

Policies on the Informal Labor Market Regarding Protection of Workers and Entrepreneurs

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Abstract

At this moment, the segmentation of the labor market into formal and informal is well known and also are known the main features specific to the formal/informal duality of the labor market, namely: on the one hand, security and rigidity in the case of formal labor market, and on the other hand the flexibility and lack of social protection in the case of the informal labor market.

In the light of these features, which characterize the formal/informal duality of labor market, in this paper we aim to present the main policies applied on the informal labor market, both in terms of workers and of entrepreneurs. Thus, in this paper we will address the following categories of policies addressed to informal activities: employment policies regarding the transition from informal to formal; employment policies regarding the protection of informal workers/entrepreneurs; policies regarding increasing productivity in the informal sector and providing better jobs.

Keywords: *informal labor market, informal employment, employment in the informal sector*

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1. Introduction

Since the 1970s, the world has undergone a transformation similar to what Karl Polanyi described as the "Great Transformation", which lasted from the nineteenth century to the mid-twentieth century. Polanyi described the first phase of this transformation (which was mistakenly considered the only one) as a destructive stage, led by a deliberate strategy and directed through financial capital towards building a market society in which the workers and most of the people remained without social protection in front of hostile market forces. The market economy created, which was supposed to bring welfare to all, was an unsustainable construct, according to Polanyi, who believes that, sooner or later, the decision makers will have to take action to reintegrate the economy into society by reducing the destructive forces of today's market, through the introduction of social

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protection systems, through the redistribution of incomes within the company and through better regulation of the labor market (Polanyi, 1944).

The low coverage of social security programs in developing countries is often attributed to the dual nature of the labor market. According to this opinion, workers are rationally excluded from social protection schemes as they find no advantage in formal jobs. There are authors (Auerbach, Genoni, Pages, 2007) who have tried to show how the low participation of workers in social security is due to the involuntary causes and how can this be explained by the lack of willingness of the workers to participate to "retirement contribution".

The social security programs in form of contribution to retirement schemes have been introduced to ensure a decent living of the individual in old age. For any active individual, participation in these social security programs is strictly related to employment in the formal sector of the economy.

Some studies attribute the high rates of worker nonparticipation in social insurance schemes (which are usually part of the informal sector of the economy) to the legal characteristics and regulations that prevail in the labor market (Jackle and Li, 2006), and other studies explain the informality of the work as a result of firms' decision (and not of workers), because firms (employers) are the ones who decide whether or not to operate formally (Levenson and Maloney, 1998). There are also studies that emphasize the importance of wage rigidities, caused by labor market regulations, unions or efficiency wages that lead to the rationalization of jobs in the formal sector (Agenor, 2005). Both in the case of wage rigidity and the decision of companies to operate informally, participation in social security is treated as an exogenous decision for workers.

The individuals' decision to participate at retirement schemes has been debated in several studies. A simple model that evaluates the individuals' decision to participate in social security was developed by Auerbach, Genoni and Pages (2007) and it's based on the premise that, while participation is, in principle, mandatory, the sanction of non-participation is weak. Among those who consider social security programs unattractive include: those with low vocational training, young people, married women, workers living in households with many active members in the labor market, workers in households that no longer have other members contributing to social security, low-wage workers and rural workers (Auerbach, Genoni and Pages, 2007).

As a consequence of the new wave of globalization, job insecurity has increased in most of the world's economies, especially in the developing ones, the need for social protection is becoming more and more necessary. "Social security" is not a new term, it dates from 1952, when the International Labor Office adopted the Convention no. 102 (minimum social security standards) regarding social security (Lund and Srinivas, 1999).

