

**ISSUES IN DEVELOPMENT**  
**Discussion Paper**

**20**

**Informalization in  
advanced  
market economies**

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## Preface

The International Labour Organization has a long-standing interest and experience in dealing with the informal sector. In fact, the informal sector was the subject of a major report of the ILO's Director-General to the 78th Session of the International Labour Conference in June 1991,<sup>1</sup> and was subsequently debated in detail by the ILO's tripartite (employer, worker and government) constituents at the November 1991 session of the ILO Governing Body. Following up on this discussion, the ILO implemented an Interdepartmental Project on the Urban Informal Sector focusing on the cities of Bogota, Dar es Salaam and Manila. This project involved both research and action programmes designed to address the "dilemma" posed by this sector in terms of its job creation potential and the need to improve working conditions, without weakening the formal economy.

The ILO was also actively involved in the Second United Nations Conference on Human Settlements - Habitat II, held in Istanbul in June 1996, where the informal sector was high on the Agenda. During the Conference the ILO organized a thematic Habitat II Dialogue for the Twenty-First Century on "The Future of Urban Employment". Professor's Sassen presented the keynote address to this "Dialogue", and the present paper expands on this address.

The ILO's work on the informal sector has so far focussed on developing countries. Furthermore, the approaches and programmes advocated often view the informal sector as marginalized and requiring special targeted programmes to increase productivity and improve working conditions. Professor Sassen's paper is both complementary and innovative with regard to this work in that it goes beyond the informal "sector" to address the informal "economy" at large, and this is done in relation not only to developing, but also to industrialized ones. The paper focuses on the informal economy in the United States, and largely in New York City. It paints the picture not of a marginalized and excluded sector, but rather a dynamic sector, with informal economic relations which are closely linked to the formal economy.

The informal economy presented here is a direct result of what Professor Sassen refers to as a post-industrial "new economic regime". This regime supersedes the post-war US economy, which was based on standardized production and mass consumption. This new regime, according to the author, creates a need for low-skill and low-wage workers to service the new high technology and high profit sectors of the economy. Professor Sassen therefore throws new light on the discussion on casualisation and polarization of employment (which was also raised in the ILO's 1996/97 World Employment Report), as well as its findings that economic growth in industrialized economies is not becoming less labour-intensive in spite of the growth of new technologies and information systems.

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<sup>1</sup> Reference to the *Dilemma of the Informal Sector*.

The paper provides important policy lessons, particularly with regard to efforts to “assist informal sector enterprises to become more productive and progressively integrated into the formal economy”<sup>2</sup>. Professor Sassen’s message is clear: the informal economy is *already* an integral part of the formal economy. To put it bluntly, if the informal economy did not exist, the formal economy would have to invent it! However, such “integration” is not likely to be always in the best interest of the informal sector workers.

Professor Sassen therefore provides support in taking our diagnosis of the informal sector one step forward, putting informal economic relations in the context of globalization and demonstrating that the informal economy is no longer the monopoly of developing countries. Finally, Professor Sassen points to some interesting new avenues of research on non-traditional manifestations of the informal sector in developing countries, based on growing polarization of employment, the gentrification of high-income neighbourhoods and servicing the needs of high-profit sectors of the international economy.

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<sup>2</sup> The Habitat Agenda, Global Plan of Action, IV, C., 9., para. 159 (f).

## Introduction

The recent growth of an informal economy in the large cities of highly-developed countries raises a number of questions about advanced market economies in the contemporary period. After decades of expanding regulatory efforts by the state and a basic elimination of informal work, the late 1980s saw a resurgence of such work in industrialized countries. While it is most prominent in the large US cities, it has become increasingly present in major Western European cities.

The main theories of economic development of post-industrial economies do not foresee the growth of an informal economy in industrialized countries. While criminal activities and under-reporting of income are recognized to be present in advanced economies, these do not preclude economic development along the lines specified by the main theories. They do not signal the presence of a different type of economic dynamic. In the case of income under-reporting, it is clearly a function of the implementation of a taxation system regulated by the state.

A central hypothesis organizing much of my research on the informal economy is that the processes of economic restructuring have contributed to the decline of the manufacturing-dominated industrial complex. These processes provide the general context within which we need to place informalization if we are to go beyond a mere description of instances of informal work. The specific set of mediating processes I have found to promote informalization of work are: (a) increased earnings inequality and the associated restructuring of consumption of those with high incomes and very low incomes, and (b) the inability of some providers of goods and services to compete for the necessary resources in urban contexts where leading sectors have sharply bid up the prices of commercial space, labour, auxiliary services, and other basic business costs. The extent to which these processes of growing inequality are evident in European countries is a subject of debate, although there is mounting evidence which suggests that such inequalities exist.<sup>1</sup>

It is then the combination of growing inequalities in earnings and profit-making capabilities of different sectors in the urban economy that have promoted the informalization of a growing array of economic activities. These are integral conditions in the current phase of advanced capitalism as it materializes in major cities dominated by the new advanced services, typically geared to world markets and characterized by extremely high profit-making capabilities. These are not conditions imported from the Third World.

A crucial question is whether these systemic conditions in advanced market economies in the post-fordist era are also engendering a new dynamic of informalization in the Third World along with older dynamics. There is a growing body of evidence that points to similar trends towards inequality in the earnings of workers and in the profit making capacities of firms. Most prominent are some of the major cities in Latin America, particularly Buenos Aires, Santiago and Sao Paulo.<sup>2</sup> These are countries that have restructured their economies to become part of the global economic system. We can see a decline of fordism, the ascendance of finance and services, sharp deregulation, and a marked orientation to the global markets. Thus, it is possible that a new kind of process of informalization that resembles that in

advanced market economies is taking place. This is a process much less visible because it is submerged under the broader mega-city dynamic and under older dynamics for informalization.

In this paper, I focus on the advanced market economies. Throughout much of the analysis paper, the empirical focus is on the US. To a considerable extent these trends towards greater inequality and insecurity are most advanced in the US because the government has never been as concerned with regulating economic and social conditions as is typical in Western European countries. An important research question is how far the European countries will go towards deregulation of the economy. The central effort here is to specify a broader context within which these new trends towards informalization are embedded.

## **1. The theoretical issues**

The concept of informal economy describes income-generating activities which take place outside of the formal regulatory framework, as opposed to the formal economy where similar activities are in effect regulated. Regulation here refers to the institutionalized intervention of the state. Because the particular characteristics of informal work are derived from the existence of a context where such work is regulated, the informal economy can only be understood in its relation to the formal economy – that is, regulated income generating activity.<sup>3</sup> We can only specify an informal economy because there is an institutional framework for economic activity whereby the state intervenes explicitly to regulate the process and outcomes of income-generating activities according to a set of enforceable legal rules.<sup>4</sup> The absence of such an institutional framework would entail the absence of an informal economy.

Secondly, insofar as this institutional framework may be imperfectly implemented, as is often the case, and insofar as certain types of income-earning activities may be particularly likely to escape regulation and be generally recognized as doing so, e.g., babysitting by high school students, it is the existence of an informal economy in a context where such work is in effect regulated that makes this a distinct historical process. That is to say, while today's sweatshops may look similar to sweatshops of one hundred years ago, the fact that various health and labour code regulations have since been implemented makes them different. Today, there is a different form of organizing the worker/employer relation than was the case in the past. No such regulations existed when the vast majority of manufacturing took place in such shops. The type of social relation represented by sweatshop work is specified by the historical context, in this case one where the activity of manufacturing has been regulated for decades.<sup>5</sup>

While there are certain activities that lend themselves more to informalization than others, it is not the intrinsic characteristics of activities which determine informalization, but rather the boundaries of state regulation. As these boundaries vary, so will the definition of what is formal and what is informal. The informal economy is not a clearly defined sector or set of sectors with a common position in the work process; it is, rather, a process with changing boundaries and is, in certain cases, highly opportunistic. The key to analysing the informal economy is, then, not so much a precise description of what it encompasses, but understanding the basic dynamics that make informalization possible. Notwithstanding, there is also the regulatory intent of the state and institutional actors, such as unions and governmental enforcement agencies, that act as barriers to informalization.

