (Cancedda 2002: 30).

CASE STUDY 9: FACILITATING EMPLOYMENT IN DOMESTIC SERVICES AMONGST THE DUTCH UNEMPLOYED: THE MELKERT INITIATIVE

According to a 1995 survey in the Netherlands, one family in three needs more help at home, especially with cleaning, washing and ironing clothes. Under the 'Melkert Plan', a programme was implemented to subsidise the wages of declared domestic cleaners so that they could compete with cash-in-hand workers. A subsidy of not more than 19,000 NLG was granted for every long-term unemployed individual hired by a private cleaning company. The government paid the difference between the cost of declared and undeclared domestic cleaners. The government thus paid a subsidy rather than unemployment benefits. In 1997, only 250 jobs were created. In 1998, changes were made to the scheme and it is claimed to now function better. Cleaning companies however, have more trouble finding workers than customers since they are required to have been unemployed for at least a year, in part because many women who would like such work are not registered unemployed. The Melkert Plan also created subsidised jobs in home help services and childcare. In the former, some of these jobs were found to be replacing regular jobs. In the latter sphere, adopted at the end of 1998, 1,700 individuals held Melkert jobs in childcare.

5.6 Research and knowledge gaps

- There remains very limited understanding on most aspects of unpaid informal work within deprived neighbourhoods, particularly with respect to ethnicity, gender and lifecycle.
- The extent, character, motives and barriers to participation in formal and informal community involvement in deprived neighbourhoods needs further investigation so as to identify whether a re-focus on promoting informal participation is required and how this can be achieved. This would include analysis of the prevalence of one-to-one aid relative to participation in formal associations, who engages in such activities, for what reasons, and what prevents them from engaging in greater levels of such activity.
- The initiatives discussed above (see 5.5) require an evaluation of the extent to which they could promote informal community participation and self-provisioning capacities in deprived neighbourhoods. In particular, the following is required:
 - A literature review of the research on the effectiveness of LETS and time banks in tackling social exclusion in deprived neighbourhoods.

- An evaluation of the Manningham mutual aid contracts experiment.
 - A pilot to evaluate the feasibility and effectiveness of Employee Mutuals in deprived neighbourhoods.
 - A piloting of the ‘Civilising New Deal’ initiative to evaluate its feasibility and effectiveness within deprived neighbourhoods.
 - A locality-based piloting of (1) the parents tax credit, (2) the carers tax credit and (3) the community workers tax credit to evaluate their feasibility and effectiveness.
 - A pilot of the use of community ‘tool banks’ in deprived neighbourhoods to evaluate their effectiveness as a vehicle for facilitating engagement in self-provisioning.
- In-depth understanding of issues surrounding the formalisation of specific self-provisioning tasks is required including the evaluation of programmes undertaken in other advanced economies. Of particular importance is the impact in terms of the numbers and quality of jobs created for deprived neighbourhoods.
 - There is little understanding of whether the demise of subjects such as metalwork, woodwork and home economics in the school curriculum has led to the decline of a range of core skills required for self-provisioning, especially amongst younger generations in deprived neighbourhoods. Clearer understanding is required as to whether a skills deficit amongst the young exists, and if so, in what skills and how best this could be addressed (eg curriculum development and/or community-based initiatives whereby older generations pass on such domestic skills).

5.7 Key summary points

- Participation in both formal and informal types of community involvement is significantly lower in deprived neighbourhoods. The majority of such involvement takes the form of one-to-one aid whilst engagement in formal organisations is of reduced significance.
- Self-provisioning occupies over half of all working time in the advanced economies and its share of total working time is growing. Such informal work consolidates, rather than reduces, the inequalities (socio-economic, spatial, gender and ethnic) produced by formal employment and is a key coping practice within deprived neighbourhoods.
- There is a preference among populations in deprived areas for money or gifts to be involved in one-to-one non-kinship transactions to avoid being obligated to others.
- Participation in unpaid informal work is constrained by a range of factors including a lack of social network capital, time, human capital and finance, as well as institutional constraints and environmental barriers.