There has been a steady progress in the socio-economic security of workers and their families, and at this moment seven forms of job security can be identified, as follows (Standing, 2009):

- Security on the labor market - it implies adequate income opportunities on the labor market. At the macro level this can be achieved through the public

policies practiced by the governments to ensure full employment;

- Occupational security - involves the protection against arbitrary dismissals in the form of regulations regarding employment and dismissal, as well as sanctioning employers who do not comply with these regulations;

- Workplace security - involves the ability and opportunity to maintain a niche, occupation or professional career;

- Work security - refers to protection against accidents and illnesses in the workplace through regulations on safety and health, limitation of working time, night work for women or compensation for unforeseen situations;

- The security of the continuous improvement of the workers - it means providing opportunities for the workers to maintain their professional competences and to acquire new ones through apprenticeship, vocational training etc.;

- Income security - it means ensuring an adequate and stable income and protecting it by introducing a minimum wage on the economy, periodic wage indexations, extensive social security, progressive taxation to reduce inequality and to supplement the incomes of the poor;

- The security of representation - by unionizing the workers - implies granting the workers' right to unionize by creating independent trade unions and granting the right to strike;

Security is the privilege of the formal labor market, which also has a major disadvantage, namely the lack of flexibility. In most states, there are three categories of regulations that affect the level of flexibility of the labor market, namely: the law on labor contracts, the law on collective bargaining and the law on entrepreneurship, ie the regulations that allow starting a business (Marinescu, 2018). Thus, in any dual labor market, there is a struggle between employers, who want more flexibility and employees who want more security and thus gave rise to a concept of "flexicurity", which refers to that balance between labor market flexibility and security. jobs, accepted by both employers and workers (De Gobbi, Nesporova, 2005).

2. Employment policies regarding transition from informal to formal

In the center of debates regarding the current policies on the informal economy, the problem of formalizing the informal economy is becoming more and more frequent. The differences of opinion between researchers consist of the formalization' object, respectively in what should involve the formalization, namely: registration, taxation, organization and representation, legal and social protection, business incentives and financial support, etc.

The informal sector of the economy comprises: labor force (workers who would like a job in the formal system, but cannot find it); entrepreneurs (individuals who have voluntarily left their jobs in the formal system to start a business on their own in the informal sector); small companies (which do not have the intention or the potential for growth and do not want to contact the state institutions); companies in the formal field, but which although registered legally,

partially carry out informal activities (Marinescu, Valimăreanu, 2019).

Before setting employment policies for transition from informal to formal, governments need to consider two particularly important aspects of formalization.

First of all, it is important to understand what formalization means for the different categories of workers that constitute the informal workforce.

Chen (2006) considers that each segment of workers in the informal economy has its specific needs, its constraints, which is why the formalization has to be done differently for the following categories of workers: persons who work on their own in the informal economy, employees employed formally in the informal sector, employees employed informally regardless of whether the employer activates formally or informally and informal entrepreneurs employing labor force.

Secondly, it's important to ensure that formalization offers real benefits to those to be formalized and does not entail only additional costs, namely registration costs to become formal or costs in the form of taxes and fees. These benefits can be in the form of social protection packages, protection against creditors and clear regulations in case of bankruptcy, there are very clear rules regarding commercial contracts, to be granted tax exemptions and various other packages of incentive investment and to increase their competitiveness, to have access to lending, etc.

From the worker's point of view, formalization means obtaining a formal job or formalizing the current job, by obtaining a salary based on a registered employment contract, which will offer him job security, social protection, the possibility of unionization.

Policies that would help increase formalities include achieving a better economic climate for investments within an economy, as it would allow informal entrepreneurs to develop and implicitly pay higher taxes. Also, raising the level of human capital, especially among the poor, allows more and more workers to find better paying jobs in the formal sector of the economy. In contrast, without an improvement in their human capital, most low-skilled workers will continue to prefer self-employment in the informal sector, even if the incomes from informal activity are low, because the jobs they could find in the formal sector will offer them equally low incomes.

In a study performed among entrepreneurs from Latin America, it was found that, in order to become formal, entrepreneurs must first change their mindset (not comply with the law). As these social norms are, in part, the result of a lack of confidence in the efficiency of the state and the fairness of its actions, major improvements in the quality and correctness of state institutions and policies are probably needed to overcome the predisposition of taxpayers for informality. This actually means that for better tax compliance, taxpayers need a more efficient and fair state, so that confidence in how they use public money will grow (Perry, Maloney et al., 2007).

