

Fact Sheet No. 12: Employment insecurity

Why neither formal nor informal may be best for workers

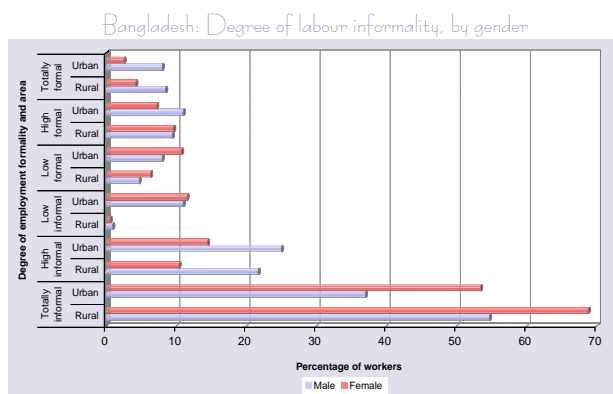
The world's economy is being steadily “informalized”, with more and more workers finding themselves outside standard employment relationships. The notion of strong employment security is increasingly a mirage, according to an ILO report that has traced developments in various aspects of social and economic insecurity around the world.

- The analysis shows that non-wage forms of labour force work have been spreading, and that own-account activity has grown particularly fast in Latin America, where it now accounts for more than 40% of all non-agricultural labour force work.
- The report warns that it is incorrect to see the international trends in terms of a dualism of an “informal sector” growing alongside a “formal sector”. Rather there is a wide spectrum of work statuses, and it should not be presumed that being highly ‘formal’ is better than being less formal.
- Indeed, according to statistics on working patterns from the ILO’s People’s Security Surveys, covering 48,000 households in 15 countries, increasing the formality of jobs may result in a widening of income differences between men and women and between younger and older workers.
- The report argues that the existence of a large informal economy and the informal support networks that tend to accompany this, as found in south-east Asian economies, may actually act as a buffer in times of economic shock (p.67). By contrast, where labour markets are highly formal, and individualistic, economic shocks can cause devastating consequences for those adversely affected. This is not to romanticize the informal economy, but merely to show that formalization is not a panacea of economic insecurity.

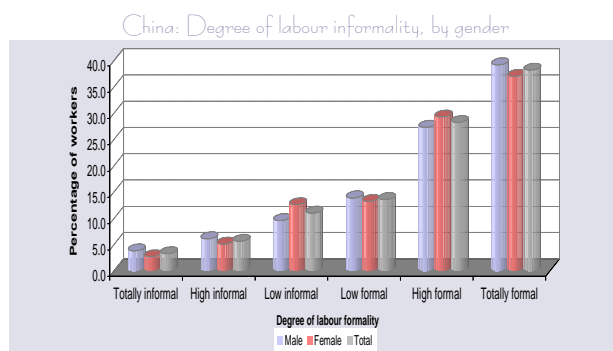
- Labour informality does not map neatly onto the enterprise-based concept so widely used in reports and by analysts. Chile, where the PSS data show that 38% of workers in so-called informal enterprises are actually in highly formal labour relations, while 62% of all workers are both in informal enterprises (so-called) and in informal labour as defined in the PSS. Moreover, 42% of workers in so-called formal enterprises

(with more than 10 workers) are not in formal labour. In Bangladesh too, only 47% of workers in large firms with more than 500 workers are highly formal, and 27% are low in the scale of formality. Even in China, only 54% of workers in such firms are formal, while 17% of workers in establishments of less than seven workers are formal.

- In Bangladesh or in India (Gujarat), most workers stand at the low end of the continuum, with women overwhelmingly so. There is a tremendous contrast with the situation in China, where the PSS in three provinces showed a picture of most workers being at the upper end of the spectrum, and with women actually being more likely to be highly formalized



Source: PSS Bangladesh, 2001

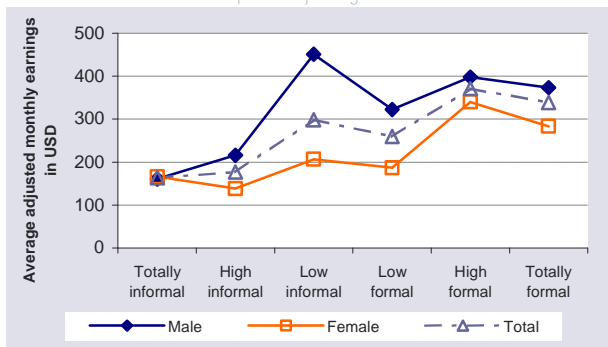




Source: PSS China, 2001

- In Argentina the relatively informalized workers are more likely to have experienced a spell of unemployment lasting a month or more in the past two years — 57% of the most informalized, compared with 12% of those in highly formalized statuses. A roughly similar pattern emerges in Brazil and Chile. What characterizes them most is that they are in constant search for other things to do.
- In Gujarat, India, about three-quarters of the highly informal do not have any skills security, compared with 13% of those in highly formal labour statuses.
- In Ethiopia, as expected, the less educated are concentrated in the more informal work statuses, and the vast majority of them do not meet any of the five criteria used to define formality. Much the same emerges in the very different economy of China, where those in relatively informal labour statuses are far less likely to have access to training.
- Workers in higher degrees of informality may have earnings equivalent to those in formal jobs. As for income security, it is too simplistic to equate informality with poverty, even though more of the relatively informal have low incomes.
- Income advantage comes with more increase in formality, but it is by no means always the case that a high degree of formal employment yields much higher income [or skills security, as shown in Fact Sheet 13].

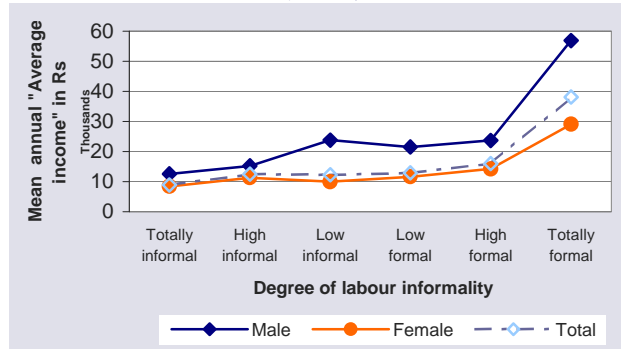
Brazil: Mean adjusted monthly earnings in USD, by level of labour informality and gender



Source: Chile PSS 2001.

- What seems to be the case is that formality gives greater protection for men than for women. The benefit of formality – in terms of income - is gained by men to a greater extent, though worsening gender based income inequality.

Gujarat (India): Mean average annual income according to labour informality



Source: PSS Gujarat India, 2000.

- Being in an informal labour status means a greater likelihood of income variability and decline.
- Workers in highly informal work statuses experience a higher incidence of financial crisis – in Gujarat 13% of those in the most informal status went hungry in the past year, against 6% of those with highly formal status.
- Conscious of their general insecurity, those in highly informal work statuses worry more than others about what will happen in their old age when they are unable to work.