

CHAPTER 4

INFORMAL EMPLOYMENT IN CALIFORNIA

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The purpose of this chapter is two-fold. After first estimating the number of persons employed informally from 1990 to 1999 in California by occupation, I next investigate (1) whether informal employment (IE) is simply an economic survival strategy; (2) whether those employed informally hold multiple jobs and pay income taxes; (3) the gender, ethno-racial, and immigrant composition of IE; (4) the geographic distribution of IE; and (5) whether those employed informally use public assistance programs. IE is here defined as “the paid production and sale of goods and services that are unregistered by, or hidden from, the state” in an effort to avoid complying with environmental, health, safety, labor, and tax regulations (Williams and Windebank 1998). The purpose is not to estimate the total amount of IE in the state, but to investigate how lower- to middle-income workers are coping economically in a context where work and welfare have been radically restructured by design (Champlin and Knoedler 1999).

After reviewing some literature and the analytical approach that will guide our analysis in the next section, I explain why the estimated proportion of unauthorized Mexican immigrants by occupation is used to tag specific occupations (and all persons employed in them) as informal. A fourth section reports our findings, section five discusses some policy implications, and we conclude by summarizing the study’s major findings.

The study’s results indicate that the number of those employed informally is estimated to have fallen from the early to mid-1990s, and to have risen slightly thereafter. Overall, the level of estimated IE dropped from 2.7 to 2.3 million workers, representing 17 and 14 percent of California’s total labor force respectively. Thus, contradicting the prediction of rising informality, more commonly known as the “informality thesis,” a smaller fraction of California’s workforce appears to be working informally than was the case in the early 1990s. Analysis of data covering the previous decade reveals that informal workers in California were more likely (1) to have worked for a private enterprise in the Agriculture/Mining or Personal Service sectors, (2) to have resided in southern California or the Bay area, (3) to have been younger, less-educated, ethno-racial minorities, and foreign-born, and (4) to have been impoverished, used welfare, and earned lower hourly wages compared with those working formally. Fully 94 percent of those employed informally, however, filed tax returns.

Rejecting both traditional conservative and liberal approaches, it is here argued that what is needed to ameliorate the negative effects of IE is a combination of top-down (e.g., developing public

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works projects and increasing the minimum wage) and bottom-up (creating time dollar bank accounts and inclusive collaborative regional economic planning) strategies.

II. Analytical Approach

Most past research has employed either a macro-quantitative technique to estimate the volume and value of IE or a micro-ethnographic technique to detail the character of IE (Williams and Windebank 1998; Schneider and Enste 2000). Consequently, the study of IE may be usefully separated into two broad categories. First, more *indirect* approaches employ aggregate non-monetary (e.g., industry or firm), monetary (e.g., cash-deposit ratio or high denomination note), or income/expenditure data (Denison 1982; Fernandez-Kelly and Garcia 1989; Fiege 1990; Gutmann 1977, 1978; Henry 1976; Mattera 1985; Sassen and Smith 1992; U.S. GAO 1989). More *direct* approaches, on the other hand, typically use participant observation or other ethnographic methods to investigate the nature of IE (Hondagneu-Sotelo 1994; Lopez-Garza 2000). An alternative approach, dodging some of the disadvantages and incorporating some of the benefits of the direct and indirect methods, combines data gathered from a regional randomized household survey and U.S. census data to estimate both the level and character of IE in Los Angeles County (Pastor et al. 2000; Marcelli, Pastor and Joassart 1999).

Gutmann (1997, 1978) first brought IE in the United States to the public's attention, and reported that at least 10 percent of officially calculated national income, or approximately \$1,500 for a family of four in 1976, was produced informally. This study was subsequently criticized for basing estimated IE on the cash-deposit ratio because according to an IRS study, up to one-third of all IE may be paid for with checks, not cash (Fiege 1990). A related problem with macro-quantitative estimates concerns estimated trends in IE. For instance, Henry (1976) uses the proportion of large denomination currency notes (an indirect monetary estimation methodology) and finds that IE rose from 1960 to 1970. Alternatively, Paglin (1994) assumes that household consumption amounts above reported income (an indirect income/expenditure approach) is a good proxy for IE and reports that IE declined, albeit for a different time period than Henry (1976). Even when the same indirect methodology is employed with the same data, divergent results have been obtained. Denison (1982), using an indirect non-monetary "residual" methodology (e.g., assuming workers would report their employment in the Census Bureau's Current Population Survey but not show up in the Bureau of Labor Statistics' survey of firms) reports that there has been no change in the level of IE in the United States during the post-World War II period. But a U.S. Congress Joint Economic Committee (1983) study employing the same data and methodology provides evidence to the contrary. Consequently, "the vast majority of commentators on informal employment resoundingly reject [the product of macro-quantitative methods] as an accurate measure of the extent and character of informal employment" (Williams and Windebank 1998).