The policies addressed to the labor market are very important in order to modify the formal/informal relationship of the labor market, these influencing the duality of employment through several directions.

First, labor costs (labor tax rate), if they increase excessively through state fiscal policy, or through unjustified demands by unions (such as an increase in the minimum wage), will contribute to reducing the number of jobs work in the formal sector of the economy, thus creating the classic segmentation of the labor market. In most countries, there is no obligation for employers to offer a minimum wage on the labor market.

A real cause of voluntary informality can also be considered legislation. The way social benefits are designed, but also labor law influences the decision of taxpayers who, through a cost-benefit analysis, decide whether to opt for the formal or informal sector. When the labor tax rate exceeds the benefits that taxpayers get them from the formal sector, workers will opt for informal work. This is especially the case for young mothers who, because of the rigid employment contracts involved in formal work, opt for independent, informal work, which offers them more flexibility.

3. Employment policies regarding protection of informal workers (entrepreneurs)

Social security, if properly implemented and managed, increases productivity by providing medical care, income security and social services. In combination with economic growth and active policies applied in the labor market, social security can be an important tool for sustainable economic and social development. Although social security involves a high cost for businesses, it is an investment that supports people, and under the current conditions of globalization, which involve public policies for structural adjustment, social security becomes more necessary than ever.

There is no standard social insurance model, as these develop and evolve over time, depending on the changes in the economy and, in particular, the structure of the labor market. The state has a priority role in facilitating, promoting and extending social security schemes, which can be both public or private and in the form of public-private partnership.

For people who are part of the working population, the best way to ensure them a social security of income is to get a decent job. With the modernization of the world's economies and the new wave of globalization, through which the postmodern states have emerged (the European Union being such a state), education and professional competence are becoming more important, and in order to keep employment opportunities at a high level in time, there is a need for a continuous process of learning and professional training.

Currently, in many countries, entrepreneurs are excluded from the social insurance system, as well as persons in the informal labor market. Even where the law provides for compulsory coverage of all workers, in reality, the informal area of the labor market escapes from social security.

First of all, it is necessary that, until thinking and designing social security schemes for the informal segment of the labor market, the state will identify and

distinguish between the categories of workers that differ according to working conditions, contributory capacity, degree of integration. The type of protection that can be granted and the possible ways of extending coverage vary greatly depending on whether or not the excluded have an identifiable employer (domestic workers, casual workers, workers with a contract of employment), whether they work on their own, or depending on an employer (freelancers, farmers, employees with or without a work card). Only through a good understanding of these issues, can be constructed appropriate strategies for the different categories of workers in the informal area (Reynaud, 2002).

Although there are many factors that have underpinned the need for the creation of a social protection system, however, this can be considered a consequence of the development of the industrial society.

The social insurance system in industrialized countries was initiated by Otto von Bismarck (first chancellor of Germany, March 21, 1871 - March 20, 1880) in Germany. The introduction of a social insurance program represented the main strategy used by Bismarck to ensure social peace in the context of rapid industrialization during the Second Reich (Lidtke, 1966).

The need for social insurance and social protection systems existed especially for workers in the informal economy, because of the differences between this category of workers and that formed by formal workers. We have synthesized the differences between the two categories of workers, as follows (Tabel 1):

Tabel 1. Formal/informal work involves

Formal work involves:	Informal work involves:
* registered employment contract	* lack of employment contract
* legal employment	* illegal employment
* employment with reduced flexibility	* very flexible employment
* settled wages	* variable salaries
* fixed number of hours worked	* unspecified number of hours worked
* permanent employment relationship	* employment relationship for a fixed period
* high social protection	* lack of social protection
* usually skilled workers	* usually unskilled workers
* high labor productivity	* low labor productivity

Source: Own construction.

Where state does not have the competence to support social assistance programs alone, it will need to stimulate the private sector to do so investing in social assistance programs and schemes.