Castells and Portes (1989) point out that the absence of institutional regulations in the informal economy may rest in different elements of the work process: the status of labour, the conditions of work, and the form of management. In terms of the status of labour, it is important to point out that informality does not reside necessarily in the characteristics of the workers. In principle, an undocumented immigrant may be employed in a fully regulated job in the formal economy in full compliance, while a citizen may be employed in an informal shop.<sup>6</sup> While it is true that in the US we have found a large number of undocumented immigrants in the informal economy,<sup>7</sup> it is also true that many of the illegal homeworkers in the Netherlands, for example, are Dutch citizens<sup>8</sup>. Many of the workers in the unregulated factories of Emilia-Romagna in Italy are Italian citizens.<sup>9</sup> The expansion of informalization does not, in principle, depend on the existence of an immigrant labour force. Secondly, in terms of the conditions of work, informal work is, in itself, licit work. However, when it is done at home when there is a ban on such work, or done in factories which violate various codes, it becomes illegal. Finally, regarding the form of management, a factory or a shop operating in violation of health, fire, labour, tax, zoning or other such regulations, or a "gypsy cab" operating where cabs are supposed to be licensed, are both part of the informal economy even if all the workers are properly documented.

This relational property and the changing empirical boundaries clearly pose methodological problems if the object is precise measurement of the informal economy and precise identification of its boundaries. The central emphasis in this paper is on informalization or an informal economy, rather than on an informal "sector". Informalization is a process whose particular empirical content varies but whose analytical meaning remains fairly constant.

Theorization about the informal economy has until recently been grounded in what is considered to be the multiple "inabilities" of less-developed economies: the inability to attain full modernization of the economy, to stop excess migration to the cities, to implement universal education and literacy programs, to create sufficient formal sector jobs, and so on.

Correspondingly, the growth of an informal economy in highly developed countries has been seen as "imported" through Third World immigrants and their propensities to replicate survival strategies typical of their home countries. Related to this view is the notion that backward sectors of the economy are kept backward or even alive, because of the availability of a large supply of cheap immigrant workers.<sup>10</sup> Both of these views posit or imply that there is an informal economy in highly developed countries, the sources of which are Third World immigration and the backward sectors of the economy.

Rather than assume that Third World immigration is causing informalization, it is more effective to examine the role it might or might not play in this process. Immigrants, in so far as they tend to form communities, may be in a favourable position to seize the opportunities represented by informalization. However, the opportunities are not necessarily created by immigrants. They may well represent a structured outcome of current trends in advanced economies. The policy implications to be derived from this kind of understanding of the informal economy are quite different from what would be the case if the informal economy were imported via Third World immigration.



Each of these two views carries policy implications. The kinds of policies to be adopted if informalization results from the structural characteristics of advanced capitalism will vary significantly from those called in the case that immigrants are importing these strategies from the Third World. Simply criminalizing informal work may be effective in the latter case, but would be far less effective in the former. It might be useful to think in terms of regulatory voids, rather than violations because there is an increasingly problematic relation between new economic processes and the regulatory frameworks largely inherited from earlier periods. To capture this condition I use the notion of "regulatory fractures".

This type of inquiry requires an analytic differentiation of immigration, informalization, and characteristics of the current phase of advanced economies. That should allow us to establish the differential impact on the formation and expansion of informal income-generating processes due to immigration and prevailing economic conditions. The theoretical and policy implications associated with the primacy of one or the other will vary. The primacy of economic structure would point to the need for further theoretical elaboration on the current understanding of the nature of advanced capitalism. The primacy of immigration would reinforce standard theories about advanced economies or the post-industrial society which allow no room for such developments as an informal economy. For policy, the primacy of immigration would suggest, at its crudest, that controlling immigrant activity in the informal economy would eradicate it; the primacy of economic structures, on the other hand, would suggest the need for critical re-examination of policies which are based on the standard model of advanced economies and which fail to recognize that mainstream conditions may be inducing informalization.

In order to identify systemic links between informalization and structural conditions in advanced capitalism, I shall discuss the effects of major growth trends in shaping a vast array of types of jobs, types of firms and subcontracting patterns that induce or are conducive to informalization. There is no precise measure of informalization and there is no exhaustive evidence. Juxtaposing these systemic trends with the available evidence should permit inferences about the patterns, scope, and conditions promoting informalization.

## **2. Conditions for informalization in advanced economies**

The historical characteristics of economic growth in the post-World War II era are most notably capital intensity, standardization of products and suburbanization-led growth. All have contributed to the vast expansion of the middle-class and had the effect of deterring and reducing informalization. Furthermore, so did the cultural forms accompanying these processes, particularly as they shaped the structures of everyday life insofar as a large middle-class contributes to mass consumption and thus to standardization in production. These various trends were conducive to greater levels of unionization or other forms of workers' empowerment that can be derived from large-scale production and from the centrality of mass production and mass consumption in national economic growth and profits. It is in the post-war period extending into the late 1960s and early 1970s when the incorporation of workers into formal labour market relations reached its highest level.

The decline of the centrality of mass production in national growth and the shift to services as the leading economic sector contributed to the demise of a broader set of arrangements. The combination of economic, political and technical forces that has contributed to the decline of mass production as the central driving element in the economy brought about a decline in a broader institutional framework that also shaped the employment relation. This context, I argue, is of importance in understanding the conditions for informalization in advanced economies.<sup>11</sup>

The group of service industries that are the driving economic force in the 1980s are characterized by greater earnings and occupational dispersion, weak unions, and mostly unsheltered jobs in the lower paying echelons.<sup>12</sup>

The associated institutional framework which shapes the employment relation is quite different from the earlier post-war one. This framework helps reshape the sphere of social reproduction and consumption, which in turn has a feedback effect on economic organization and earnings. Whereas in the earlier period this feedback effect contributed to reproducing the middle-class, currently it results in a growing income gap and labour market casualization.

The overall result is a tendency towards increased economic polarization. My argument is that while the middle class still constitutes the majority, the conditions that contributed to their expansion and politico-economic power – the centrality of mass production and mass consumption in economic growth and profit realization – have been displaced by new sources of growth. This is not simply a quantitative transformation; we see here the elements for a new economic regime. This tendency towards polarization assumes distinct forms in (a) its spatial organization, (b) the structures for social reproduction, and (c) the organization of the labour process.<sup>13</sup>

In terms of economic and spatial organization, there are three processes that I see as central to this new regime, especially as it materializes in major cities. One is the expansion and consolidation of the producer services and corporate headquarters sector into the economic core of major cities in highly developed countries (Friedmann, 1986; Fainstein et al., 1993; Brake, 1991; Carrez, 1991; *Le Debat*, 1994; Drennan, 1992; Sassen, 1994; Castells, 1989; Hausserman and Siebel, 1993; von Petz et al., 1992; see also Amin and Thrift, 1992). While this sector may not account for the majority of jobs, it establishes both a new regime of economic activity and the associated spatial and social transformations evident in these cities.

A second process is the downgrading of the manufacturing sector, a notion I use to describe a mode of political and technical reorganization of manufacturing. This is to be distinguished from the decline and obsolescence of manufacturing activities. The downgraded manufacturing sector represents a mode of incorporation into the "post-industrial" economy rather than a form of obsolescence. Downgrading is a form of adaptation to a situation where a growing number of manufacturing firms need to compete with cheap imports. The profit-making capacities of manufacturing overall are modest compared with those of leading sectors such as telecommunications or finance and sister industries.

The third process is the informalization of a growing array of economic activities, which encompasses certain components of the downgraded manufacturing sector. Like the

latter, informalization represents a mode of reorganizing the production and distribution of goods and services under conditions where a significant number of firms have an effective local demand for their goods and services, but cannot compete with cheap imports or cannot compete with the new high-profit firms for space and other business needs. Escaping the regulatory apparatus of the formal economy enhances the economic opportunities of such firms.