Unfortunately, most researchers continue to employ analytical frameworks that focus attention on estimating the size rather than the character, sources and consequences of IE. In other words, questions concerning why people work informally, the returns to such employment, and the effect IE has on those persons and businesses engaged in formal economic activity are seldom asked. This is not surprising. Absent individual-level estimates of those working informally, it is difficult to gauge how IE impacts them, other workers, or the establishments for which they work. Alternatively, a more direct survey-based estimation methodology that secures individual-level data enables one to examine IE across a wide range of industries and occupations and to analyze conditions of IE, including whether participants are paying taxes and using welfare. A variant of this methodology is explained and employed below.

III. Data and Methodology

I first generate legal status prediction information for non-citizen, foreign-born Mexican adults using data gathered from a November-December 1994 Los Angeles County household survey of foreign-born Mexicans (Marcelli and Heer 1997, 1998). This survey was conducted jointly by researchers from El Colegio de la Frontera (COLEF) and the University of Southern California (USC), and is a probability sample of those census tracts in Los Angeles County in which (according to the 1990 Census) 25 percent or more of the total population was born in Mexico. Adults from 271 households in which at least one

person was born in Mexico were asked a series of demographic, migration, and legal status questions, from which information about 661 foreign-born Mexican adults was obtained.¹ Assigned legal status (LS) is then logistically regressed on four demographic variables (e.g., age, sex, educational attainment, and years residing in the United States since first entry) to generate predictors of legal status, which can be applied to foreign-born Mexican adult populations enumerated in larger samples such as the 5 percent 1990 Public Use Microdata Samples or various March Current Population Surveys.²

Readers interested in the predictive accuracy of this methodology should note the following. First, the prediction equation assigns legal status in our randomized 1994 COLEF-USC household sample approximately 85 percent of the time. Thus, some non-citizen foreign-born Mexican adults will be incorrectly classified. Second, the methodology assumes that the predictive coefficients obtained from one year (e.g., 1994) and one geographical location (e.g., Los Angeles County) may be usefully applied to other years and other regions in California. This assumption is problematic only to the extent that factors explaining legal status among foreign-born Mexicans (1) change over time or (2) vary from region to region. Finally, recent work that has applied the coefficients generated from the 1994 COLEF-USC survey to all non-citizen, non-Cuban Latinos has generated an estimated number for all unauthorized Latino (Mexican plus all other non-Cuban Latino) immigrants (ULI) that is less than one percent lower than that interpolated from aggregate-level estimates generated by the Immigration and Naturalization Service (INS) using a completely different methodology. Specifically, Marcelli (1999) estimated that there were 146,838 ULI in Los Angeles County in 1990, and the number interpolated from Warren's (1994) *composite* (*components-of-change* and *residual* methods combined) estimate was 147,350. Thus, assuming it unlikely that both figures are inaccurate, we may have some confidence that the estimated number and characteristics of ULI generated by this survey-based estimation methodology are reasonable. And despite the limitations noted above, it appears that our legal status prediction equation generates believable estimates not only of UMI but also of ULI, two groups that constitute a large share of all unauthorized immigrants residing in California.

The main advantage of a survey-based estimation methodology over the more common *residual* and/or *components-of-change* estimation methodologies (Warren 1994, 1997) is that the former offers individual-level information about unauthorized immigrants. The latter provide general source country, age, year of entry and other demographic characteristic, breakdowns of estimated unauthorized immigrants, but no individual level information, by subtracting the number of foreign-born persons who were reported as having obtained permanent legal status in administrative records from the number of non-citizen, foreign-born persons enumerated in the PUMS and CPS. However, unlike the disparities between estimates of informal employment generated by macro-quantitative and micro-ethnographic methodologies highlighted in the previous section, survey-based and residual methodologies estimating the number of unauthorized immigrants produce very similar results.

The procedure used here to tag each adult California worker as engaged in either informal or formal employment builds on previous work by Marcelli, Pastor and Joassart (1999) and Pastor, Dreier, Grigsby III, and Lopez-Garza (2000). First, after a probability of being UMI is generated for each individual foreign-born Mexican adult enumerated in the 1990 PUMS, the combined 1994-96 March CPS, or the combined 1997-99 March CPS are summed to obtain estimated total numbers of UMI for each of the three time periods. Second, foreign-born Mexican adults are ranked by the probability of being UMI in descending order, and a number equivalent to the summed probabilities, moving from top to bottom, is assigned UMI legal status. This method is applied to males and females separately. Third, the proportion of UMI for each of 41 occupational categories created from the 501 developed for the 1990 Census of Population and Housing are compared to the proportion of UMI estimated to be part of the entire California labor force. Similar to others (Joassart 1999; Model 1993; Lopez, Popkin and Telles 1996; Waldinger 1996), I use a conceptual tool called the "index of representation" to identify occupations more and less likely to be informal. An index is computed for each occupational category simply by dividing the proportion of estimated UMI in that category by the estimated proportion of UMI for the entire Californian labor force. An occupation is considered to be (1) informal if the index is greater than two, (2) potentially informal if the index is at least one but less than two, or (3) formal if the

