

## People in low-paid informal work

**This research explores the experience of people on low incomes, doing informal paid work, including those working cash-in-hand and those undertaking undeclared work whilst claiming benefits. The study, by Community Links, is based on 100 one-to-one interviews with people engaged in informal paid work, and follow-up focus groups with a mix of service practitioners and policy-makers. It found that:**

- People in some deprived areas work informally, out of 'need not greed', in response to poverty: they feared going without basics such as food and heating or facing mounting debt.
- Three basic issues underpinned most of the informal working in this study: low benefit rates, low wages and rules which limited the hours that people can work.
- Participants believed that the tax and benefit system created disincentives to returning to formal work, such as the loss of related benefits (e.g. free prescriptions) and administrative delays affecting essential income.
- Participants felt that there were more informal than formal opportunities for people with few skills and qualifications, or with qualifications unrecognised in the UK.
- Respondents wanted to work and had a wide range of underused skills and abilities. They felt they gained from working informally, including: increased confidence, skills and work experience, financial support, and potential pathways into formal work. There were also wider social benefits affecting families and communities.
- The researchers conclude that punitive measures to tackle this activity can have limited success where poverty drives the decision to work informally. Government needs to understand and include the informal economy in its strategies if it is to reach its anti-poverty targets. Clear cross-government policies are needed to deal with the issues of low-paid informal work, including:
  - Support, training and development for people working informally who wish to make the transition into formal work.
  - Welfare and tax reform based on an understanding of why people work informally.
  - Flexibility in employment tailored towards people with childcare or health issues.
  - Changes to the asylum system and increased support to those coming from abroad to access formal work opportunities.



## Background

Community Links set out to establish a picture of employees in low-paid informal work in the London Borough of Newham. The interviews explored personal and family circumstances and motivations for engaging in informal paid work. Respondents were also asked about the wages they earned informally, their benefit situations, barriers to formal employment and their aspirations for the future.

Informal paid work is that which “involves the paid production and sale of goods or services which are unregistered by, or hidden from the state for tax, benefit and/or labour law purposes, but which are legal in all other respects” (Small Business Council, 2004).

Newham is a deprived city borough ranking among the most deprived areas in the UK. Research suggests that preconditions for the existence of low-paid informal work are likely to vary geographically. However, many of the factors found in this research that led participants to informal rather than formal paid work are likely to be repeated across deprived areas, and in deprived pockets within more affluent areas.

This research intends to provide foundations for developing practical pilot projects aimed at helping those in low-paid informal work to make the transition to formal employment. The recommendations also highlight the changes in benefits, taxation, asylum policy, education and other areas that would create a situation in which people in low-paid informal work could make this transition more easily.

## Reasons for informal work

The research found that informal work is undertaken by people who live in poverty. These people fear going without basics such as food and heating, or facing mounting rent arrears.

Three basic issues underpinned most of the informal working found in this study: low benefit rates, low wages and rules which limited the hours that people can work. These problems were exacerbated by a number of factors including those listed below.

- Participants stated that high rents presented a major barrier to formal employment. The fear of losing Housing Benefit was an important reason for people to undertake undeclared work.
- The costs of childcare also encouraged people to take on informal work. Parents reported that they

found some informal employment more flexible around childcare arrangements than formal work. Other parents were able to save the costs of childcare as they took their children with them to informal jobs.

- Participants with particular health needs sometimes found that formal employers were inflexible around hospital appointments and illness and therefore turned to informal work, whilst continuing to claim benefits to give them financial security.
- Debt was a key reason given for taking up informal employment as some people facing financial crisis felt compelled to take up the first job that became available to them.
- Participants also turned to informal work in response to a sudden change in family circumstances. At times of crisis, the fear of being caught for benefit fraud seemed a less threatening prospect than the immediate risk of being without food, heating or being confronted by debt collectors.
- Finally, informal work was undertaken by people who were not able, or were not yet ready, to work for many hours but who wanted to keep in touch with the world of work.

“Informal paid work is not the problem to tackle; it is what makes it tick. If these conditions of low pay, asylum-seekers with no right to work, and families with young children who can’t work because they couldn’t afford childcare are not tackled, then informal paid work would be impossible to tackle...” (Erick, 30)

## The tax and benefit systems

Participants believed that the tax and benefit system created disincentives to returning to formal work.

In particular, fears about inefficiencies in the system made participants wary of starting formal work. Participants had often experienced delays in receiving benefits and failure to reinstate Housing Benefit on change of circumstances. As a result, some were not willing to take what they perceived to be a risky leap into the uncertain world of formal employment.

Participants often felt they would be no better off when working formally rather than claiming benefits, despite the introduction of measures such as tax credits, as they would lose a range of other benefits such as free prescriptions and free school meals if they started formal work.

## Finding formal work

The process of finding a job informally was faster and easier than looking for formal work. Some participants found themselves excluded from the networks which could lead them to formal work. What contacts they did have led them towards informal work.