Cities, particularly cities that are leading business centers, are a nexus where many of the new organizational tendencies come together. Many service activities have been decentralized through new information technologies. Many other services dependent on vicinity to buyers follow the distribution patterns of populations, firms and governments. But cities are key sites for the production of the most advanced services, export-oriented services, and service firms that operate in dense networks of firms. Cities are also key sites for the various labour markets these service firms need. They are the sites where the polarization tendencies embedded in the organization of service industries come to the fore and have distinctive impacts on urban economic and social configurations. These outcomes are sharpened in very large cities by disproportionate concentrations of low-wage service jobs catering to commuters, and tourists, as well as to a mass of low income residents. Many of these tendencies assume concrete forms in the urban landscape.

### **3. Inequality in profit-making and earnings capacities**

Inequality in the profit-making capacities of different sectors of the economy and in the earnings capacities of different types of workers have long been features of advanced economies. However, what we see happening today takes place on an order of magnitude that distinguishes current developments from those of the post-War decades. The extent of inequality and the systems in which it is embedded are engendering massive distortions in the operations of various markets, from investment to housing and labour.

Two of the major processes lying behind the increased inequality in profit-making and earnings capacities are: (a) the ascendance and transformation of finance, particularly through securitization, globalization, and the development of new telecommunications and computer networks technologies; and (b) the growing service intensity in the organization of the economy which has vastly raised the demand for services by firms and households. Insofar as there is a strong tendency towards polarization in the technical levels, the prices of services, and in the wages and salaries of workers in the service sector, the growth in the demand for services contributes to polarization. As a result of this cumulative causation, inequalities are reproduced. (For a fuller development of this argument see Sassen, 1994: chapter 4.) Here I will particularly focus on these two major systemic tendencies in the economy and how they materialize in cities.

The super-profit making capacity of many of the leading service industries is embedded in a complex combination of new trends: technologies that make possible the hypermobility of capital at a global scale; market deregulation which maximizes the implementation of that hypermobility; financial inventions such as securitization which liquify hitherto unliquid or relatively unliquid capital and allow it to circulate faster and hence make additional profits; the

growing demand for services in all industries along with the increasing complexity and specialization of many of these inputs, which has in turn contributed to their valorization and often over-valorization. This is illustrated in the unusually high salary increases beginning in the 1980s for top level professionals. Globalization further adds to the complexity of these services, their strategic character, their glamour and consequently to their over-valorization.

The ascendance of finance and specialized services, particularly concentrated in large cities, creates a critical mass of firms with extremely high profit-making capabilities. These firms contribute to bid up the prices of commercial space, industrial services, and other business needs, thereby making survival for firms with moderate profit-making capabilities increasingly precarious. Among the latter, informalization of all or some of a firm's operations can emerge as one of the more extreme responses, further contributing to polarization in the urban economy. More generally, we see a segmentation between high profit-making firms and relatively modest profit-making firms.

The growth in the demand for service inputs in all industries is perhaps the most fundamental condition responsible for change in advanced economies. It has had pronounced impacts on the earnings distribution, on industrial organization, and on the patterns along which economic growth has spatialized. It has contributed to massive growth in the demand for services by firms in all industries, from mining and manufacturing to finance and consumer services, and to increased demand in households, both rich and poor.

The growing importance of services in economic organization can be seen in various types of data. All advanced economies have shown the most pronounced job growth in producer services (Castells and Auyoma, 1994; Sassen, 1994: Table 4.1). In the US, the sector with the largest share of new job growth from 1973 to 1987 was finance, insurance, and real estate, which accounted for over 11 per cent of all new jobs; in the 1980s this sector accounted for 12 per cent and business services for almost 14 per cent of new jobs (although they are only 2 per cent of total jobs). At the other end of the spectrum, eating and drinking places, and retail each accounted for over 10 per cent of new jobs in the 1980s.<sup>14</sup> Another measure can be found in the value of bought service inputs in all industries. For this purpose, I analyzed the national accounts data over different periods beginning with 1960 for several industries in manufacturing and services. The results showed clearly that this value increased markedly over time (see Sassen and Orloff, 1996).

There are broader and more generalized tendencies towards a deeply embedded dualization in economic organization that are particularly evident in global cities. These general trends have to do with the enormous differentiation within each of the traditional categories, particularly manufacturing and services. This depends on the intensity in the use of computers, information and control technologies in industry organization, and on whether an industry produces important inputs for other industries. Appelbaum and Albin (1990), in as far as this is possible given current data limitations, have re-classified industries in terms of this variable across all major sectors of the economy<sup>15</sup>. Within the service sector, one grouping of industries can be characterized as "knowledge and information intensive" (cf. Appelbaum and Albin, 1990) and another sub-sector as labour intensive. Both typically have low-productivity. The same can be found for manufacturing and other major sectors. Overall, the employment,

occupational, educational and earnings characteristics in each sub-sector tend to vary significantly.

Both the growing service intensity in the organization of the economy and the increased use of advanced technologies across all major sectors in the economy have a significant impact on the urban economy. Both entail a growing weight of specialized services in the economy. Insofar as cities are preferred locations for the production of specialized services, cities re-emerge as significant production sites in advanced economies. This is a role they had lost to some extent when large-scale standardized mass manufacturing was dominant; subsequently, manufacturing left cities due to space requirements.

We see in cities the formation of a new urban economic core of financial and service activities that replaces the older typically more manufacturing-oriented core of service and production activities. In the case of cities that are major international business centers, the scale, power, and profit levels of this new core suggest that we are seeing the formation of a new urban economy. Even though these cities have long been centers for business and banking, since the early 1980s there have been dramatic changes in the structure of the business and financial sectors, as well as sharp increases in the overall magnitude of these sectors and their weight in the urban economy. This has had significant economic and social effects on US cities in the 1980s, a development also evident as of the mid-1980s in major European cities (see, e.g., Kunzmann and Wegener, 1991; Frost and Spence, 1993; *Le Debat*, 1994; Sassen, 1994: chapters 2, 3 and 5)<sup>16</sup>.

This growth in services for firms is evident in cities at different levels of national urban systems. Some of these cities serve regional or sub-national markets; others serve national markets and/or global markets. The specific difference that globalization makes in the context of a growing service-intensive economy is to raise the scale and the complexity of transactions. This feeds the growth of top-level multinational headquarter functions and the growth of advanced corporate services. But even though globalization raises the scale and complexity of these operations, they are also evident at smaller geographic scales and lower orders of complexity, such as firms that operate regionally. While regionally-oriented firms need not negotiate the complexities of international borders and the regulations of different countries, they are still faced with a regionally dispersed network of operations that requires centralized control and servicing. Likewise, they are also faced with a growing need to buy insurance, legal, accounting, advertising and other such services. In this context, globalization becomes a question of scale and added complexity.

The implantation of global processes and markets in major cities has meant that the internationalized sector of the economy has expanded sharply and has imposed a new valorization dynamic – that is, a new set of criteria for valuing or pricing various economic activities and outcomes. This has had devastating effects on large sectors of the urban economy. It is not simply a quantitative transformation; we see here the elements for a new economic regime.

The ascendance of this specialized services-led economy, particularly the new finance and services complex, engenders what may be regarded as a new economic regime. Although this sector may account for only a fraction of the economy of a city, it imposes itself on the larger economy. One of these pressures is towards polarization, as is the case with the possibility for super profits in finance. This in turn contributes to the devalorization of manufacturing insofar as the latter cannot generate the super profits typical of the financial services sector.

High prices and profit levels in the internationalized sector and its ancillary activities, such as top-of-the-line restaurants and hotels, have made it increasingly difficult for other sectors to compete for space and investments. Many of these other sectors have experienced considerable downgrading and/or displacement. For example, neighbourhood shops tailored to local needs are replaced by upscale boutiques and restaurants catering to new high income urban elites.

