

# The Informal Labor Market

Phd (c) Romina RADONSHIQI

Lecturer, Department of Public Administration, Aleksander Moisiu University, Durres, Albania  
[romina\\_radonshiqi@yahoo.com](mailto:romina_radonshiqi@yahoo.com)

**Abstract**—Employment contributes towards stability and economic recovery. The labor market in Albania is different from European countries. This paper is based on the functioning of formal and informal markets work that have impact in the economic development of the country. The informal sector is an economic feature of most developing economies, contributing significantly to employment creation, production and income generation. The informal economy has negative consequences for competitiveness and growth. Finding a job in a labor market is not an easy process, this step represents a major challenge to unemployed individuals. This situation in Albania obliges unemployed to become part of the informal labor market. The informality of the Albanian government is a concern because informality affects us directly in incomplete coverage of formal social programs, problems in social cohesion and law, tax losses due to undeclared economic activity. Research and analysis of the labor market aims to give response to the phenomenon of unemployment and informal employment.

**Keywords**—labor market, informality, unemployment, employee.

## I. INTRODUCTION

Employment is a complex challenge and creating new work places is a multi-sectoral phenomenon, which includes macroeconomic policies conducive to business, education and social policies because employment has an impact directly on the personal finance. Personal finances are very important to maintain the balance of the individual economy. Nonmonetary factors such as location of employment and other working conditions are more important in the labour market than in markets for other factors of production. Considerations other than material advantage also enter the relationship that involves loyalty, fairness, appreciation and justice along with pay-checks and productivity [14].

Income generated by the informal economy is usually not recorded for taxation purposes, and is often unavailable for inclusion in gross domestic product (GDP) computations. In less developed countries the informal sector characteristics indicate are different because this sector gives positive effects in short term but has negative consequences in long term, which brings the necessity of its integration into the formal sector.

## II. UNEMPLOYMENT

Unemployment is one of the most serious diseases of macroeconomics. Increasing unemployment indicators is considered as a symptom of the economic stage collapse.

Therefore its theoretical analysis has a special significance, because it allows us to determine the right "medication", the relevant policies to solve this problem [2].

Most people rely on their income from work to maintain the standard of living because losing a job can be a serious economic problem in the life of a person. Many people gain from their work not only income, but also the sense of personal success. The loss of a job means a lower standard of living in the present, anxiety about the future and a reduced self-evaluation [16].

An obvious factor for the standard of living of a country is unemployment rate.

Unemployment rate varies considerably depending on the time and location. A person is considered unemployed if he / she does not have a job but he / she is willing to work. The number of unemployed in an economy is the number of people of working age who are able and willing to work [16]. Two main characteristics of recession are: decline of GDP and increasing unemployment. The changes in output measured by calculating GDP and changes in unemployment are measured by calculating the unemployment rate.

Different countries use different sources to measure unemployment rate, but it is common that an individual may be employed, unemployed or outside of labor force [6].

## III INFORMAL ECONOMY

The phenomenon of the informal economy should be analyzed in the spectrum of factors that could potentially cause it. This phenomenon is complex and its development in an economy is a result of informal economy.

Below are listed some of the elements that are essential in causing the informal economy: several factors that interact with each other and enable its expansion by replacing formal with:

- Labor Market
- Corruption
- TAX System

- Cash Economy

The informal economy is a complex phenomenon and is widely present in the economies of countries. The informal sector consists of small-scale, self-employed activities (with or without hired workers), typically at a low level of organization and technology with the primary objective of generating employment and incomes [15].

Thus, the sector encompasses all the economic activities undertaken by entrepreneurs who sell legal goods and services within a space deemed to be public property. The more developed the state and economic structures in a country; the lower is the informal economy [1].

Different studies use different terms to define the complex informal activity in which we place different names but that basically have the same meaning for e.g. black job, second job, invisible, hidden, clandestine, illegal, underground etc. Usually there is a difference between "grayeconomy" and the black economy (criminal). Gray economy includes all activities that are legal in principle, but for which no taxes and social security are paid. On the other hand black economy includes those activities that are illegal such as arms trafficking, drugs, prostitution, etc.