index is less than one. Thus, only those occupations with at least twice the proportion of UMI than average are considered to be niches of informal employment. Finally, the occupational level of IE for 1990, 1994-96, or 1997-99 is equal to the sum of all workers (e.g., not only the estimated number of UMI) within each occupation tagged as informal, and the total number of adults engaged in IE is equivalent to the sum of all workers employed in the informal occupations. The reasonable assumption here is that UMI are more likely to be engaged in occupations where environmental, health, labor, safety and perhaps tax regulations are not being observed, as are others working in these occupations.

Results

Using the techniques described above, we find that approximately 3 percent of the California labor force was UMI throughout the 1990s.³ Specifically, in 1990 there were an estimated 429,000 UMI, in 1994-96 there were 457,000, and in 1997-99 there were 488,000 (Marcelli 2001).

Comparing the proportions of estimated UMI who worked in 41 different occupational categories reveals that in 1990 nine occupations had at least twice the estimated proportion of UMI workers in the state's overall labor force (Table 1). In 1994-96 as well as in 1997-99 there were seven. While the number of persons working informally fell from 2.65 to 2.09 million from 1990 to 1994-96, or by 21 percent, it rose to 2.31 million, or by 10 percent, between 1994-96 and 1997-99. Thus, although the number of those working informally in California has fallen during the 1990s by 13 percent, as recently as 1997-99 they represented 14 percent of the labor force and 15 percent of all employed persons.

While one may be tempted into thinking that these results lend some support to the informalization thesis, given that California's economy entered a period of recession in the early 1990s and one of expansion in the mid-1990s, they do not. Although the level of IE followed the business cycle, as the economy expanded during the past decade the overall level of IE fell.

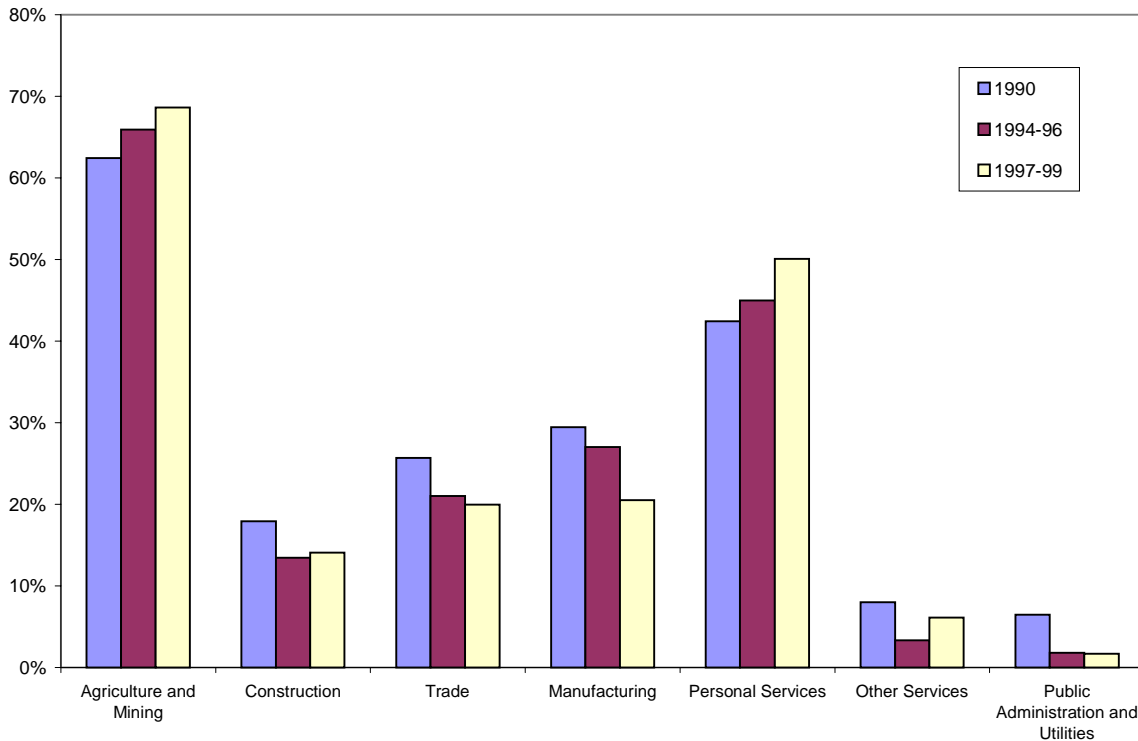
Throughout the 1990s informal workers (IW) were more likely than formal workers to have been working for a private business establishment rather than for government or for themselves (table 2), and to be employed in industries suspected by scholars and policymakers to be relatively informal (figure 1). IW constitute approximately two-thirds of Agriculture and Mining employment and half of all persons employed in Personal Services. Furthermore, the proportion of an industry's workforce that is informally employed rose in these and fell in all others, which had much lower proportions. It appears then that IW in California do not conform to the image of the successful entrepreneur. Rather, they are more likely to be working for others in industries that have historically been more successful at avoiding costly state regulations, and this characteristic appears to have intensified over the 1990s.