One of the key outcomes of this transformation has been the significant growth of a high-income population particularly concentrated in cities and intimately linked to the ascendance of expertise and specialization in the organization of the economy. This ascendance of expertise in economic organization in turn has contributed to the overvalorization of specialized services and professional workers. And it has contributed to the perception that many of the "other" types of economic activities and workers are unnecessary or irrelevant to an advanced economy. As I have sought to show at length elsewhere, many of these "other" jobs are in fact an integral part of internationalized economic sectors, but are not perceived as such. This had led to a growing number of both low-income households and very high income households.

The next two sections examine these issues in greater detail.

#### **4. Polarization trends in service employment**

The growth of services in terms of both jobs and inputs needs to be unbundled in order to capture the impact on questions of inequality and new forms of employment-centered poverty. Key issues are the types of jobs being created and the systemic tendencies organizing the service sector which are setting the terms of employment for today and tomorrow. Jobs and organization are clearly overlapping and mutually shaping factors. However, they do not overlap completely: the labour markets associated with a given set of technologies can, in principle vary considerably and contain distinct mobility paths for workers. But today sector organization, types of jobs, and labour market organization, are all strengthening the tendencies towards polarization.

##### **(a) *Dualization in the organization of service industries***

Among the major systemic tendencies in the organization of the service sector contributing to polarization is the disproportionate grouping of service industries at either end of the technology spectrum. Service industries that can be described as information and knowledge intensive have generated a significant share of all new jobs created over the last

fifteen years and have absorbed a disproportionate share of college graduates. Most of the other jobs created in the service sector fall at the other extreme. Appelbaum and Albin (1990) find that the first sub-sector generated over 9 million jobs from 1973 to 1987, while the second sub-sector added 11.2 million jobs. Each of these subsectors accounts for a considerable share of US jobs, with the first accounting for almost 30 per cent of all US jobs, and the second sub-sector for 39 per cent<sup>17</sup>.

These conditions of sharp growth at either end of the technology spectrum are continuing into the 1990s. Based on the data for 1992, the US Bureau of Labor Statistics (BLS) projects a massive growth of low-wage service jobs, including service jobs catering to firms. Three service industries such as retail trade, health services and business services will account for about half of total US employment growth between 1992 and 2005. Using the most detailed occupational classification (223 categories) the largest increases in terms of numbers of jobs are, in order: retail sales workers, registered nurses, cashiers, truck drivers, waiters and waitresses, nursing aides, janitors, food preparation workers, and systems analysts.<sup>18</sup> Most of these jobs do not require high levels of education and they are not very highly paid. Nor is there expected to be an increase in the median weekly wage of workers. At the other extreme are jobs requiring a college degree. Their share was 23 per cent in 1992 and is projected to rise only by 1 per cent to 24 per cent by 2005.

The two broad occupational categories projected by the BLS to increase are professional specialty occupations and service occupations. The BLS data and projections show that the incomes in these two occupations in 1992 were "on opposite ends of the earnings spectrum ... earnings for service workers were about 40 per cent below the average for all occupational groups in 1992" (BLS, 1994, p. 83). In combination with growth trends in industries and occupations, this points to a constant or even an increase in the inequality in earnings, since most new jobs will be in low paying service jobs and some of the professional specialty jobs may raise their levels of specialization and pay.

Appelbaum and Albin (1990) found that the differences they identified within the service sector are also evident in earnings. About 37 per cent (or 5.3 million jobs) of total new job growth in the US from 1979 to 1987 was in a group of service industries within the labour intensive sub-sector, where the median earnings of full-time year round workers in 1986 was US\$15,500. This is US\$7,000 less than the median of US\$22,555 of all full-time workers in this sub-sector (and almost US\$9,000 less than the median in durable goods manufacturing). Thus, most new jobs in the labour-intensive sub-sector were in industries paying median wages and salaries under US\$15,500. Furthermore, these jobs were 37 per cent of new job growth in the 1980s, which is an increase over the 29 per cent share they had in the 1970s, which signals deterioration in the earnings of a growing share of workers in services. In contrast, public-sector low-wage jobs, which are better paid and have more fringe benefits, saw a fall in their share of all new jobs, accounting for 26 per cent of jobs created in the 1970s and 22 per cent in the 1980s (or 3.2 million new jobs). The lowest paid hourly workers are part-time workers in the labour-intensive service industries, followed by full-time hourly workers in knowledge and information intensive service industries.<sup>19</sup> At the other end, the highest paid full-time hourly paid workers are in knowledge and information-intensive manufacturing, followed by all other manufacturing.

A crucial and familiar form of segmentation is gendering. Seven out of every ten new jobs from 1973 to 1987 have been filled by women. Over 80 per cent of women hold jobs in service industries compared with about 55 per cent of men. The gendering of the employment transformation can be captured in the fact that women hold more jobs in knowledge and information intensive industries than men: about 34 per cent of jobs held by women are in these industries compared with about a fourth of jobs held by men. Median earnings of women are higher in knowledge and information intensive services and manufacturing than in all other sectors; but they are always lower than the median for men in each sector.

**(b) *The casualization of the employment relation***

In principle, the trends described above towards polarization in the job characteristics of the service sector could have left labour market organization unaffected. But they have not. We see a tendency towards a greater casualization of the employment relation. That is to say, it is not just a matter of an expansion of what are typically considered casual or unsheltered jobs, but a more fundamental transformation, one which also includes a growing array of high-paying professional jobs.

Two tendencies stand out. One is the weakening role of the firm in structuring the employment relation due to the fact that more is left to the market. A second tendency in this restructuring of the labour market is what could be described as the shift of labour market functions to the household or community (see Sassen, 1995). Let me elaborate on each of these briefly.

Among the empirical references for the weakening role of the firm in structuring the employment relation is the declining weight of internal labour markets. It corresponds both to the shrinking weight of vertically integrated firms and the restructuring of labour demand in many firms towards bipolarity – a demand for highly specialized and educated workers alongside a demand for basically unskilled workers whether for clerical, service, industrial service, or production jobs.

The shrinking demand for intermediate levels of skill and training has in turn reduced the need and advantages for firms to have internal labour markets with long promotion lines that function as on-the-job-training mechanisms. It has also reduced the need for firms to have full-time, year round workers. Furthermore, it has contributed to the rapid rise of employment agencies as intermediaries in the labour market; such agencies take over the demand and supply of a growing range of skills and occupations under highly flexible conditions.

These tendencies appear to be particularly evident in labour intensive service industries, where the levels of skill required are often lower than in manufacturing. The higher growth of service as compared to manufacturing jobs carries additional consequences for the casualization of the employment relation. Perhaps one of the most familiar and dramatic trends is the growth in part-time jobs. Over 60 per cent of all part-time workers in the US labour force are in labour-intensive services, which is also the sector that is expected to add the largest share of new jobs over the next decade.<sup>20</sup> Service workers are twice as likely to be in part-time jobs as average workers and involuntary part-time employment has grown significantly over the past decade (Mishel and Bernstein, 1994).



The terms of employment have been changing rapidly over the last fifteen years for a growing share of workers. The overall tendency is towards a casualization of the employment relation that incorporates not only the types of jobs traditionally marked as "casual" jobs, but also high level professional jobs which in many regards are not casual. It might be useful to differentiate a casualized employment relation from casual jobs in that the latter connotes such added dimensions as the powerlessness of the workers, a condition which might not hold for some of the highly specialized professional part-time or temporary workers. This is a subject that requires more research.

The second tendency in the restructuring of labour markets I want to point out is the shift of labour market functions to the household or community. This is perhaps most evident in the case of immigrant communities. But it is also present in types of labour markets that are not necessarily embedded in immigrant communities or households.