- The positive consequences of unpaid informal work for deprived neighbourhoods are considerable whereas the negative consequences are of less significance.
- The current policy approach toward mutual aid privileges participation in community based groups (formal mutual aid) and neglects the cultivation of one-to-one acts of good neighbourliness (informal mutual aid). Such an approach also privileges the culture of community participation found in affluent neighbourhoods, and seeks to impose this onto deprived neighbourhoods that possess different cultures of community engagement. This suggests a role for policies that seek to promote 'one-to-one' mutual aid rather than ones that focus only on supporting community-based groups.
- Investigating how the harnessing of one-to-one aid might be achieved, various bottom-up initiatives (LETS, time banks, mutual aid contracts, employee mutuals) and top-down initiatives (a basic income scheme, a revised New Deal, and an active citizens' credits) might be considered. These all recognise that populations in deprived neighbourhoods appear to prefer some form of tally-system or payment when engaging in informal mutual aid.
- Despite the importance of self-provisioning to the economy, intervention in this sphere to provide additional means of livelihood and reduce inequalities has, to date, received little, if any, attention.
- Analysis of people's attitudes towards, and motives for, engaging in self-provisioning suggests two areas for possible policy development. First policies that seek to develop people's capabilities to engage in rewarding, satisfying and creative self-provisioning, especially in deprived neighbourhoods. Second, and more controversially, policies that seek to formalise the routine, mundane and repetitive self-provisioning of relatively affluent populations in order to create additional formal jobs in the household services sector.

CHAPTER 6

Conclusions

6.1 Introduction

This report has reviewed the existing evidence base relating to informal economic activities within deprived neighbourhoods and identified a wide range of implications for future policy development and research.

The review has demonstrated that there is limited amount of contemporary research literature of all types currently available on informal economic activities within the advanced industrial economies in general, and deprived neighbourhoods in particular. Given this the existing evidence base is limited and there are a number of significant knowledge gaps (see 6.5 for further discussion). Whilst in the 1980s there were a number of seminal publications on informal work in advanced industrial economies, more recently it has been in the developing world where research work has been most dynamic. However, there are clear difficulties in transferring policy experiences from the developing world, although recent experience in the fields of capacity building and community participation indicates that learning from the developing world can be worthwhile.

Where research and policy work does exist, it has a tendency to focus on the 'cash-in-hand' element of informal work. Central elements of informal economic activity have attracted academic work, but this has been within the context of other debates (eg on social capital, the social economy, gender divisions, etc.). Literature from these sources provides additional material, which contribute to a better general understanding of contemporary informal economic activity.

6.2 What are the defining characteristics of informal economic activities?

This review has adopted a definition of informal economic activities that identifies three major types: informal paid work, illegal economic activity, and informal unpaid work (self-provisioning and mutual aid). This definition recognises that there is a wide spectrum of informal economic activities. However, there are clear advantages in identifying these sub types in order to both capture the breadth and complexity of informal economic activities, yet provide an appropriate framework for analysis and policy development. For deprived neighbourhoods, such a definition indicates the need for greater clarity in research in terms of understanding the dynamics of these different types of activities and how they are rooted within specific deprived neighbourhoods, as well as identifying a range of options for policy development.

The definition avoids the tendency of much current research and policy development work to adopt a narrow focus on only the monetised or ‘cash-in-hand’ element of informal activity. Narrow definitions of this sort lose much of the potential of the sector as they fail to acknowledge the importance of reciprocity and non-market based exchange. Such elements are particularly important within deprived neighbourhoods given the restricted ability of many of those living in such areas to participate within commodified, market exchange relations.

Central to understanding and defining informal economic activities is their intense relationship with ‘formal’ economic activities. It is for this reason that the report avoids the use of ‘informal sector’ and ‘informal economy’, as they infer a degree of separateness from formal economic activity which does not exist in practice.