Table 1: Estimated Number of Informal Workers

Occupational Category	1990		1994-96 Average		1997-99 Average	
	Workers	% UMI	Workers	% UMI	Workers	% UMI
1. Farm, Forestry, & Fishing workers & related	322,725	18.6%	375,776	17.6%	408,340	19 %
2. Private household workers	95,111	11.4%	183,164	13.3%	164,295	8 %
3. Machine operators & tenders, except precision	487,573	11.0%	497,124	13.2%	545,524	13 %
4. Other handlers, equipment cleaners, helpers, & laborers	15,115	10.7%	14,924	18.0%	--	0 %
5. Construction laborers	147,253	10.6%	78,915	12.8%	132,208	17 %
6. Food service	584,079	8.9%	664,852	11.8%	698,548	10 %
7. Cleaning & building	337,644	8.6%	--	--	319,222	6 %
8. Fabricators, assemblers, inspectors, & samplers	303,905	7.7%	276,572	8.0%	--	--
9. Freight, stock, & material handlers	357,139	7.0%	--	--	--	--
10. Computer equipment operators	--	--	--	--	38,751	6 %
Total Persons Employed Informally	2,650,544		2,091,327		2,306,888	
Percent of All Employed Persons	18.6%		14.9%		15.2%	
Percent of Labor Force	17.4%		13.6%		14.2%	

Table 2: Descriptive Characteristics	1990		1994-96		1997-99	
VARIABLE	Formal	Informal	Formal	Informal	Formal	Informal
GEOGRAPHIC DISTRIBUTION						
Los Angeles, Core	29%	33%	27%	31%	27%	33%
Los Angeles, Fringe	20%	20%	21%	21%	19%	17%
San Diego	9%	7%	8%	7%	9%	8%
San Francisco Bay Area	25%	19%	25%	18%	27%	19%
Central Valley	6%	9%	7%	10%	7%	11%
Balance of State	11%	12%	12%	13%	11%	12%
AGE						
16-30	32%	46%	25%	43%	27%	38%
31-40	29%	25%	30%	28%	28%	28%
41 or Older	39%	29%	45%	29%	46%	35%
EDUCATION						
Less than High School Degree	10%	48%	7%	47%	7%	50%
High School Graduate	19%	25%	21%	28%	20%	28%
Some College or More	71%	27%	72%	25%	73%	22%
ETHNO-RACIAL GROUP						
African-American	7%	5%	6%	2%	7%	3%
Asian	9%	9%	11%	8%	13%	10%
Latino	14%	48%	17%	58%	17%	59%
White	69%	37%	66%	31%	63%	27%
Other	1%	1%	1%	1%	1%	1%
NATIVITY						
Foreign-born	19%	49%	21%	58%	22%	61%
POVERTY						
Poor	9%	27%	9%	36%	9%	37%
PUBLIC ASSISTANCE						
Received AFDC/TANF	1.0%	2.1%	0.7%	1.9%	0.9%	1.7%
EMPLOYMENT						
Part-Time	21%	28%	22%	33%	25%	32%
Multiple Jobs	--	--	17%	12%	17%	11%
Private Establishment	69%	87%	66%	90%	68%	91%
Government	20%	7%	18%	4%	17%	5%
Self-Employed	12%	6%	17%	6%	14%	4%
HOURLY EARNINGS						
Mean	\$15.76	\$9.39	\$17.73	\$9.24	\$18.81	\$9.84
Median	\$12.02	\$7.08	\$14.91	\$7.41	\$14.44	\$7.11
TAX FILING STATUS						
Filed a Tax Return	--	--	1.9%	6.4%	2.6%	6.4%

Figure 1: Industrial Representation & Distribution, 1990-1999



Reflecting the precarious nature of much IE, our analysis also reveals that a slightly higher share of formal workers held multiple jobs, and a lower proportion worked part-time (table 2).