The functioning of these labour markets also helps to explain the often advantageous positioning of immigrants and their households and communities in whatever opportunities the informal economy may offer. There is a large body of evidence showing that once one or a few immigrant workers are hired in a given workplace, they will tend to bring in other members from their communities as job openings arise (e.g. Portes, 1995; Mahler, 1996). There is also evidence showing great willingness on the part of immigrant workers to help those they bring in with some training on the job, language instruction, and specialization into the job and workplace. This amounts to a displacement of traditional labour market functions such as recruitment, screening and training from the labour market and the firm to the community or household. The labour market can then be reconceived as an activity space that contains a space dependency between employers and the community/household.<sup>21</sup> If these firms are informal, the job search by immigrants entails stepping into networks that lead and confine them to informal labour markets.

Elsewhere (1995) I have examined how this space dependency between employers and low-wage workers contributes to the formation of distinctive localized labour markets and the extent to which the networks thus constituted also have the effect of restricting job opportunities for these workers. The formation of such localized labour markets and the enclosure of workers in these networks becomes particularly significant with the breakdown of internal labour markets in firms and the trend towards bi-polarity in skill requirements in service industries. The overall effect is to further reduce the chances for upward mobility. While the case of immigrant workers makes this general dynamic more transparent, it actually encompasses a growing share of all low wage workers.

In this restructuring of the labour market lie conditions for the growth of employment-centered insecurity, poverty, and informalization (see Sassen, 1994: chapters 6 and 7). The casualization of the employment relation weakens and even eliminates the claims by workers on the firms where they work and hence can be seen as a weakening of the position of labour and the corresponding institutional marginalization. Secondly, the displacement of labour market functions to the community or household raises the responsibility and the costs of participating in the labour force for workers, even if these costs are often not monetized<sup>22</sup>.

## **5. Trends towards spatial and organizational polarization**

These tendencies towards polarization assume distinct forms in the spatial organization of the urban economy and the structures for social reproduction that inscribe the urban landscape. Here I will touch only on aspects connected to informalization. (For other aspects see e.g., King, 1995; Holston, 1996.)

The rapid growth of industries with strong concentrations of high and low income jobs has assumed distinct forms in the consumption structure. This in turn has a feedback effect on the organization of work and the types of jobs being created. The expansion of the high-income work force in conjunction with the emergence of new cultural forms has led to a process of high-income gentrification that rests, in the last analysis, on the availability of a vast supply of low-wage workers. High-income gentrification is labour-intensive, in contrast to the typical middle-class suburb that represents a capital-intensive process – tract-housing, road and highway construction, dependence on private automobile or commuter trains, marked reliance on appliances and household equipment of all sorts, large shopping malls with self-service operations. High-income gentrification replaces much of this capital intensity with workers, directly and indirectly. Similarly, high-income residents in cities depend to a much larger extent on hired maintenance staff than the middle-class suburban home with its concentrated input of family labour and machinery.

Behind the specialty food-shops and boutiques that have replaced many large self-service supermarkets and department stores in cities lies a very different organization of work from that prevalent in large, standardized establishments. This difference in the organization of work is evident both in the retail and in the production phase. High-income gentrification generates a demand for goods and services that are frequently not mass-produced or sold through mass outlets. Customized production, small runs, specialty items, and fine food dishes are generally produced through labour-intensive methods and sold through small, full-service outlets. Subcontracting part of this production to low-cost operations, or sweatshops or households, is common. The overall outcome for the job supply and the range of firms involved is rather different from that characterizing the large department stores and supermarkets where production takes place in standardized factories located outside the city. Proximity to stores is of far greater importance with customized producers. Mass production and mass distribution outlets also facilitate unionizing.

The expansion in the low-income population has also contributed to the proliferation of small operations and the move away from large-scale standardized factories and large chain stores for low-price goods. In large part, the consumption needs of the low-income population are met by manufacturing and retail establishments which are small, rely on family labour, and often fall below minimum safety and health standards. Cheap, locally produced sweatshop garments, for example, can compete with low-cost Asian imports. A growing range of products and services, from low-cost furniture made in basements to "gypsy cabs" and family daycare is available to meet the demand for the growing low-income population.

In any large city, there also tends to be a proliferation of small, low-cost service operations made possible by the massive concentration of people in such cities and the daily inflow of commuters and tourists. This will tend to create intense inducements to open up such

operations and increase competition despite very marginal returns. Under such conditions, the cost of labour is crucial and contributes to the likelihood of a high concentration of low-wage jobs. This tendency was confirmed, for instance, by Sheets, Nord, Phelps (1987) when they found that each one percent increase in retail jobs resulted in a 0.88 per cent average increase in below poverty level jobs in the 100 largest US metropolitan areas in 1980.

There are numerous instances of how the increased inequality in earnings reshapes the consumption structure and how this in turn has feedback effects on the organization of work. Among the cases in New York City are the following: the creation of a special taxi line that only services the financial district and the increase of gypsy cabs in low-income neighbourhoods not serviced by regular cabs; the increase in highly customized wood work in gentrified areas and low-cost rehabilitation in poor neighbourhoods; the increase of homeworkers and sweatshops making either very expensive designer items for boutiques or very cheap products.<sup>23</sup>

Perhaps one of the clearest illustrations comes from a recent study on commercial bank branch closings and openings in the New York Metropolitan area presented to the New York State Legislature. It found a wave of bank branch closings even stronger than the one that took place in the early 1980's which left several poor and minority communities without any banking services. While the earlier wave of branch closings hardly affected middle-income areas, the latest one hit these areas strongly. From 1985 to 1987 – a period of enormous growth in finance – 55 full service commercial branches were closed, 34 in 1987 alone which is the highest number for any one year in the last decade. Over the last three years, five major New York City banks accounted for all except one of the closings of commercial branches in New York City neighbourhoods with more than 50 per cent minority populations.<sup>24</sup> In all countries with Black and Hispanic populations above regional average, the number of residents per commercial bank have increased. However, branch services have increased in the suburbs and in high-income areas in New York City.<sup>25</sup> Banks have also been opening numerous 'personal financial centres' or 'private banking centres' in affluent areas of the City. In some of these branches customers must have US\$25,000 in their accounts to use the teller service. There is a strong trend towards offering less services to poor and middle class neighbourhoods and an increasing array of specialized services to affluent consumers.

This illustrates a more general trend in the spatial organization of the urban economy – the even sharper trend today for leading sectors to be concentrated in the downtowns of cities, in suburban office complexes and in edge cities. There is hardly any economic growth in low-income communities. This unbalanced spatial distribution of growth has been much stronger over the last fifteen years than in past historical periods when all large cities had a multitude of neighbourhood sub-economies, typically including commercial and manufacturing activities. Further, insofar as the ascendance of high-profit industries such as finance and specialized services have contributed to raise the price of commercial space and other business costs in the downtowns of large cities, small low-profit firms can hardly afford space in such central locations, even when there is an effective demand for their products or services.

Polarization among firms and households and in the spatial organization of the economy contribute, in my opinion, towards the informalization of a growing array of economic activities. When firms with low or modest profit-making capacities experience an ongoing or

increasing demand for their goods and services where a significant sector of the economy makes super-profits, they often cannot compete even though there is an effective demand for what they produce. Operating informally is often one of the few ways in which such firms can survive. Similarly, new firms in low-profit industries entering a strong market for their goods and services may only be able to do so informally. Another option for firms with limited profit-making capabilities is to subcontract part of their work to informal operations.