Practiced by most of the world's population, it includes barter of goods and services, mutual self-help, odd jobs, street trading, and other such direct sale activities

The informal sector should be seen according to different countries because the existence of the informal sector in developed countries is often characterized by the potential of this sector to increase economic investment and revenue growth weakens the formal sector [7].

The "hidden" economy includes activities that, apart from breaking the tax law, are principally legal, such as unlicensed micro-enterprises, unregistered barter trade, under-invoicing, and the smuggling of non-prohibited commodities. The informal sector is defined to also include those activities that, by their nature, are "illegal". As a result, organized (economic) crime activities which include primarily the trafficking of arms, drugs, and women are considered as well. While these represent, first and foremost, a problem of law enforcement, this definition will be used to permit subsequent studies estimating the relative size of informal activities that rely on macroeconomic data; these types of analyses would naturally encounter additional obstacles if they had to separate those activities that are, in principle, legal from those that are not.

Informality can bring positive or negative impacts. For governments, informality can be a problem. The governments cannot collect taxes from informal businesses and in turn are unable to finance the

provision of good public services. In some kind of vicious circle the governments might be pushing businesses toward informality due to lack of good public services, such as Rule of Law. For the governments, the informal sector might also be a solution for unemployment problems.

Where the formal economy cannot absorb the surplus of labour, due to its own limitations, the informal sector is the ideal remedy. Maybe for that reason, some governments tolerate informality to a large extent. Others even get to the point of seeing informality as a means to address the issue of unemployment and create a favourable framework for promoting the informal economy.

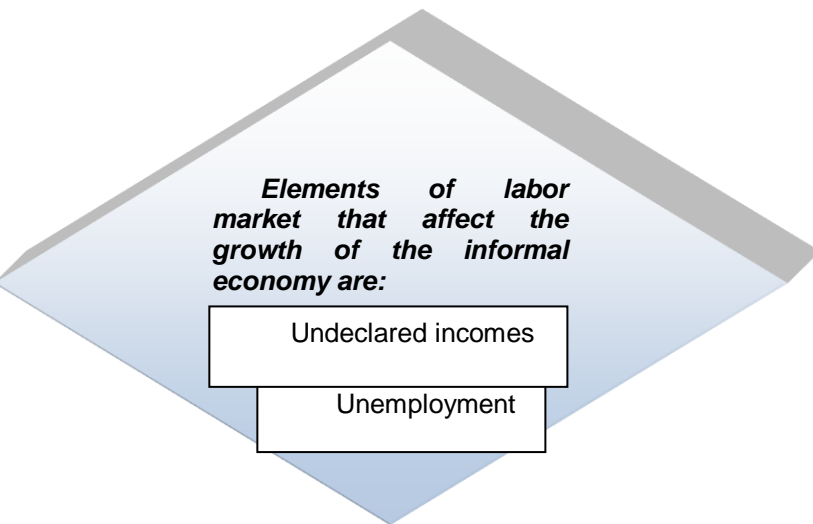
For some of the economic agents informality can be a problem. Although, informality creates job opportunities and generates income that might not be sufficient to some. People under informality lack access to certain kind of protection that the government might provide, such as social security. But the most important problem that informality might pose to those doing business therein is the impossibility to grow. With lack of access to finance and technology, the informal business might be condemned to be small and not competitive.

Some might be condemned to be poor. The income above the poverty line, might find informality sufficient to satisfy their expectations. In some developed countries, arguably the surge of self-employed people under the "new economy" who trade goods and services over the internet might be considered part of an emerging self-sufficient informal economy.

#### IV INFORMAL LABOUR MARKET

According to ISS<sup>1</sup> multiple rules in the formal labor market and overall costs of wages positively affect the growth of the informal sector. The development of labor market and its well-functioning reduces the informal economy because it directly affects the welfare of an individual in a state. But the efficiency of the labor market is often not at the right level because of some elements that are not functioning.