Geographically, IW were over-represented in three regions during the 1990s. The five-county Los Angeles region was home to fully 53 percent of all IW in 1990, with 33 percent residing in Los Angeles County alone. Another 19 percent lived in the San Francisco Bay area, with the remaining 28 percent dispersed throughout the Central Valley region (9 percent), the San Diego region (7 percent), and the balance of the state (12 percent). By the 1997-99 period this distribution had changed only slightly. In terms of the proportion of a region's entire workforce, IW were over-represented in three regions: Los Angeles County (21 percent), the Central Valley (24 percent), and unincorporated areas, here termed "Balance of the State" (20 percent). On average, and as reported earlier, IW represented approximately 17 percent of the state's workforce.⁴

IW also tended to be younger than formal workers throughout the 1990s, although the age composition of both groups appears to have shifted up. Approximately 40 percent of IW were aged 16 to 30 compared to just under 30 percent of all formal workers.

Not unrelated to formal workers' relatively older age profile is their higher level of educational attainment. Table 2 shows that about one-half of all IW have less than a high school diploma, whereas only 5 percent of formal workers do. Furthermore, the proportion of IW with at least some college declined in the 1990s from 27 to 22 percent. Fully 78 percent of IW had no more than a high school diploma compared with only 27 percent of formal workers.

It is also the case that IW are overwhelmingly nonwhite (with Latinos constituting between 48 and 59 percent) and formal workers are mostly non-Latino and white (figure 5). Further, it is noteworthy that among formal workers the proportion of non-Latino whites has been falling, from 69 to 63 percent between 1990 and 1999.

While the proportion of all formal workers who were foreign-born remained constant (20 percent) during the past decade, it rose among IW from 50 percent in 1990 to 60 percent in 1997-99. Unsurprisingly, and although more than 40 percent of all IW were born in the United States, most co-workers of unauthorized Mexican immigrants tend to be ethno-racial minorities and other foreign-born persons.

Also unremarkable is the finding that IW were more likely to have been impoverished, and to have accessed either Aid to Families with Dependent Children (AFDC) before 1997 or Temporary Assistance to Needy Families (TANF) after January 1, 1997.⁵ While 9 percent of all formal workers remained poor throughout the 1990s in California, the share of IW who were poor rose from 27 to 37 percent.⁶ And while use of the AFDC/TANF program during the 1990s has dipped slightly for all workers, IW use is twice that of formal workers. Still, only 2 percent of all IW accessed AFDC or TANF in the past decade.

Higher incidences of poverty and AFDC/TANF participation by IW are also inversely related to earnings (table 2). Measured by both the mean and the median, IW hourly earnings remained flat and those of formal workers rose during the 1990s. Specifically, mean IW (formal worker) hourly earnings equaled between \$9 and \$10 (\$16 and \$19), and median hourly earnings of IW were about \$7 and between \$12 and \$14 for formal workers. Put differently, while median IW hourly earnings fell from 63 to 57 percent of the workforce average during the 1990s, the median hourly earnings of formal workers rose from nine to 15 percent. This evidence, complementing that reported concerning the precariousness of IW, lends additional credence to the notion that working informally for many in California provides relatively marginal benefit.

Lastly, while very small proportions of either IW (6.4 percent) or formal workers (about 2 percent) are reported not to have filed an income tax return between 1994 and 1999, the proportion of formal worker non-filers rose from 1.9 to 2.6 percent between the 1994-96 and 1997-99 periods. Contrary to public perception, the proportion of IW who did file a tax return remained constant at 94 percent.

Policy Implications

Policy-makers have embraced two main strategies in an effort to eradicate IE. First, eradicating IE via government intervention in an effort to achieve full employment and a comprehensive welfare system is the strategy touted by most politically left-of-center advocates. This is commonly based on the assumption of worker exploitation or state revenue deprivation. The idea is that IE is not necessary because the state can create full employment and a universal safety net. Increasing economic polarization in California and a welfare system that aims primarily to protect the working poor suggests, however, that neither full employment – i.e., work that pays at least a “living wage” (Pollin and Luce 1998; Ciscel 2000) – nor a comprehensive welfare state is forthcoming anytime soon. Apart from perhaps improving the working conditions of those working informally, it is probable that trying to regulate IE away will be a waste of time and resources.

An alternative view emphasizes the importance of deregulating formal employment. Those who see the state mainly as a constraint to free market exchange and economic prosperity claim that it is responsible for IE and should therefore reduce its efforts to regulate firms’ activities. By doing so, the state would remove the institutional distinction between formal and informal work. Those supporting a deregulatory or a regulatory approach both seek to eliminate IE. The difference is that the former views the market, and the latter, the state as antagonist. In reality, the market and the state are inseparable institutions that jointly set the parameters by which a market economy grows (Marcelli 2000; Williams and Windebank 1998).

