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## **Why informal work arrangements are going global**

A new spectre is gripping the world economy – informality. The term describes people either working in informal arrangements with employers or in irregular self-employment occupations, but in either case without employment security or social security. Until a few years ago, any mention of that word pretty much implied that one was talking about the developing world.

That is no longer the case. In light of the staggering increase in youth unemployment in the “rich” world of the West, the phenomenon of informality has gone global. Now, informality seems to arise as the social downside of the drive for more flexibility in the face of structural change and economic decline. Newspapers in France, Spain and elsewhere are full of reports about the “new precariousness.” With fewer job prospects in general, it also affects people in the middle and late stages of their working lives.

Both developed and developing countries have long aimed to provide more inclusive economic growth. What is different now is that it is the developing countries who have an easier time realizing this long-elusive goal. Ever larger parts of their populations are shifting into middle-class status.

In contrast, from the indignados in Spain and the Occupy Wall Street movement in the United States to short-term contract holders even in economically successful countries such as Germany, there is a widening sense of exclusion and frustration. There also is a growing concern about whether the limits of growth have been reached for this part of the world.

Even in the ever-optimistic U.S., young Americans move back home in increasing numbers because they can’t find jobs after graduating from college. Reports in U.S. newspapers about such “boomerang” kids are nothing new – but they used to refer solely to economic dysfunction in far-away countries like Italy.

The fact that a serious element of Italian precariousness can now be found in the U.S. itself certainly gives Europe no reason to cheer. True, purely viewed in a jobs context, these countries may actually find some relief in declining birth numbers. As baby boomers retire in ever larger numbers, the odds are that young people will eventually find jobs. But some of these hopes may prove to be an illusion, given the low evidence of the transferability of jobs from the old to the young.

While that may or may not help combat the prevailing sense of informality and precariousness, it does not add up anyway to an economic growth strategy. Nor does it make the social security system any more stable. However, a smoothly functioning social security system is precisely what constitutes the difference between formality and informality.

The toll that informality takes on young workers is high: They begin their working lives on temporary or short-term contracts at lower wages, which lowers their lifetime earning potential. While workers in their 20s do not tend to think about retirement, it is an undeniable fact that their retirement prospects are already being short-changed by informality. They are also less likely to receive the schooling and training opportunities that formal-sector employers provide.

The increasing level of informality in the West is driven, at least in part, by employers seeking to lower their costs by resorting to alternative but legal arrangements with employees. In other words – and not surprisingly – employers are doing what is best for the company, not the worker.

This is another manifestation of the short-termitis that afflicts Western, particularly American, companies these days. In order to reduce the cost of benefits and training and wages, many companies are inclined to systematically overlook the value (and value-added) of investing in their

employees' skills and loyalty.

Obviously, the prolonged recession of the late-2000s and early 2010s has hastened companies down this path. The question is: will informality have become too deeply ingrained in the system when better economic times return?

As dismal as the picture currently looks in the Western world, it is still a far cry away from the situation in many parts of the developing world. For all the excitement about rapid growth, moving the overall population beyond a precarious form of existence is, in all likelihood, a century-long project. For example, only around 6 per cent of India's work force is part of the formal economy.

Still, the important difference is in the direction of economic aspirations. For more than two centuries, they worked almost exclusively in the West's favor. But now we find that the sense of optimism and growing personal economic security that long characterized the West is shifting south.

As was the case in the industrialized economies over the past century and a half, there now is a lot of optimism resulting from the economic dynamism that has caught much of the developing world. That kind of rebalancing of global labor market dynamics is only fair – and long overdue.

While that ought to augur well for the effort to push back informality and precariousness in these economies, there are some clear risks. The often-dramatic increase in the size of the young population, especially in India and Africa, means that the potential benefits of this profound change can easily become dampened, if not lost.

The situation in China is quite the opposite. After a big wave of labor market entries, its working-age population has just passed its peak. Growing poverty among the aging is fast emerging as a big problem in China. That is a topic that is also discussed intensely in "rich" countries such as Germany and Japan.

All of which goes to show that informality and precariousness, rather than continuing to be a factor distinguishing life in the North from the South, is fast becoming a unifying criterion – a common condition of humanity.

That is not exactly a reason to cheer. Still, it is a potent symbol of global economic integration – and the shared need about to find new solutions and a more flexible and adaptable society.

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