The main categories of social protection that both workers and entrepreneurs need are the following (Lund and Srinivas, 1999):

- *Protection against loss of income and wealth.* These do not refer to the existing social security schemes in the formal sector in the form of unemployment benefits, but they refer to the short-term protection against unforeseen shocks such as those against fire, theft, in fact everything that protects informal workers for not to fall into deep poverty.

- *Protection of health.* It refers to health protection schemes and those for temporary incapacity for work due to the disease. These must also be implemented in the informal sector of the economy for the protection of informal workers.

- *Protection of workers in case of disability due to work.* Work in the informal economy is unprotected. Any work incident or accident involves a break in work which means insecurity and loss of income for a greater or lesser period of time. A basic element of protection could be personal savings schemes to cover recovery in emergency medical cases.

- *Old age insurance.* These are another type of insurance that informal workers face, as they do not contribute to the pension budget, and most of them do not have the financial capacity to save on life. Although, nowadays, both men and women are living longer, those who have spent a long time working in the informal economy reach old age without having a minimum income to ensure their daily living. In this regard, the state should encourage, through various tax facilities, insurance companies to open more to the poor workers in the informal economy by offering them advantageous insurance products.

Not only economists in their studies, but also some international institutions have been concerned about the issue of social security of informal workers. In this sense we can invoke the 89th Session of June 2001 of the International Labor Office, which had as main object "social security", practically, a renewal of the idea held at the ILO Conference from 1944 through which "it recognized the solemn obligation of the ILO to extend social security programs among all nations of the world, ensuring a minimum income for all citizens who need such social protection and medical care".

Thus, during the 89th Session it is recognized "the importance of social security for ensuring the well-being of workers, their families and for the entire community. Social security is a fundamental human right and an important means of creating social cohesion, thus contributing to ensuring peace and social inclusion. This is an important tool of the Government to prevent and reduce poverty. Unemployment benefits must also be linked to other vocational reconversion programs, established so that they do not create dependency and not be a barrier to employment" (ILO, 2001).

Social security should promote and be based on the principle of gender equality. Women should not be disadvantaged in their lives only because they have interrupted work and implicitly paid social contributions (health insurance, pension, unemployment) to raise children. The role of women in society, which is not only a housewife raising children but also an active participant in the labor market, must be taken into account; in postmodern society, women are increasingly involved in work. Where gender discrimination, wage inequalities between men

and women still exist, they should be eliminated by introducing a minimum wage (ILO, 2001).

Van Ginneken (2003) considers that there are three main ways of extending legal social security, namely:

- First of all through an adequate legislative system, which, moreover, has been successfully applied only in a few developing countries, where workers have average incomes. These countries were able, through an appropriate legislative system, to extend social security to the majority of the population. Unfortunately, in most developing economies, there are no such conditions as the incomes are extremely low, which is why only 10-25% of the population is covered by social insurance.

- The second way is to extend social security through "community" schemes. For most developing countries where a significant part of the population has low incomes, there is a high share of workers (40 - 60%) above the poverty line who are not eligible or not interested in legal social insurance, but who it has a certain contributing power and would rather be interested in contributing to certain "community" based social schemes, which are strictly tailored to their specific needs.

- The third way to expand social security is by promoting a cost-efficiency tax, destined for the poor and vulnerable groups. The efficiency of such benefits depends, to a large extent, on the way they are designed and, in a more general sense, on the willingness of the society to show solidarity with those who, in most cases, do not participate in the labor market as they would be: children, pensioners, widows, orphans, people with disabilities, etc.

4. Policies on increasing productivity in the informal sector and providing better jobs

A generally accepted idea is that a high rate of economic growth is a necessary but not sufficient condition for poverty reduction. However, it is acknowledged that employment in a productive way is one of the best ways to pull an economy out of poverty. An example of this is the economies that have achieved high rates of employment together with high rates of economic growth, as they have been the ones that have managed to reduce poverty significantly. That is why it is very important to understand the mechanism through the link between economic growth, employment and poverty reduction works.