6.3 What role do informal economic activities play within the economy and labour markets of deprived neighbourhoods?

Informal economic activities play a complex and diverse role within deprived neighbourhoods. The nature and type of informal work is rooted within the specificities of particular neighbourhoods and is particularly influenced by the extent and nature of formal economic activity, the characteristics of the local labour market, the characteristics of the local population, and the insertion of the neighbourhood within the wider local/regional economy. In consequence the precise nature and scale of informal economic activities is likely to vary significantly between deprived neighbourhoods.

As a result of this complexity and the lack of empirical research it is difficult to provide accurate data as to the scale and nature of informal economic activity within deprived neighbourhoods. However two points are evident. First, that informal economic activity in general remains an important and growing element of contemporary society within advanced industrial economies. Secondly, the vast majority of the research reveals that the level of informal work is smaller in magnitude in deprived neighbourhoods than elsewhere. However, this does not mean that it is less important. Quite the opposite. People living in deprived neighbourhoods rely on informal work to a far greater extent in their household coping practices to fulfil their needs and wants. The problem, however, is that they are often less able to partake in such activity than their counterparts in more affluent neighbourhoods. In consequence, just as intervention is required to stimulate the formal labour market in deprived neighbourhoods, a key finding of this report is that consideration should be given to possible interventions in the realm of informal work in these neighbourhoods. The nature of the interventions will differ according to the type of informal work being considered (see 6.7).

Generalisations of patterns of movement into, within and out of informal economic activity in deprived neighbourhoods are difficult to make given their complex and diverse constitution within particular places. There is considerable

scope for further research to obtain greater understanding of how issues such as gender, ethnicity and age impact upon engagement within informal work (see 6.5). However, certain general dimensions are apparent (see Table 6.1):

Gender – women are particularly important within the realm of self-provisioning and mutuality, notably those areas associated with unpaid work. They are also over-represented in the illegal economic activity of prostitution and sex work, although there are obvious gender divisions of labour in that trade. In terms of paid informal work females, especially those with childcare responsibilities, cleaning and care work, are markets for labour from deprived neighbourhoods. By contrast male labour dominates certain areas of paid informal work (eg construction), and involvement in illegal economic activity is almost exclusively male youth in drug markets, and primarily males involved in tobacco/alcohol/people trafficking.

Age/lifecycle – Young males are particularly important with regards to illegal economic activity and much less involved in self-provisioning and mutual aid activities, unless as cash mediated reciprocal transactions. By way of stage in life cycle, young families have greater involvement in self-provisioning, and if in formal employment, also display a tendency towards involvement in paid informal work in order to ‘make ends meet’. The elderly are more likely to be involved in mutual aid activity, due to time/cash balances at that stage of life cycle.

Unemployed – The ‘official’ unemployed are less likely to be involved in any of these areas of informal economic activity compared to other groups. If involved in paid informal work it may well be for reasons of cash mediated reciprocity within deprived neighbourhoods, and if involved in illegal economic activity, this is more likely to be opportunistic.

Ethnicity – High levels of self-employment among some black and ethnic minority groups, and their greater likelihood of residing in deprived neighbourhoods, means that for marginal businesses some involvement in paid informal work is more likely. Due to deprivation different ethnic minority groups have become associated with specific illegal economic activities and connections to migrants operating in and through deprived neighbourhoods. There are also specific issues to be addressed in terms of self-provisioning, which varies between different black and ethnic minority communities, and mutual aid, which is very informalised and less likely to be group based.

Immigrants – As both victims and perpetrators, immigrants in deprived neighbourhoods, often due to their legal status, have become involved in paid informal work and illegal working. They are also associated with international organised crime to exploit cross border contacts and movement in different goods and services. Yet the poorest immigrants, asylum seekers and refugees, also rely heavily upon self-provisioning. This places a heavy burden upon women, where present, in those communities. They do however have access to resources of mutual aid and strong bonding social capital within their own ethnic communities.