The deregulatory, like the regulatory, approach also incorrectly assumes that full employment is possible, although it is perhaps more likely in the presence of fewer state constraints on business activity. The drawback with a purely neoliberal perspective, unfortunately, is that it fails to address the widening earnings differential and poverty in California (Marcelli and Joassart 1998; More et al. 2000), and their probable negative impact on IE and future economic growth (Marcelli 2000; Niggle 1998). As one prominent mainstream labor economist admits, “inequality is destructive whenever the low-wage

citizenry views society as unfair, when it views effort as not worthwhile, when upward mobility is viewed as impossible or as so unlikely that its pursuit is not worthwhile” (Welch 1999).

Consequently, an effective solution to IE needs to begin by acknowledging that it may increase in the presence of either a highly regulatory state or in its absence. It is a structural component of California’s economy (Marcelli, Pastor, and Joassart 1999; Williams and Windebank 1998). Most importantly for policy formation, a portrait of the level and character of informal work is needed, and this is what this chapter has offered. The finding that the level of IE parallels the business cycle, and that IE provides only marginal compensation and employment security leads promptly to the conclusion that the state has an indispensable role to play (Marcelli 2000; Gordon 1997). Indeed, the state cannot be neutral toward IE and its deleterious effects. It has not been in the past. It is not in the present. And it will not be in the future (Dugger 1998). This is not to suggest that IE is necessarily a partisan issue, however. Simply encouraging economic growth either by reducing state regulations on business activity or by expansive fiscal policy neglects the detrimental aspects of IE outlined above.

Williams and Windebank (1998) maintain that because we can no longer realistically expect the natural culmination of modern economic growth (Easterlin 1996, 2000) to result in the elimination of IE, and because IE tends to reinforce existing socioeconomic disparities, paid IE ought to be replaced with both formal work that pays a living wage and unpaid informal work be given value by newly created institutions. Key to this institutional “new economics” perspective is that IE cannot be replaced by formal employment alone regardless of whether one advocates a regulatory or a deregulatory approach. Rather, IE is viewed as a symptom or “an indictment of the present system of distributing income and work in society” (Williams and Windebank 1998). Their proposed solution is to introduce a basic income scheme that ensures a family subsistence level of income for those who work (“top-down”) and greater public assistance that helps people help themselves (“bottom-up”). It is premised on the idea that full employment is neither desirable, primarily because formal employment often does not attend to real needs, nor attainable, as the present period of prosperity has arguably demonstrated.

Historically, job assurance/guarantee programs, an example of a top-down approach, have relied upon government as the employer of last resort. When the formal labor market fails to generate sufficient employment or income opportunities, policy-makers have turned to the state to stimulate (1) private labor demand or (2) public employment. Examples include the Employment Relief Appropriation Act of 1935 and the Employment Act of 1945. Unlike the New Deal, the latter legislation took a conservative turn and relied primarily on Keynesian fiscal expansion to create jobs. The thinking was that the economy simply needed a kick-start and new jobs would ensue. Experience in California following the “workfare” legislation of 1996, however, has shown that under the current institutional structure the formal labor market is incapable of providing work that pays subsistence-level earnings for all who desire them (Solow 1998). Rosewell (1996), for instance, reports that just over half of all income is derived from employment, thus calling into question the supposed inextricable link between work and welfare. Consequently, it seems that more than the formal labor market is needed to construct a desirable distribution of work and earnings.

Specifically, policies aimed at creating 40-hour-per-week jobs that pay enough for people to subsist – sometimes called a “living wage” – are necessary (Pollin and Luce 1998). While some of the living wage movements that have been implemented in places like Baltimore and Los Angeles have been criticized for not calling for a sufficiently high wage and limiting attention to only firms contracting with the state (Ciscel 2000), recent evidence suggests that approximately twice the official poverty income level is required for such “self-sufficiency” (Ciscel 2000; More et al. 2000). Contrary to the belief of most Americans that those who work hard ought not be poor, empirical evidence shows that “most of the working poor are poor not because they choose to work too few hours, but because their wages are too low and their jobs fail to provide full-time year-round employment” (Kim 1998). The current \$5.75 minimum wage in California, despite being 50 cents above the national minimum and as Los Angeles’s Republican Mayor has claimed, is too low and ought to be at least doubled.