Participants finding informal work through social networks could also avoid the costs associated with formal recruitment processes, such as writing application forms, travel and time for interviews. Some also found confidence a barrier to formal job search and preferred to find work through friends and family, which tended to be informal.

Participants identified a range of barriers to formal work. They felt that there were more informal than formal opportunities for people with few skills and qualifications, or with qualifications which are not recognised in the UK.

There were perceptions of discrimination by formal employers based on age, health, and ethnicity. Participants also reported (incorrect) assumptions about illegal residence among formal employers.

## The employers

Some participants felt that employers encouraged informal work. Respondents spoke of large reputable establishments, which use contractors to carry out work, who use low-paid informal work. Participants reported that some large commercial employers, such as those in the construction industry, absolved themselves of responsibility by encouraging people who should be employees to state that they are self-employed.

Participants spoke of a blurred line between employees and volunteers, with organisations wanting to pay volunteers for their work when they could afford to. This had to be informal so that people could carry on claiming benefits as it was not necessarily possible to pay them all the time or at levels that would allow them to survive without benefits.

Some participants felt that employers were often exploitative, requiring long hours and offering little pay. However, others spoke of support and assistance from their employers in making the transition to formal employment, such as providing work experience and references.

## Benefits of informal work

Respondents expressed a willingness to work and had a wide range of underused skills and abilities. They spoke

of a range of ways in which they felt they gained from working informally, including: increased confidence, skills and work experience, financial support, and potential pathways into formal work.

The research also identified wider social benefits from informal work affecting families and communities. For example, some informal work was undertaken as a form of mutual support within families and between community members, allowing a transfer of resources without being seen to offer charity.

## Attitudes to informal work

This research identified four types of attitude towards informal work.

- *'Informal work as the norm.'* Some respondents saw informal work as a norm, within their family, among friends or in their locality.
- *'Unaware of the law.'* Some participants, in particular young people, thought that the cash in hand work they were doing was legal, when in fact they should have been paying tax.
- *'Preferring to work rather than claim benefits.'* Respondents were aware of the law but preferred to work rather than do nothing or claim benefits.
- *'Informal work as social justice.'* Participants identified a type of person who justified their informal work based on a sense that it was not fair for people on low incomes to have to pay taxes, or to give up their benefits if they took on small amounts of work.

## Policy recommendations

Currently, informal paid work tends to be regarded as a matter of enforcement by government. However, punitive measures employed to 'tackle' this activity have limited success where poverty drives the decision to work informally. The researchers conclude that the informal economy may be addressed most effectively by pursuing policies which enable people to leave low paid informal work.

Policies in a number of different areas could contribute to harnessing the skills and energy of those currently working informally into the formal sector. These could include:

- Local level measurement of the size and scope of the informal economy.

- Setting of floor targets in public services which include moving people successfully from informal to formal work.
- Working with large businesses which employ people informally around their responsibility towards their staff, and supporting small businesses to employ people formally.
- Support, training and development for people who wish to make the transition into formal work, which is accessible to people who are working informally.
- Welfare and tax reform based on an understanding of why people work informally.
- Flexibility in employment tailored towards people with childcare or health issues.
- Changes to the asylum system and increased support to those coming from abroad (asylum seekers and legal economic immigrants) to access formal work opportunities.

The researchers conclude that the debate about the informal economy should focus on creating an environment which enables people to leave low-paid informal work and supports those who have few rights because they are informally employed.

“Those with no qualifications, never had a decent job, single mothers with childcare issues, like me, those who are in debt, like me, asylum seekers who are not allowed to work or whose qualifications are not recognised, it’s people in these categories. One may have one, several or all of the problems combined

together. It’s very difficult to get out of that situation and find formal work because so many barriers are in your way.” (Mariam, 39)

### About the project

Community Links is an inner-city charity running community-based projects in east London. Founded in 1977, the organisation works with around 50,000 children, young people and adults every year. It delivers a range of services including advice and support work to vulnerable people. This work is delivered in Newham, one of the poorest boroughs in Europe.

This study builds on five years of research and the practical knowledge of Community Links staff, volunteers and service users at Community Links about the UK’s informal economy. The fieldwork was undertaken by Dennis Katungi and six local community researchers between November 2004 and August 2005. The analysis and report was completed by Emma Neale, Dennis Katungi and Aaron Barbour.

The researchers conducted 100 one-to-one qualitative interviews with people engaged in informal paid work and on low incomes, from the London Borough of Newham, using a snowball sampling technique. The authors gratefully acknowledge the contributions made by all interviewees. Four focus groups were subsequently held with some of the interviewees and a mix of service providers and policy makers, to look at the sorts of practice and policy options that might support more people to make the transition from informal to formal paid work.

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### For further information

The full report, **People in low-paid informal-work: ‘Need not greed’** by Dennis Katungi, Emma Neale and Aaron Barbour, is published for the Foundation by The Policy Press (ISBN 1 978 86134 892 0, price £12.95). You can also download this report free from [www.jrf.org.uk](http://www.jrf.org.uk).

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