A brief sketch of the overall role of the identified types of informal economic activity can be attempted. We should however remember that contexts differ

between deprived neighbourhoods and although they share characteristics, no two are alike. Also, it is important to bear in mind that types of informal economic activities are related, both to each other and to the formal economy.

Paid Informal Work: Independently undertaken paid informal work, whilst firstly less prevalent in deprived neighbourhoods for a number of reasons, is more likely to be conducted for reasons of cash mediated reciprocity. We know little about the relationship across space between the consumer market and the market for the supply of goods and services provided by paid informal labour; in particular the demand from affluent neighbourhoods and the supply from deprived neighbourhoods.

Illegal Economic Activity: The association with deprived neighbourhoods is complex and variously ascribed to marginalisation arguments or culture of poverty ones. The central hub of illegal economic activity in deprived neighbourhoods seems to revolve around drug markets, whether local or central. The role played by such activity is equally complex, and arguments connect to both poverty and coping as well as to ingrained cultural practices within poor communities.

Unpaid Informal Work: Including:

Self-Provisioning: The role played by this activity is that it is driven by economic necessity more than choice and restricted by resources and skills. Women bear the brunt of unpaid self-provisioning in deprived neighbourhoods and it is likely to involve less 'glamorous' activities such as cleaning, cooking and laundry as well as care and nurture. Women in deprived neighbourhoods are also more likely to combine self-provisioning responsibility with formal and informal paid work.

Mutual Aid: The identified cultures of participation in mutual aid and neighbourhood community care/work are different for deprived neighbourhoods than more affluent neighbourhoods. In deprived neighbourhoods such activity is more informal and one-to-one based than the group orientations more likely in more affluent neighbourhoods. The role that mutual aid plays is intimately connected to coping, although we should note that many people in deprived neighbourhoods would rather mediate their mutuality through reciprocal cash transactions.

Table 6.1 Key Variables and their Relationship to Informal Economic Activity in Deprived Neighbourhoods				
	Paid informal work (PIW)	Illegal economic activity (IEA)	Self provisioning (SP)	Mutual aid (MA)
Gender	PIW for women in cleaning and care roles – often as cash mediated reciprocity.	Some prostitution and thereupon some connections to crack use. Males dominate supply side of drug market.	Women over-represented in SP. Positive effect is increased reciprocity. Negative effect is displacement of women workers opportunities in formal labour market.	Most one-to-one MA and community group work involves females.
Age		Youth crime and drug market involvement.		Older people more involved in volunteering.
Unemployed	'Myth' of involvement – actual involvement less than the employed.	In market for cheap goods/services.		Some independent PIW is for MA reasons.
Ethnic minority	High rate of self-employment in some B&EMG. Any PIW at fringe of formal economy, and likely to be in cultural niche markets.	Deprived neighbourhoods with high levels of B&EMG also areas with drug markets. B&EM communities most affected by drug markets. Different ethnic gang cultures involved in different IEAs.	Generally less SP in Black Afro-Caribbean community; much more among Asian communities.	B&EMG MA involvement very hidden and more likely to be one-to-one.
Immigrants	Means of integration to formal labour market or as alternative when barred from access.	Illegal working and connections of illegal immigrants (as perpetrators and victims) to international organised crime.	Poverty among migrants forces SP through necessity. Heavy burden on females.	Tight bonding social capital and MA within own migrant B&EM communities.

6.4 To what extent are informal economic activities both a drain and a positive force for economic activity within deprived neighbourhoods?

Many informal economic activities are characterised by fundamental contradictions that ensure that they contain both positive and negative elements with respect to their contribution to processes of local economic development. To identify 'positive' consequences of informal economic activity is neither to condone nor suggest the promotion of such activities; it is merely to indicate certain consequences, which could be interpreted as positive for the individuals involved.