Although a recent Public Policy Institute of California (PPIC) report claims that most workers in California earning the minimum wage are not adults, and thus raising the minimum will not improve the

economic circumstances of most workers (O'Brien-Strain and MaCurdy 2000), two counter-arguments may be made. First, evidence from the California Budget Project as reported in a recent study of the Los Angeles County workforce indicates that fully 86 percent of all workers earn at or below the minimum are adults, and 70 percent work full-time (More et al. 2000). Consequently, regional variation concerning the demographic profile of minimum wage earners would recommend against a general policy of not raising the minimum standard based on statewide findings. Second, even if it were the case across all regions in California that an increase in the minimum wage would likely not affect adult workers - assuming adults tend to be more productive than non-adult workers - such an increase would potentially lead to an upward shift in the entire earnings structure due to what economists call "substitution effects." In short, raising the minimum for less productive non-adult workers would result in a shift in demand toward adult workers who have subsequently become relatively less expensive to firms. This, in theory, would place upward pressure on adult wages, indirectly improving the earnings of adults.⁷

State-sponsored job-generating public works projects are a second possible top-down approach that may motivate IW to move into the formal economy, but evidence indicates that only those projects that appear to be run like a private enterprise, and assign jobs that conform to the accepted social hierarchy of work, are likely to be accepted by the public (Long 1999). In California, this means that the public would more likely be open to the provision of manual labor jobs or those in the service sector rather than higher-status jobs. Of course, these are the very jobs that often do not pay enough to lift a family out of poverty. Fortunately, survey results suggest that if a larger social need is being met through jobs - e.g., improving individuals' "work ethic" or advancing the formal economy - then the twin goals of providing decent jobs for those at the lower end of the social job hierarchy and garnering public support can be balanced (Long 1999). Clearly workfare as we know it is not accomplishing this (Solow 1998).

At the other end of the policy spectrum are bottom-up strategies that attempt to harness regional resources undervalued or ignored by the formal market economy. One example of this is the Local Exchange Trading Systems (LETS) that began formally in British Columbia in the mid-1980s. It was embraced by more than 100 heads of state at the United Nations conference on Environment and Development at Rio de Janeiro in 1992, and spread rapidly in Europe during the 1990s (Pacione 1997; Williams 1996). Briefly stated, these trading systems "favor locally produced goods, local control of enterprises, and local self-reliance" (Seyfang 1996). Instead of using cash for exchange, participants announce the goods and services they want to buy or sell through a local registry, negotiate the price directly with potential buyers or sellers, and then notify the system's treasurer who debits or credits a person's LETS currency account. While these systems are only a decade old and have shown little promise of generating a substantial number of new well-paying jobs, they are meeting needs often unmet by the formal economy and making pseudo-formal much activity that has been previously informal. The objectives of LETS are to (1) facilitate import substitution, (2) augment local control over a community's economic affairs, and (3) ameliorate the social inequalities created by both formal and informal work (Williams 1996). In short, LETS are fulfilling their stated objectives but could be substantially improved by increasing "their size so as to make a wider range of goods and services available" via public policy (Williams 1996).

In the United States, evidence of such efforts is the "Time Dollars" or "Active Citizens' Credit" (ACC) approach that has been implemented since the mid-1980s (Cahn 1999, 1994; Williams and Windebank 2000). Participants acquire one hour worth of credit for each hour that they work (e.g., childcare, transportation, cooking, home improvement), which they can subsequently "cash in" by requesting an hour's work from someone else in the system (Cahn 1999). In short, "time dollars are local tax-exempt currency that one earns by helping others. One hour of service equals one time dollar . . . As such, time currency allows those aspects of people's lives for which the market economy assigns no value to become activities redefined as valued contributions, and they give society a way to recompense activities that the market does not" (Williams and Windebank 2000). By 1998 more than 200 professionally-managed time banks and credit programs were in place in the United States, typically costing about \$50,000 to run and serving thousands of members (Cahn 1999). Most importantly for those

unfamiliar with such institutions, federal and county governments throughout the country, as well as private firms, are increasingly partnering with local communities to reduce administrative and marketing costs and to reach a broader customer base. These systems are in place and providing economic benefits to consumers, firms, and government.

There is a second example of locally based strategies to address marginalized IE in California. In the San Diego, Los Angeles, Sacramento and other regions in the state, labor and community-based organizations (CBOs) are increasingly involved in the formation of public policies geared toward stimulating shared regional economic prosperity. Their ability to do so has been significantly aided by investment in “capacity building” by private foundations such as the Rockefeller Foundation and the California Endowment. One implication is that the more technically sophisticated and regionally-oriented CBOs and community leaders become, the more likely it is that business and government decision makers will welcome their participation, and that issues such as IE and inequality will be addressed openly (Marcelli 2000).⁸ Greater community participation in regional economic planning, for instance, has already led to CBO involvement in choosing which industry clusters to target for optimizing regional growth and minimizing earnings inequality (Marcelli 2000), and could eventually result in serious discussion about how to create regionally collaborative time bank accounts that improve social networks (Pastor and Marcelli 2000).