In sum, the argument is that the kinds of growth trends described above contain inducements for the informalization of a broad range of activities. These inducements to informalization lie in the combination of several trends particularly evident in major cities: (a) the increased demand for highly-priced customized services and products by the expanding high-income population; (b) the increased demand for extremely low-cost services and products by the expanding low-income population; (c) the demand for customized services and goods or limited runs from firms which are either final or intermediate buyers with a corresponding growth of subcontracting; (d) the increasing inequality in the bidding power of firms in a context of acute pressures on land due to the rapid growth and strong agglomerative pattern of the leading industries; (e) the continuing demand by various firms and sectors of the population, including demand from leading industries and high-income workers, for a range of goods and services typically produced in firms with low profit rates which find it increasingly difficult to survive given rising rents and costs of production. The argument is that the transformation of final and intermediate consumption and the growing inequality in the bidding power of firms and households for space creates inducements for informalization in a broad range of activities and spheres of the economy. The existence of an informal economy in turn emerges as a mechanism for reducing costs, even in the case of firms and households that do not need it for survival, in addition, providing flexibility in instances where this is essential or advantageous.<sup>26</sup>

Some of the more general trends described here in terms of change in the economic and spatial organization of large cities are becoming evident in major European cities as well, though never as sharply as in the major US cities. It is important, of course, to control for the differences in regulatory frameworks and extent of regulatory implementation, which are all markedly different than in the US. There is a growing literature which examines large European cities along some of these lines and hence contains conceptual and methodological openings for an examination of possible informalization trends, even though the latter is not addressed.<sup>27</sup> There is also a more specialized literature focused on immigrant enterprise and to some extent the informal economy which signals the existence of conditions that might promote informalization.<sup>28</sup> For instance, we are seeing the growth of a fashion linked sweatshop sector in Paris and in London, and perhaps even in Berlin.<sup>29</sup> At a more systemic level, one could argue that the trends towards increased inequality in household earnings capacities and in the profit-making capacities of firms may signal the possibility of informalization emerging as a flexible option for households and firms also in Europe. There is clearly much research that needs to be carried out in the case of European cities.

## 6. Specifying the informal economy

Elsewhere I have described the findings of our research.<sup>30</sup> Here I want to examine the broader patterns with an eye to what they signal about growing problems in the relation between economy and regulation not just in US cities but possibly in European cities as well. Besides the relation between regulation and economy, these patterns may also indicate something about ways in which local forces can mobilize with many positive effects.<sup>31</sup> As this is based on our research, it will focus on the case of New York City.

The evidence points to several distinctions in the process of informalization in New York City. These distinctions have implications for theory and policy. A first set of distinctions concerns the origin of the demand for informally produced or distributed goods and services.<sup>32</sup> We can identify informal activities that result from the demand for goods and services in the larger economy, either from final consumers or firms. Most of the informal work in the garment, furniture, construction, packaging and electronics industries is of this type. We can also identify informal activities that result from demand internal to the communities where such activities are performed. Immigrant communities are a leading example, and probably account for much of this second type of demand.

Second, an examination of the conditions that may be contributing directly to the demand for informal production and distribution indicates several sources: (a) One of these is competitive pressures in certain industries, notably apparel, to reduce labour costs given massive competition from low-wage Third World countries. Informal work in this instance represents an acute example of exploitation. (b) Another source is a rapid increase in the volume of renovations, alterations, and small scale new construction associated with the transformation of many areas of the city from low-income, often dilapidated, neighbourhoods into higher income commercial and residential areas. What in many other cities in the US would have involved a massive program of new construction was mostly a process of rehabilitation of old structures in the case of New York City. The volume of work, its small scale, its labour intensity and high skill content, and the short-term nature of each project all are conducive to a heavy incidence of informal work. (c) A third source is inadequate provision of goods and services by the formal sector. This inadequacy may consist of excessively high prices, inaccessible locations of formal providers, or actual lack of provision. It would seem that this inadequacy of formal provision involves mostly low-income individuals or areas. Examples are gypsy cabs serving areas not served by regular cabs, informal neighbourhood child-care centers, low-cost furniture manufacturing shops, informal auto-repair, and a whole range of other activities providing personal goods and services. (d) The existence of a cluster of informal shops can eventually generate agglomeration economies that induce additional entrepreneurs to move in. This is illustrated by the emergence of auto-repair "districts", vendors' "districts", or clusters of both regulated and informal shops in areas not zoned for manufacturing. These are one of the few viable locations for such activity given the increased demand for space by high bidders. (e) The existence of a rather diverse set of informal firms making use of a variety of labour supplies may lower entry costs for entrepreneurs, and hence function as a factor inducing the further expansion of the informal economy. The last source described here can be construed as a type of supply side factor: it signals to employers the existence of an informal "hiring hall".

Third, we can distinguish different types of firms in the informal economy in terms of the locational constraints to which firms are subject. For some firms, access to cheap labour is the determining inducement for a New York City location, though typically in combination with access to the city's final or intermediate markets. For these firms, access to cheap labour, specifically low-wage immigrant workers, determines location because it allows them to compete with Third World factories or to compete in markets with rapid production turnover times. Indeed, the expansion of the Hispanic population in New Jersey has brought about rapid growth of garment sweatshops and homework in several New Jersey counties. In contrast, many of the shops engaged in customized production or operating on subcontracts, introduce a whole host of locational dependencies on New York City. These firms are bound to the city (or to any large city they might be located in undergoing the kinds of socio-economic transformations we identified for New York City) due to some or all of the following reasons: (a) demand is local and involves typically specific clients or customers; (b) vicinity to design and specialized services; (c) brief turnover time between completion of design and production; (d) demand is predicated on the existence of a highly dynamic overall economic situation that generates a critical volume of demand and spending capability on the part of buyers; (e) the existence of immigrant communities which have some of the traits associated with enclave economies and hence contain very specific types of markets. In other words, these are firms whose market is right there in New York City. Leaving the city for a lower cost location is not quite an option. In this case informalization functions as a mode of incorporation into an economic system with great inequality in the bidding power of firms for land and a sharp increase in the demand for space by high bidding firms, both factors having contributed to reduce sharply the supply of low-cost space.

Fourth, we can distinguish differences in the types of jobs we found in the informal economy. Many of the jobs are unskilled, with no training opportunities, and involve repetitive tasks. Another type of job demands high skills or acquisition of a skill. The growth of informalization in the construction and furniture industries can be seen as having brought about a re-skilling of the labour force. Some jobs pay extremely low-wages, others pay average wages, and still others were found to pay above average wages. Typically, there seems to be savings involved for the employers or contractors compared with what would have to be paid in the formal market.

Fifth, we can identify different types of locations in the spatial organization of the informal economy. Immigrant communities are a key location for informal activities meeting both internal and external demand for goods and services. Gentrifying areas are a second important location; these areas contain a large array of informal activities in renovation, alteration, small scale new construction, woodwork and installations. A third location can be characterized as informal manufacturing and industrial service areas serving a city-wide market.

In summary, important sources for the informalization of various activities are to be found in the characteristics of the economy generally and of large urban economies in particular.

One major trend is that the decline of the middle class, the growth of a high-income professional class, and the expansion of the low-income population, have all had a pronounced impact on the structure of consumption, which has in turn had an impact on the organization of work to meet the new consumption demand. Part of the demand for goods and services feeding the expansion of the informal economy comes from the mainstream economy and the fragmentation of what were once mostly homogeneous middle-class markets. And another part of this demand comes from the internal needs of low-income communities increasingly incapable of buying goods and services in the mainstream economy.

A second major trend has to do with how space is organized in today's economy, particularly in large cities. First, the leading sectors of the economy tend to be concentrated in the downtowns of cities, in suburban office complexes, and in edge cities. There is hardly any economic growth in low-income communities. This unbalanced spatial distribution of growth has been much stronger today, and over the last fifteen years than in past historical periods. Secondly, the ascendance of high-profit industries, such as finance and specialized services, as the dominant sector in major urban economies, have contributed to raise the price of commercial space and other business costs in large cities. As a result, small low-profit firms can hardly afford to compete for space, even though there is an effective demand for their products or services. One way of solving these contradictory conditions is to go informal, i.e., to use spaces not zoned for commercial or manufacturing uses, such as basements in residential areas, or to use a space that is not up to code in terms of health, fire and other such standards.

What this points to is that the expansion of the informal economy in the US is rooted partly in conditions that are an integral part of our economy. This would suggest that a good share of the informal sector is not the result of immigrant survival strategies, but rather an outcome of structural patterns or transformations in the larger economy. Immigrants have known how to seize the "opportunities" contained in this combination of conditions, but they cannot be said to cause the informal economy.