Khan (2001) identifies some public policies that could be used to reduce poverty through employment:

Fast increase in the absorption of the labor force giving poor workers more productive and profitable jobs. Macroeconomic policies affect employment by the influence that they exert on the growth performance of the economy. Thus, macroeconomic stabilization programs, by reducing public spending, affect employment, both by reducing the number of jobs and by reducing spending on education and training of the workforce. That is why, in such cases, public

investments through various public works programs for infrastructure development in poor regions can directly contribute to accelerating employment growth.

Conversion of poor workers into entrepreneurs. Promoting the idea of self-employment among poor workers, turning them into entrepreneurs can be an effective strategy for endogenous growth in the process of poverty reduction. In the rural and subsistence sectors of most developing countries with low incomes, the incidence of poverty is by far the highest level among small traders and those who work on their own.

Increasing the productivity of the poor workers in both the employed and self-employed work. Increased productivity leads to increased demand for paid work, which translates into an increase in employment, wages or both. The main policy for increasing the productivity of the poor workers is to increase their human capital through: education, professional skills and health.

Improvement and adjustment of the professional capacities of the poor individuals of the society so that they can compete in a labor market in which the structure of the professional skills required by the existing employers in the market is constantly changing.

Disassembly of employment systems of economies in transition to the market economy, which, in their transition process, were forced to lay off workers from old state-owned enterprises, as a result of their privatization. These restructuring of the labor market left behind high unemployment rates and a lack of social security for the redundant workers. In order for these new unemployed people to be protected from poverty, the governments of the economies in transition must create an adequate framework for the unemployed labor force to be absorbed in the real economy by the private firms entering the market, or to be able to carry out activities in the entrepreneurial system.

Employment opportunities specially created for the disadvantaged workforce. Not all poor households have capacity and ability to benefit from the employment opportunities that the market economy can offer. For example, households where the workforce is represented by women, these will have a disadvantage in finding a formal job, as women, especially those with more children, are a vulnerable group of workers because of often disruptions of employment on the labor market for domestic activities of raising children, which reduces them from their professional skills and stops them from developing formal skills.

Regarding productivity growth in the informal sector of the economy, governments should be concerned with both the productivity of informal entrepreneurs and the incomes of informal workers growth, which require changes in the institutional environment, as follows:

- *Creating an economic environment* that would rather support and help the informal sector of the economy than to fight, unnecessarily, against it, through public policies aimed at informal drought, in the sense that the goods and services produced by informal firms and entrepreneurs find outlets.

- *Creating commercial conditions* that ensure a competitive framework on the market. Entrepreneurs like free professionals, who work in the formal sector of the economy, need not only financial resources and professional skills to survive on the market, but also an adequate legislative framework to ensure fair competition on the market, so that they be able to negotiate the selling prices of the products or services offered and the wages in relation to the cost of production.

- *Creating an appropriate legal framework.* Workers in the informal sector of the economy, as well as informal entrepreneurs also need an adequate legal framework to protect their rights, namely the right to work, property rights, the right to develop a business, commercial rights. In Soto's opinion, without the protection of property rights, the intrinsic economic power of goods belonging to the poor remains unexploited (de Soto, 1989).

- *Establishing legislative norms that offer protection against risk and uncertainty.* Both, workers in the informal sector of the economy and informal entrepreneurs need protection against risks and uncertainty as well as against unforeseen situations of illness, disability, loss of property, death, etc.

5. Conclusion

The main social advantage for both entrepreneurs and informal workers is the flexibility of work in the informal sector, and the main disadvantage is the lack of security.

Lack of security for informal workers, as well as other disadvantages of the informal sector, such as reduced productivity, lack of access to credit, have led to concern for building policies applied on the informal labor market, both in terms of workers and of entrepreneurs.

In my opinion it is necessary to rethink the traditional model of social protection, in which protection depends on the specific form of the employment contract, in the sense of widening the spectrum of those who have access to the basic risk management tools through a program based on ensuring the social protection of all citizens and not just workers, as traditionally applied at this time.

Public employment policies should focus, not only on changing the direct costs and benefits of formality, but also on changing the factors that influence the productivity of the formal sector, including measures to improve the investment climate or policies aimed at increasing human capital accumulation.

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