Conclusion

Results reported here for California during the 1990s appear to contradict the informalization thesis.⁹ As the California economy expanded, the estimated level of informal employment (IE) declined slightly. However, it is important to note that IE also appears to be positively correlated with the business cycle. Before 1994-96 both California’s economy and the level of IE shrunk, but afterwards both grew.

We are left with a picture of the California economy that is heterogeneous, both formal and informal. More than two million Californians worked informally during the 1990s and were more likely: (1) to have worked for private business establishments in either the Agriculture/Mining or Personal Service sector and to have been working part-time, (2) to have resided in southern California or the Bay Area, (3) to have been younger, less-educated, ethno-racial minorities, and foreign-born, and (4) to have been impoverished, used welfare, earned lower hourly wages, and not to have filed an income tax return. Fully 94 percent of informal workers, however, did file tax returns.

While taken together these results support Williams’ (1996: 88) claim that poorer populations “tend to engage in more exploitative, routine and monotonous informal work” (the marginality thesis), it is important to remember that our sampling methodology rivets attention on those informal workers who worked in lower- to middle-income occupations and is not likely to capture many professionals and small business owners who worked “off the books.” Nonetheless, this is the first study to estimate the level and character of IE over time in California, and given the widening economic disparity in the state in the midst of prosperity and a new welfare system premised on work, it is those informal workers who are positioned at the lower- to mid-level of the income distribution that should receive the lion’s share of policy-makers’ attention.

To sum up, this chapter has discussed two top-down and two bottom-up strategies to create decent jobs that will compete with IE and render welfare less necessary. Both perspectives are needed, and any government program hoping to make work rewarding for all who are willing and able to work will need to address the public’s need to believe that it is market-based and supportive of self-sufficiency. Simply promoting regional economic growth without acknowledging that the formal economy cannot meet all human needs will result in the continued presence of millions of informal workers in California who work for poverty-level wages under less-than-healthy conditions due to insufficient opportunities generated by the official economy.

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Endnotes

¹ Given that we implemented an eight-question legal status schematic employed in our survey in an effort to verify legal status responses, the 9.6 percent non-response rate for any legal status question is understandable. For instance, excluding the (1) three more technical questions that asked non-citizen respondents to identify whether they obtained legal permanent residence (e.g., a “green card”) status via one of the Immigration Reform and Control Act’s (IRCA’s) amnesty provisions, and (2) one that asked what kind of non-immigrant visa they acquired (e.g., student, business, tourist), non-response rates for the less technical legal status questions (e.g., whether a person was a US citizen, a legal permanent resident, or a non-immigrant visa holder) were less than one percent. Such low non-response rates for such sensitive questions may seem odd given the negative effects of the November 8, 1994 passage of California’s Proposition 187, which attempted to bar unauthorized immigrants’ access to public resources and may reasonably be expected to have reduced unauthorized immigrants’ willingness to reveal their actual legal status. However, the participation of a known Mexican university and Mexican-origin interviewers may have helped to increase the probability of truthful legal status responses. Nonetheless, in the analysis below I attribute UMI legal status to those who (1) admitted being unauthorized or (2) whose responses to the more technical legal status questions contradicted their responses to the general legal status questions.

² $LS = f(\text{Age, Sex, Education, Years U.S. Resident})$.

³ It is not possible to predict legal status among foreign-born Mexicans from 1991 to 1993 because the March CPS did not include questions concerning country of birth until 1994. Consequently, estimates may be generated for 1990 from the 1990 PUMS and from 1994 onward using the March CPS files.

⁴ Future analysis is needed to learn whether these results are consistent with evidence from the European Union that suggests IE is more likely to be found in affluent rather than impoverished regions (Williams and Windebank 1994).

⁵ The AFDC program was replaced by the TANF program following passage of the 1996 Welfare Act.

⁶ We use the 150 percent poverty threshold.

⁷ Evidence concerning how increasing the minimum wage in the present economic context would impact unemployment suggests a negative effect (Pollin and Luce 1998: 32-39).

⁸ The 1997 passage of the Unpaid Wages Prohibition Act in New York is perhaps the most encouraging example of how a grassroots organizing campaign, in this case by immigrants who cannot vote in a wealthy conservative suburban area, can succeed in raising the pay standards of informal work (Gordon 1999).

⁹ Further, they are consistent with the only other two micro-level studies of informal employment (IE) to date (Mogensen, Kvist, Kornmendi and Pedersen 1995; Fortin, Garneau, Lacroix, Lemieux and Montmarquette 1996).