The kinds of policies to be adopted if informalization results from the structural characteristics of advanced capitalism will vary significantly from those called for by the notion that immigrants are importing these strategies from the Third World. Simply criminalizing informal work may be effective in the latter case, but is far less so if informalization is embedded in the structure of our current economic system, particularly as it materializes in large cities. We reduce our ability to design effective policy if we keep blaming immigrants for the expansion of the informal economy. Informalization emerges as a set of flexibility-maximizing strategies by individuals and firms, and consumers and producers, as a result of growing inequality in earnings and in profit-making capabilities. Its expansion invites us to focus on the broader set of problems in the relation between new economic trends and old regulatory frameworks.

## Conclusion

One way of conceptualizing informalization in advanced urban economies today is to posit it as the systemic equivalent of what we call deregulation. Both deregulation and informalization introduce enormous flexibility in the economy – with a difference. One is a high-cost set of efforts that have brought enormous profits to a select group of firms and professional workers. The other is a low-cost equivalent which rests on the backs of low-profit firms and low-wage workers. Both the deregulation of a growing number of leading information industries and the informalization of a growing number of activities with low-profit making capacities can be conceptualized as adjustments to major economic transformations.

These transformations can be thought of as systemic transitions between different modes of social and economic organization. What we are seeing is a transition from the relative obsolescence of urban economies during the dominance of Fordism, to the revalorization of strategic components of urban space due to the increased service-intensity of the economy. The ascendance of information industries and the growth of a global economy, both inextricably linked, have contributed to a new "geography" of centrality and marginality. This new geography partly reproduces existing inequalities but also is the outcome of a dynamic which is specific to the current forms of economic growth.

The new urban economy not only contributes to strengthening existing inequalities but sets in motion a whole series of new dynamics of inequality. The new growth sectors – specialized services and finance – contain capabilities for profit making vastly superior to those of more traditional economic sectors. The latter are essential to the operation of the urban economy and the daily needs of residents, but their survival is threatened in a situation where finance and specialized services can earn super-profits.

We see sharp increases in socioeconomic and spatial inequalities within major cities. This can be interpreted as merely a quantitative increase in the degree of inequality. However, it can also be interpreted as social and economic restructuring. Moreover, it can be viewed as the emergence of new social forms and class alignments in large cities of highly developed countries: the growth of an informal economy; high-income commercial and residential gentrification; and the sharp rise of homelessness.

The observed changes in the occupational and earnings distribution are outcomes not only of industrial shifts, but also of changes in the organization of firms and of labour markets. There has been a strengthening of differences within major sectors, notably within services. One set of service industries tends towards growing capital-labour ratios, growing productivity, intensive use of the most advanced technologies. The other tends towards continued labour intensity and low wages. Median earnings and median educational levels are also increasingly divergent for each of these sub-sectors. These characteristics in each set of industries contribute to a type of cumulative causation within each set: the first group of industries experiences pressures towards even higher capital/labour ratios and productivity levels given high wages, while in the second group of industries, low-wages are a deterrent towards greater use of capital intensive technologies. Here, low productivity leads to even more demand for very low-wage workers. These conditions in turn contribute to reproduce the difference in profit-making capacities embedded in each of these sub-sectors. Therefore, operating informally



or subcontracting to informal firms becomes one way of surviving for many of the low-profit sector firms.

The combination of economic, political, and technical forces that has contributed to the decline of mass production as the central driving element in the economy has brought about a decline in a broader institutional framework shaping the employment relation. The group of service industries that are the driving economic force in the 1980s and into the 1990s is characterized by greater earnings and occupational dispersion, weak unions, and mostly a growing share of unsheltered jobs in lower-paying and high-income jobs. The associated institutional framework shaping the employment relation is very different from the previous one. This contributes to a reshaping of the sphere of social reproduction and consumption, which in turn has a feedback effect on economic organization and earnings. Whereas in the earlier period this feedback effect contributed to the reproduction and expansion of the middle class, currently it reproduces growing earnings disparity and labour market casualization. The overall result is a tendency toward increased economic polarization: an expanding high-profit professional economy at the top and an expanding low-profit informal economy at the bottom.

When we speak of polarization in the use of land, in the organization of labour markets, in the housing market, and in the consumption structure, we do not necessarily mean that the middle class is disappearing. We are rather referring to a dynamic whereby growth contributes to inequality rather than expansion of the middle class, as was the case in the two decades after World War II in the United States. This is also the case in many of the developed economies where the middle class represented the most important channel for economic growth, and one through which income and lifestyle coalesced into a widespread social form. Today, we see a segmenting of the middle class that has a sharper upward and downward slant than had been the case in other periods. The conditions that contributed to their expansion and politico-economic power – the centrality of mass production and mass consumption in economic growth and profit realization – have been displaced by new sources of growth. This is not simply a quantitative transformation; we see here the elements for a new economic regime.

Informalization in highly developed countries needs to be seen against these broader transformations. Insofar as some of these transformations are materializing in the large cities of Asia and Latin America, we may well see a new dynamic, along with older dynamics, for informalization emerging there as well.

## Notes

1. To mention just a few items: Kloosterman, 1995; Noller et al., 1994; Ronneberger et al., 1994; *Societes Contemporanees*, 1995; *Urban Studies*, 1995; Mingione 1995.
2. See e.g., Ramos Schiffer, 1996; Büchler, 1997; Santos, 1996; Kowarick et al., 1994.
3. "Underground economy" is an umbrella term for several kinds of economic activity. We need to differentiate these activities in order to understand their specific dynamics and effects. We can begin by distinguishing at least three very different components of the underground economy: (a) Criminal activities which by their very nature could not be carried out above ground. It is completely distinct from the other two components of the underground economy. (b) Tax evasion on licit forms of income: all states confront this and have implemented mechanisms to detect and control tax evasion. In the United States today, the available information shows a large jump in the amount of unreported income. The IRS latest estimate is that we have a \$120 billion gap. Tax evasion is not considered a severe problem, which it was not in the 1950s, 1960s and early 1970s. (c) The informal economy.
4. This becomes quite evident when one reads government accounts that seek to identify the "illegality" of basically licit activities. See e.g., New York Legislature, 1982; New York City Department, 1986. For an insightful analysis of how informal operators themselves perceive their "illegality" when engaged in activities such as selling perfectly licit goods, see Gaber, 1993; New York Times, 1993; see also select portions in Mahler, 1995.
5. The question of taxation is, clearly, one element in the regulatory picture. It is important to note that much tax evasion, indeed probably by far the largest portion, is evasion on regulated economic activity. See also note 1, for clarification of the difference between tax evasion and informalization. It is a fact that tax evasion has increased. The IRS projected a tax gap for 1992 of US\$114 billion, two-thirds of which attributable to individuals. This is significantly higher than the was the case in the 1950s, 1960s and early 1970s.
6. The passing of sanctions against employers for knowingly hiring undocumented workers alters this assertion in those cases where the employer knowingly hires such a worker. The informality then resides in the form of management.
7. See various chapters in Portes et al., e.g., Stepick, 1989; Fernandez-Kelly and Garcia, 1989.
8. Renooy, 1984.
9. Capecchi, 1989.
10. I should note immediately that there is a diversity of theories about and explanations of immigration, e.g., see Massey et al., 1993.
11. It is important to recognize the distinct forms these processes have assumed even if we look just at major internationalized urban economies. See e.g., Abu-Lughod, 1995.
12. See Sassen (1991) for a comparison of the distinct manner in which these processes took place in the US, the UK and Japan. For more information on Japan, see e.g., Shank, 1994.
13. There is an emerging literature that focuses on these broader dynamics as they materialize in cities. This is, in my reading, important in the elaboration of an analysis of informalization that links it to these broader dynamics and prevents the analysis from being self-contained ethnographies or being ghettoized as marginality. E.g., Knox and Taylor, 1995; Hitz et al., 1995; King, 1996; Cohen et al., 1996; see also Le Gates and Stout, 1996.