<sup>1</sup>ISS (2004) Informal Economy- Black work in the face of the social partners



**Figure 1.: Elements of labor market in the informal economy**

"Unemployment" represents the percentage of all unemployed workforce capacity in a certain area within a country or all around the country. The causes that create unemployment are different. However, the most important are: the globalization of the world economy, weak capacity of institutions to provide education, training and infrastructure, the disappearance of public sector jobs and closing of uncompetitive businesses<sup>2</sup>. At the time when unemployment remains at a high level, the state should strengthen social policies so that the welfare of this part of the population does not get worse. Consequently, this part becomes a serious economic burden for the state. Unemployed individuals when withdraw from social life tend more towards anti-legitimate things [12].

It is evident that informal enterprises are "functional" for unemployed individuals from the formal sector. Often, these companies are the only solution that remains on these individuals to ensure a normal life or a minimum living standard. An indifferent attitude towards economic activities of private stakeholders is usually accompanied by a weak system of unemployment compensation. A country's economic losses caused by the phenomenon of unemployment is very large and can be compared with the losses that this country's society incur from malfunction of the most powerful economic sectors to a state. For this reason, the informal sector continues to be present. It is tolerated because these countries are weak and inefficient so they rely on this sector that provides livelihood for a large segment of the population [14].

Non-declaration of income is another important element for the growth of the informal economy. This factor can be viewed in two ways, by two essential factors in the labor market; employees and employers. Employees who are expected to declare less income

so they are taxed less. Real income wiped out by public authorities for various reasons: to avoid income tax, value added or other taxes, payment of social security contributions, various legal requirements as minimum wages, maximum salaries, meeting hours work etc. On the other hand, employers are inclined to hide or not to declare their income, or wages that are given to employees for various reasons. Employers cause informality in this area by not declaring income or wages, so they pay less state obligations to maximize their profit.<sup>3</sup>

Informal labour market plays an important role in the economy of a country. There is a difference between employees in the formal and informal sector in terms of working conditions, if they are subject of taxation, have access to social security, employment contract etc.

Informal employees do not enjoy the security; they can not be part of the union.

The informal sector is often defined based on the activity of the enterprise and the type of work the employed or self-employed individuals [8].

Informal workers are unorganized employees who work in the formal or informal sector for a salary without formal employment.

According to the ILO (2002) informal sector is comprised of [10]:

- Informal employment in informal enterprises (small unregistered or unincorporated) including employers, employees, operators and unpaid family workers;
- Informal employment outside informal enterprises, (formal enterprises but unregistered workers or without undeclared).

Informal employment can exist in the formal and informal sector of the economy. In most developing countries informal employment is an important component of the workforce. The dynamics of job creation in the various segments of the labor market and the flows between formal and informal economy depend on several factors [1]:

- ✓ Institutional characteristics (taxes, labour law, regulations, labour relations, social networks);
- ✓ Individual characteristics (human capital, social relationships, preferences);
- ✓ Specific characteristics of company (location, size, sector of activity, production networks);
- ✓ Market conditions (the dynamics of domestic demand, macroeconomic policies);

<sup>2</sup>SIDA.(2004) The Informal Economy

<sup>3</sup>OECD(2004) The Informal Economy in Albania

✓ Life cycle considerations through which the employees perform different tasks

✓ Market segments, flexible working conditions against stable growth of salary which depend on their age and age-related preferences.

In general, workers in the informal economy labour market face a number of barriers that limit the choice of opportunities from the formal economy.

**In 1972 the ILO characterized the informal sector as [11]:**

- Easy accessible
- supporting in local resources
- Family Property Enterprises
- intensive- labour method of production and technology adoption
- Skills acquired outside the formal school system
- Competition in unregulated market

**The formal sector is characterized by:**

- Difficult to access
- Support is frequent in overseas resources
- Corporate Ownership
- High level operation
- Investment in imported capital and technology
- Formal skills acquired
- Protection market (through tariffs, quotas, licenses)

According to the ILO (2008) information about employment are the basic information [9]:

(a) Macroeconomic analysis, planning, policy formulation and evaluation, as well as the integration of the informal sector in the development process and its institutionalization;

(b) Formulating and implementing policies for economic and social development, including employment creation, production, income generation, human capital formation and mobilization of financial resources;

(c) design, implementation and monitoring of specific policies and programs supporting the informal sector assistance to those working in this sector, in order to increase the productive potential, the improvement of working conditions and social protection for workers, the development of an appropriate regulatory framework, the promotion of employees in support of the transition to the formal sector and economic and social situation of particular categories of workers

The Statistics on informal employment are also one of the key indicators for monitoring progress towards achieving the work at a national level.