The negative consequences of informal economic activities are most apparent with respect to illegal economic activity and, to a lesser extent, paid informal work. For illegal economic activity negative consequences outweigh any positive benefits. However, paid informal work is probably the most contentious area due to its intimate relationship with formal economic activity. Activity of this type can clearly be highly damaging to formalised activities, but also offers important complementarities and flexibility.

The positive consequences of informal economic activities are most apparent and at their least contentious in the realm of self-provisioning and mutual aid. The ability of these actions to help meet basic needs and contribute to survival strategies, to keep local populations active and engaged and develop stocks of social capital are all particularly important within deprived neighbourhoods.

In evaluating the balance between negative and positive consequences we need to be aware that these may be different for different individuals and for the neighbourhood as a whole. A further important distinction can be made between dependent and independent informal economic activities. Negative consequences are at their most severe with respect to 'dependent' informal economic activity where either formal (firms) or informal (gangs) institutions operate informally in order to exploit workers and evade the processes of law. In contrast, 'independent' informal economic activity is often closely aligned to the pursuit of survival strategies in a manner which often displays what are considered positive virtues of self-reliance, initiative taking, engagement and entrepreneurialism. However, there are many relationships between dependent and independent activities which means that at times the clarity of this distinction is difficult to maintain.

From a policy development perspective, there are clear positive aspects to informal economic activity which could be encouraged and built upon, whilst other elements need to be regulated and censured. The case for supporting informal economic activity can be made both in terms of supporting a transition to the formal sector as well as improving the quality of life and 'liveability' of deprived neighbourhoods.

6.5 What is the extent of current research into informal economic activities and where are the major knowledge gaps?

There has been little recent research explicitly focused on informal economic activities within the advanced industrial economies in general and deprived neighbourhoods in particular. The recent work by Williams and Windebank, which has been widely cited in this report, is the only recent research work, which has focused specifically on informal work in different types of neighbourhoods within the UK. Furthermore the review has identified little in the manner of ongoing or planned research in this area.

As a result there are a number of major research gaps that can be identified. These include general knowledge gaps relating to all aspects of informal economic activities (Box 6.1) as well as more specific issues relating to particular types of informal economic activity (see Table 6.2). A number of these knowledge gaps are worth highlighting:

- There are significant knowledge gaps concerning the details of engagement in informal economic activities with respect to different ethnic groups, age, and in terms of gender roles. Given the importance of ethnic groups within deprived neighbourhoods and the expectation of significant differences between ethnic groups, the first of these appears particularly important.
- The relationship between deprived neighbourhoods and the wider local/regional economy in terms of the market for informal work is poorly understood. Particularly for paid informal work and illegal economic activities, the extent to which residents from deprived neighbourhoods engage in informal work outside of their neighbourhood appears significant in understanding the economic importance of this type of informal economic activity both in terms of employment and flows of money into and out of deprived neighbourhoods.
- The attitudes of the public towards informal economic activities remain poorly understood. Greater understanding of the degree of public approval/disapproval towards different forms of such activity would provide an important basis for policy development.
- The process and extent to which informal economic activity in the various areas of paid informal work, self-provisioning, mutual aid and illegal economic activity develop entrepreneurial skills and lead to small business start-ups remain poorly understood, although this is often seen as a key potential contribution of informal activity.
- The extent, character, motives and barriers to participation in informal community involvement in deprived neighbourhoods needs examination, particularly the importance of one-to-one aid and how promotion of this activity could be achieved.

- The small number of initiatives which have sought to promote informal economic activity require systematic and critical evaluation in order to assess their socio-economic impacts.
- In promoting local level policies greater knowledge on the nature and extent of informal economic activities in specific localities is required. However, there needs to be further consideration as to how this could be done in practice.
- There are major challenges to filling these knowledge gaps with respect to informal economic activities. Given the lack of adequate secondary data much of this work will need to be in-depth primary research within particular localities.