14. By 1987 business services provided 5.2 million jobs, or 5 per cent of total jobs, and had become a larger employer than construction and almost as large as transport and public utilities, and wholesale trade. Almost half of the new jobs in business services came from personnel supply services, and computer and data processing (see Bednarzik, 1990).

15. Appelbaum and Albin have proposed a taxonomy of firms and industries into broad sectors on the basis of "information and knowledge intensity" – "a multidimensional property of firms and industries, reflecting the nature of the output produced, the extent of computer rationalization of the production process, and the organizational adaptation to information and computation technologies" (1990: 32).

16. Manufacturing remains a crucial sector in all these economies, even when it may have ceased to be a dominant sector in major cities. Some have argued that the producer services sector could not exist without manufacturing (Cohen and Zysman, 1987; Markusen and Gwiasda, 1994). There is no consensus around this issue (e.g., Noyelle and Dutka, 1988; Drennan, 1992). Drennan (1992) argues that a strong finance and producer services sector is possible in New York notwithstanding decline in its industrial base and that these sectors are so strongly integrated into the world markets that articulation with the larger region becomes secondary. In a variant on both positions, I have long argued that manufacturing indeed feeds the growth of the producer services sector, but that it does so whether located in the area in question, somewhere else in the country, or overseas. Even though manufacturing – and mining and agriculture, for that matter – feeds growth in the demand for producer services, their actual location is of secondary importance in the case of global level service firms. Second, the territorial dispersal of plants, especially if international, actually raises the demand for producer services insofar as it raises the complexity of management and financing. The growth of producer service firms headquartered in New York or London or Paris can be fed by manufacturing located anywhere in the world as long as it is part of a multinational corporate network. Third, a good part of the producer services sector is fed by financial and business transactions that either have nothing to do with manufacturing, as is the case in many of the global financial markets, or for which manufacturing is incidental, as in much merger and acquisition activity, which is centered on buying and selling firms rather than the buying of manufacturing firms as such.

17. Information and knowledge intensive manufacturing in the US accounts for only 3.2 per cent of US employment; the rest of manufacturing, for about 27 per cent. Note that women are far less represented in the "rest of manufacturing" sub-sector than in the former; this is partly due to the feminization of the electronics assembly line.

18. Retail trade is expected to add the largest number of jobs, 4.5 million. Nearly half of these jobs will be for food service workers (cashiers and sales persons in eating and drinking places: these are not high paying jobs demanding high levels of education. Next comes health services with an added 4.2 million jobs; within these the fastest growing type of job is home care service, again mostly a low paying job. Next are business services, with 3.1 million new jobs, which includes both low-wage and high wage industries. One of the growth industries in business services is personnel supply services, such as temporary employment agencies; another growth sector is transportation, particularly trucking and warehousing.

19. Average hourly wages have been stagnant in the US since 1973, notwithstanding rapid increase in salaries of new professionals. And as has been documented in the 1990 census, income inequality increased over the last 20 years.

20. Almost 30 per cent of all jobs in labour-intensive services are part-time, compared to 17 per cent in information and knowledge intensive services. Part-time jobs are highly concentrated: restaurants and hotels, retail, and education account for 45 per cent of all part-time jobs, but only 25 per cent of all jobs in the economy. Nearly half of all workers in retail are part-time, compared with 10 per cent in administrative, managerial and supervisory occupations.

21. This space dependency is centered on the relation between workplace and household, and between workplace and community. The exchange dynamic – a component of all markets – is therewith displaced from the centre of labour market operation as it is in the neoclassical model (see Sassen, 1995). When it comes to international labour migration, this reconceptualization views the act of migrating as a move from one particular local labour market (in the country of origin) to another particular local labour market (in the country of destination). This specific job search pattern has the effect of altering the geographic dimension often implied by job search models, especially among low-wage workers who have been found to have little geographic mobility. However, notwithstanding this far ranging area within which many immigrants search for jobs, they are actually largely moving within a very confined institutional setting, even when they travel long distances, and improvise informal transportation systems. This is another way of conceptualizing the role of networks. These networks have spatial patterns, but they are not characterized by geographic proximity. Furthermore, while they may cover immense distances they do not necessarily offer great opportunities for mobility nor place immigrants in particularly competitive positions vis a vis natives in terms of upward job mobility. This is particularly so given the polarization tendencies evident in the distribution of jobs in services.

22. There is an interesting parallel here with one of the components of the service economy, that is the shift of tasks traditionally performed by the firm onto the household: e.g., furniture and even appliances sold unassembled to be put together by the buyer (Gershuny and Miles, 1983).

23. There is a whole other bundle of issues around this question which has to do with the unequal distribution of the infrastructure of the new technologies, notably computer networks. See, for instance, *Journal of Urban Technology*, 1996.

24. During this period only two new full-service branches opened, one Chinese owned in Chinatown and the other a small black owned bank (Freedom National Bank). This was the one branch opened in New York City neighbourhoods with over 30 per cent black population. In all counties with black and hispanic populations above the regional average, the number of residents per commercial bank branches increased. The Bronx, the borough with the highest percentage of black and hispanic population, had the most severe reduction in its commercial branch network, a 20 per cent loss from 1978 to 1987. Forty full service commercial branches were closed over that period. In 1987 the Bronx had 30 per cent more residents per branch than it did in 1980. Brooklyn, the borough with the second highest proportion of blacks and hispanics in 1987 had 14 per cent more residents per branch than it did in 1980 and has the highest ratio at almost 15,000 per branch. (See New York City Office of the 28th State District, 1989).

25. This increase of 7 per cent cannot simply be explained as a function of population growth in the suburbs. In 1987 the outer boroughs had almost 12,000 residents per branch; the suburbs 3,000.

26. How these trends do or do not materialize in less developed countries will require research that at least opens up the possibility that we might be seeing a "new" informal economy besides the older forms long present. See for instance, some evidence in this direction in Berner and Korff, 1995; Bose and Acosta-Belen 1995; for more encompassing accounts on economic restructuring in less developed areas and its impact on economic and political organization see Cohen et al., 1996; Rosen and McFadyen, 1995; see also Roberts, 1995.

27. E.g. Noller et al., 1994; Hitz et al., 1995; von Petz, 1992; Peraldi and Perrin, 1996; *Le Debat*, 1994; *Futur Anterieur*, 1995; *Wissenschafts Forum*, 1995.
28. See e.g., Body-Gendrot et al., 1991; Marie, 1992; Pugliese, 1983; Morokvasic, 1992.
29. E.g. Mitter, 1986; Lazzarato, 1993.
30. On the basis of our secondary data analysis, fieldwork, and interviews, we found the following profile of the informal economy in the New York City area: (a) informal work is present in a rather wide range of industrial sectors, though with varying incidence: apparel, accessories, general construction contractors, special trade contractors, footwear, toys and sporting goods, furniture and woodwork, electronic components, packaging, transportation; (b) such operations were also found in lesser measure in particular kinds of activities like packaging notions, making lampshades, artificial flowers, jewelry, distribution activities, photo engraving, manufacturing of explosives, etc.; (c) a strong tendency for such operations to be located in densely populated areas with very high shares of immigrants; (d) an emergent tendency for "traditional" sweat-shop activity (notably garments) to be displaced from areas undergoing partial residential and commercial gentrification; and (e) an emergent tendency for new forms of unregistered work catering to a new clientele to be located in gentrifying areas. For a listing of various studies see Sassen (1991), chapter 9.
31. Just to mention three very different ways in which some of the forms of informalization we are seeing in large cities may be articulated with broader dynamics of strengthening the local, see e.g., Cahn, 1994; Holston, 1996; *Social Justice*, 1993. For an attempt to re-theorize some of these issues, see King, 1996.
32. National household surveys have found that in the mid-1980s, 83 per cent of US households used informally-produced or delivered goods and services. And most of it was not for child care but for home repairs (\$21.4 billion) and food sold informally (\$10.3 billion).

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