## V.THE SITUATION IN ALBANIA

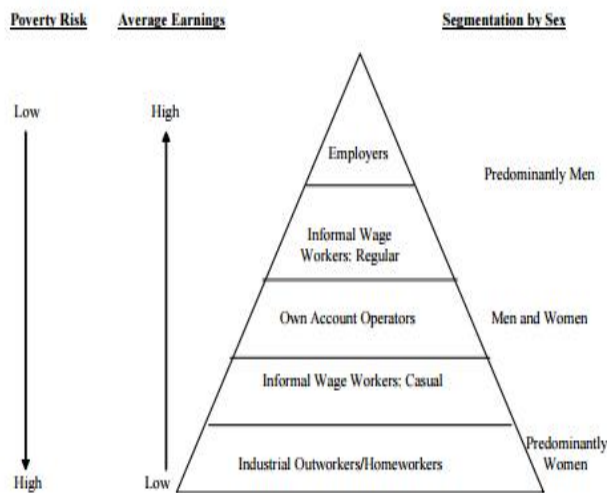
In Albania, the labor market is different. This means that recognized sectors of the labor market do not have a real market especially if we focus on the young generation, because Albania is a country with a young population. If the country wants to develop the economy, attention should be paid to the young generation, which is often labeled as "the comparative advantage of Albania" and "the future of the country". The employment situation in Albania, does not give much hope to the young generation for a better future. The informality of the Albanian government is a concern because informality affects us directly in incomplete coverage of formal social programs, problems in social cohesion and law, tax losses due to undeclared economic activity. Employment in informal labor market is a serious problem in Albanian society because of the high cost paid by the employee. An employee who is employed in the informal labor market in case that a conflict occurs at work, can risk not to receive the salary. Employees also can not benefit days off, official festive occasions or sickness time. In case of workplace injuries, workers can not receive any reward because he/she is not officially considered employed. The employee is out of the social insurance and health scheme.

However, the following will summarize all the negative aspects of informal employment of Albanian society.

### **Informal sector employment disadvantages:**

- Lack of security at work
- In case of damage or injury the employee does not receive fundings
- Working overtime
- Lack of protection from Labor Law
- Employee is laid off
- Employee is involved in pension, insurance or health insurance scheme.
- Low wage
- No fringe benefits from institutional sources
- Employees can not save for a secure future
- Absence of trade union organization





**Figure 2: Informal economy Segmentation**  
 Source: Chen et al, 2005

Employers benefit from informal employment because they can pay lower wages without having any responsibility for their employees [4]. However, there are many employees who are interested to work in these conditions because they have the freedom and flexibility to pursue their own interests. But unfortunately there are many employees who become part of informality because they are unable to find formal employment, and due to their economic conditions they need to work in the informal labor market [5].

## VI. CONCLUSIONS AND RECOMMENDATIONS

Policies aimed at increasing employment and reducing poverty will be more effective if we pay attention to the informal economy. This means that measures such as skill development, promotion and improvement of working conditions, should be designed for the distribution and impact in the informal economy.

The government should develop policies for the elimination of informal employment, to restructure the overall macroeconomic development, develop public labor market for the operation of the institutions.

The improvement of labor market administration will help the country to achieve a quick, balanced and sustainable economic, social and human development against corruption and establishment of the Rule of Law.

The realities of living within Albanian society should not crush such aspirations. Nevertheless, the current unemployment crisis calls for an immediate and efficient reaction from all key social players including the individual members of the society itself.

The labor market in Albania has changed constantly, informing young people and orienting them to be better prepared for the labor market; is a primary duty of all stakeholders.

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