Box 6.1 Generic Knowledge Gaps with Regard to Informal Economic Activity in Deprived neighbourhoods

- details of engagement in informal economic activities with respect to different ethnic groups, age/life-cycle, and gender roles
- relationship between deprived neighbourhoods and the wider local/regional economy in terms of the market for informal goods and services
- public attitudes towards informal economic activities remain poorly understood
- process and extent to which informal economic activity develops entrepreneurial skills and leads to small business start-ups
- systematic and critical evaluation of the socio-economic impacts of initiatives which have sought to promote informal economic activity
- identification of means for assembling greater knowledge on the nature and extent of informal economic activities in specific localities to inform local level policy development

Table 6.2 Specific Knowledge Gaps with Regard to Informal Economic Activity in Deprived neighbourhoods		
Paid Informal Work	Illegal Economy	Unpaid Informal Work
<ul style="list-style-type: none"> • The spatial relationship between the locations of production of goods and services and the locations of their consumption • Patterns of ethnicity with regard to paid informal work • Attitudes of the general public towards different types of paid informal work • Role of paid informal work in generating entrepreneurial skills and creating formal small businesses • Evaluation of Test Trading and formalisation initiatives 	<ul style="list-style-type: none"> • Improve the gathering and monitoring of information on illegal economic activity by appropriate agencies and partnerships • Generation of a methodological 'toolbox' to enable local agencies to assess the size and character of different illegal economic activities within deprived neighbourhoods (DNs) • Knowledge sharing and joined-up activity across involved agencies (including international ones) to confront the centrality of organised gangs in most illegal economic activity and their involvement in more than one type of activity and more than one DN • Clarification of the definition of illegal economic activity necessary as a starting point for activity related to other knowledge gaps 	<ul style="list-style-type: none"> • The extent, character, motives and barriers to participation in formal and informal community involvement in DNs to identify whether a re-focus on promoting informal participation is required and how this could be achieved • Evaluation of various initiatives (LETS, time banks, active citizens tax credits, tool banks, etc.), to ascertain the extent to which they could promote informal community participation and self-provisioning capacities in DNs • In-depth understanding of issues surrounding the formalisation of specific self-provisioning tasks including the evaluation of programmes undertaken in other advanced economies • Impact of the demise of subjects such as metalwork, woodwork and home economics in the school curriculum upon skills required for self-provisioning, especially amongst the young in deprived neighbourhoods

6.6 What are the impacts of current policies and regulations upon the operation of informal economic activity in deprived neighbourhoods?

Current policies from government departments on informal economic activity derive from a desire to reduce paid informal work (DWP, Inland Revenue, Customs and Excise). However there is also evidence of a more ambivalent view where such activities might help tackle problems of social exclusion (Small Business Service, Active Communities Unit, SEU, NRU) (see Table 2.3). The

tendency post-Grabiner has been for the former policies to reduce benefit fraud and tax evasion to predominate over tackling social exclusion, associated with direct neighbourhood renewal agendas and social policy.

There have been policy initiatives emerging from the social inclusion agenda which seek to formalise informal economic activity (eg Back to Work Bonus, Test Trading, use of Phoenix Fund for projects to facilitate formalisation). There is very little evidence of recent policies that have specifically sought to either shift informal activity into the formal sector, or enable such activity as the basis for an improved quality of life or alternative to formal employment. Where such policies have existed there is little in the way of formal evaluations of them (although see Ashworth and Youngs, 2000; Thomas, et al., 1999; Kellard et al. 2002). The balance of policies currently in place and those that might be utilised in relation to informal economic activity and deprived neighbourhoods can be viewed at Tables 6.3 and 6.4 respectively.

Table 6.3 Current Policy Interventions and Informal Economic Activity	
Type of informal economic activity	Current policy interventions
PAID INFORMAL WORK – Generally	<ul style="list-style-type: none"> • National Minimum wage • New Deals • Working Families Tax Credit • More cross checks between Government departments • Joint Benefit, Tax and VAT Fraud Investigation Unit • Prosecution • Advertising campaigns to change public opinion
Dependent and semi-independent paid informal work	<ul style="list-style-type: none"> • Intermediate Labour Market Schemes • Inland Revenue Construction Industry Scheme • Business registration schemes • Personal advisors to assist informal businesses to regularise
Independent paid informal work	<ul style="list-style-type: none"> • More frequent attendance at Jobcentre required for those suspected of working whilst claiming benefit • Back to Work Bonus • Test Trading Initiative • Formalisation Projects (eg Street UK)
ILLEGAL ECONOMIC ACTIVITY – Generally	<ul style="list-style-type: none"> • Advertising campaigns to inform public opinion • Efficient central population register
Drug supply	<ul style="list-style-type: none"> • Investigate and prosecute supply and use • Positive Futures projects
Prostitution	<ul style="list-style-type: none"> • Investigate and prosecute soliciting and living off immoral earnings
Tobacco/Alcohol trafficking	<ul style="list-style-type: none"> • Investigate and prosecute traffic and sale
Illegal Working	<ul style="list-style-type: none"> • Investigate and prosecute workers and firms involved • Measures to prevent identity fraud • New identity checks likely to be introduced for employers and employment agencies.
UNPAID INFORMAL WORK – Mutual Aid Generally	<ul style="list-style-type: none"> • Higher Education Active Community Fund • LET schemes to be further developed and enabled to operate tax free • Time Banks • Mutual Aid Contracts on new housing

6.7 What are the challenges and opportunities for further policy development?

Informal economic activity is an integral part of the overall economy in deprived neighbourhoods and will continue to be so in the future. Previous modernisation perspectives conceived of informal economic activity as residual activity that will eventually disappear. Evidence suggests that contemporary processes of economic globalisation, flexibilisation and the reconfiguring of state activity have further stimulated the growth of informal work. In policy terms this reality needs to be recognised. For deprived neighbourhoods informal economic activity is a major resource in areas where resources are in short supply. The challenge therefore is whether and how to build upon the positive elements in such a manner that complements efforts to tackle the negative aspects of informal economic activity.

6.7.1 STRATEGIES TO ADDRESS THE NEGATIVE IMPACTS OF INFORMAL ECONOMIC ACTIVITY

A strategy might be to focus the more draconian measures where the negative impact is greatest and to direct formalisation and other policy initiatives where the positive consequences of informal economic activity in disadvantaged neighbourhoods are likely to be highest. The areas of negative impact are in fact most likely to be those where informal economic activity is most heavily connected to large and quite formal organisations. We refer here firstly, to legitimate firms mainly involved in formal economic activity, who might also (mainly through sub-contracting) engage paid informal labour. Such practices breach regulations, undermine the minimum wage legislation, represent unfair competition and are more likely to breach health and safety at work, and exploit the workforce, many of whom are likely to be residents of deprived neighbourhoods. This is found in the *dependent and semi-independent* types of activities of paid informal work. The second area for focus is illegal economic activity involving *organised crime* and gangs. The degree of coercion and exploitation of workers embroiled in such illegal activity is often hidden due to a range of fears experienced by such workers. Both of these areas of activity turnover significant finance and involve substantial losses to the taxpayer. The current policy framework relevant to informal economic activity does much to address the negative impacts of informal economic activity (see Table 6.4).

6.7.2 STRATEGIES TO ADDRESS THE POSITIVE IMPACTS OF INFORMAL ECONOMIC ACTIVITY

The adoption of the wider definition of informal economic activity is the starting point for the second range of challenges for policy development. The guiding principle of strategy for policy development here would be to positively promote the advantage of engagement in the remaining range of economic activity without unduly effecting the competitiveness of formal economic activity or creating an excessive financial burden on the state. Much of the

current policy framework concerning informal economic activity does not address the potential positive impacts for disadvantaged neighbourhoods. Such strategies might include schemes to encourage *mutuality and positive social capital* (eg LET schemes, Time Banks), *acquire skills* (eg for self-provisioning), *develop entrepreneurial skills* (eg via formalisation schemes) *promote active citizenship* (eg via a tax credit system) and generally improve the *ability to cope* of those living in deprived neighbourhoods. By valuing certain types of informal work, such strategies might reconfigure what we mean by worklessness and reduce the stigmatisation associated with myths of claimant idleness and criminality. More contentiously, policy development could also further address aspects of illegal activity and their relationship with deprived areas, drawing upon experiences and pilot schemes in Europe and the UK (eg prostitution zones, licensed brothels, legalisation of soft drugs, improved access to formal employment for refugees and asylum seekers).

6.7.3 DESIGNING POLICY FRAMEWORKS WHICH 'FIT' LOCAL CONDITIONS

Using the definition of informal economic activity and knowing how it connects to the formal 'seen' economy in different deprived neighbourhoods enables the adaptation of policy frameworks to local conditions and context. The difficulty here is to establish local knowledge bases about informal economic activity to enable this to be taken forward.

6.8 Key summary points

- A full consideration of the impact of informal economic activity upon deprived neighbourhoods requires a starting point that takes in the breadth of definition that we have employed here. Informal economic activity is not just unregulated or unseen, it is also in large measure unremunerated. Informal economic activities cannot be considered in isolation from each other and importantly, from their relationship to more formal economic activities. Despite the conventional wisdom of modernity, informal economic activity is growing and not just in the developing world but also in the advanced economies. Globalisation and the incessant search for flexibility are some of the main reasons for this.
- However, the relationship between deprived neighbourhoods and informal economic activities is not that the latter proliferate in the former, but rather the converse; they are not so widespread there. Yet as a cornerstone of coping strategies, the various manifestations of informal economic activities take on qualitative importance. We should be wary of generalising not just about the complex nature of informal economic activities, but also about the characteristics of deprived neighbourhoods. They all differ and each present a distinct context of economic activities.
- Generalisations of patterns of movement into, within and out of informal economic activity in deprived neighbourhoods are difficult to make given their complex and diverse constitution within particular places. There is considerable scope for further research to obtain greater understanding of how issues such as gender, ethnicity and age impact upon engagement

within informal work. However, certain general dimensions are apparent (see Table 6.1).

- To examine negative and positive consequences of informal economic activities is ultimately to make moral, ethical and political judgements as to their desirability. Conventionally, we would assume that most of the negative consequences arising from informal economic activities emerge from illegal and some paid informal work. More particularly, organised crime and the involvement of formal and often large firms in informal economic activity are associated with undesirable consequences for society and the most deprived members in particular.
- Understandably, there are a range of knowledge gaps with regard to informal economic activity. In particular: public attitudes towards informal economic activity, the participation of different groups in society in informal economic activity; the relationship between residents of deprived neighbourhoods and the market for informally produced goods and services in their own and other more affluent neighbourhoods; and the extent to which informal economic activities represent a learning environment for those desiring more formal inclusion in society.
- The current and relevant UK policy environment is mainly focused upon paid informal work and illegal economic activity and is largely centred upon efforts to prevent, deter and punish cash related informal economic activity. It is not matched by similar policy effort to promote, enable and reward other, often unpaid, informal economic activity.
- Strategies for policy development might focus upon maximising the positive consequences of informal economic activity at the expense of minimising the negative. In this regard the focus of the more draconian policy measures should be upon the more formal elements of cash mediated informal economic activity; namely organised crime and paid informal work that involves and is dependent upon large formal firms.
- Strategies for policy development to promote the positive consequences of informal economic activity would involve effort to enable those activities that build social capital and mutuality, enable the acquisition of skills and help people in deprived neighbourhoods cope.
- Ultimately however, policy development should proceed from an awareness of the wisdom of taking a broad view of what constitutes informal economic activity, which this review promotes.

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