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Employment and Homelessness: A Challenge and an Opportunity

The Hartz reforms in Germany – Are there any positive outcomes for people who are homeless?

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HOMELESS *in Europe*

What's informal about the informal economy?

By Paolo Brusa, *psychologist*

Prologue:

Before beginning some reflections on the informal economy, it might be relevant to start from a sort of logical prologue. Even if everyone talks about the "informal economy", many of them may not be basing their reflections on the same subject. Words have meanings. They are signifiers. Words talk, and it might be interesting to start our talk with words. Even if we surely all know what "reflection" means, many take part in the process with their own bias; and this fact can produce some distortions. Perhaps we can turn first to physics in order to help to define reflection.

Reflection is a physical domain, which may be defined as a "return" (or sending back) of someone or something when it meets a surface of discontinuity. It might be interesting to connect this mechanism of reflection with the issue under discussion. Thus we will take economy as an object, and place it in front of a surface of logical discontinuity. In a world where our homeless users/clients are usually considered to be living "behind the line", the aim is to investigate what lies around and behind economy, from the perspective of homelessness and social exclusion. Our goal is to put economy in front of a mirror, and see what reflection becomes visible. In this way, we propose a path out of the usual and prejudicial schemes. When we read about the big issues in the area of "economy", we can find ourselves trapped within liberal and neo-liberal analytical structures, or encounter proto-marxist or missionary and social interpretations. What is intended in the present article is to focus on this issue instead from a logical point of view. This consists of facing "economy" towards a surface of discontinuity from mainstream discussions. The goal is to highlight some boundaries in terms of what's on the mirror today: what if society and poverty stand on the same mirror? And what if we allow formal and informal economy onto the same mirror? Might they be reflected in each other? Which is the reflected image of which?

DEFINING CATEGORIES IN THE MIRROR.

The first thing to note, is that there are no common definitions of the informal economy at European level. During the preparatory work for the 2007 FEANTSA annual conference, the "employment working group" agreed some definitions which might be our starting point.

They are as follows:

- Mainstream labour market: when the interaction of workers and employers is regulated under the national labour law: workers are employed on the basis of their skills and compete with other workers without discrimination. (Social criteria may apply if an employer chooses to do so, e.g. in the context of its Corporate Social Responsibility scheme.)
- Alternative labour market ("informal economy"): when economic activities are not regulated under national labour law: employment on informal economy may involve illegal dealings, such as direct cash payments or the absence of a legal job contract. A person employed on the informal economy usually does not benefit from the same rights and benefits as a person employed in the mainstream labour market (eg. no pension rights, no health assurance, no paid vacation...)
- Social economy: businesses that are *not-for-personal-profit*; principles such as solidarity and participation are more important than a personal financial benefit. However, social enterprises may be competing with conventional businesses on the same market. Social enterprises may include: community owned businesses, cooperatives, associations, foundations, local self-help organisations engaged in trading activities with social, economic or environmental benefit...

The first thing that these definitions show is that employees in the informal economy may be considered victims of irregular working conditions, while those imposing such conditions have something to gain. Even the most recent document from the European Commission seems to favour this interpretation by talking about "undeclared work". The focus is therefore logically placed on the party who should declare it, which is normally the employer. The Commission defines the undeclared work as "any paid activities that are lawful as regards their nature but not declared to public authorities, taking into account differences in the regulatory system of Member States".

¹ Enforceable Right to Housing (Establishment) Act No. 2007-290 of 5 March 2007.



Still quoting this document, its introduction highlights the employer's responsibility above that of the employee, as it declares that "Both employers (and consumers) and employees (and the self-employed) may engage in undeclared work because of the potential gain – compared to the risk of being sanctioned – in avoiding taxes and social security contributions, social rights (minimum wage, employment protection legislation, leave entitlements) and the cost of complying with regulation (registration requirements, health and safety regulations)". In general, we can define informal economy as the set of all economic activities that fall outside the formal economy regulated by economic and legal institutions. It refers to the general market income category wherein certain types of income and the means of their generation are "unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated". Before focusing on the reasons why such a situation exists, it is interesting to take a look at the scale of the phenomenon, first in general, then in more specific detail, taken from FEANTSA research.

DEFINING THE PHENOMENON

Statistics on the informal economy are unreliable by the very nature of what they seek to measure, yet they can provide a tentative picture of its scale and significance. The Commission document declares that "the extent and characteristics of undeclared work appeared to differ widely in the Member States, with highs of 20% of GDP or more in some southern and eastern European countries". Other sources claim that informal employment makes up 48% of non-agricultural employment in North Africa, 51% in Latin America, 65% in Asia, and 72% in sub-Saharan Africa. If agricultural employment is included, the percentages rise to above 90% in some countries like India and many sub-Saharan African countries. Estimates for developed countries are around 15%. World Bank data on informal economy shows a wide range moving from a maximum 67.3% in Georgia to a minimum of 3% for Canada, with a weighted average of about 33% worldwide. Still according to World Bank data, the European area data set ranges from maximum of 39.9% for Latvia to a minimum of 10.2% for Austria, with a weighted average of 23.89%.

As was mentioned previously, such data may be taken only as general guidance, as they are unreliable by their very nature. Moreover, as was highlighted in many of the FEANTSA reports, informal economy covers activities which are almost dynamic processes, including exchange, presence of informal regulation, and enforcement. To further confound attempts to define this process, informal economic activity is usually time-limited in nature. But what the reports also highlight is that informal economy is often the source of a significant part of homeless people's incomes. Before going further into this specific issue, another couple of clarifications are important.

The first is that, when referring here to homeless people and work in the informal economy, we refer to a definition of the informal economy that excludes certain activities including crime and domestic labour. Crime is not included because such acts have no regulated counterpart against which they may be evaluated, though of course, in some countries, legislation states that since informal activities escape regulation, they are by their nature considered criminal. The Commission document also highlights this issue as a related consequence: "in the case of undeclared work performed by individuals who are receiving benefits compensating their inactivity, there is also a dimension of social fraud". On another hand, domestic labour (such as childcare and cooking), aren't included when performed in the natural course of daily living and for one's own benefit. Such activities can easily be performed for others however and exchanged for goods and services with economic value; depending on broader conditions, these can be either formal or informal economic activities. However, when performed for personal benefit they have no external economic value and they cannot be exchanged.

In light of this framework, informal economy might be considered any exchange of goods or services involving an economic value in which the act escapes the regulations generally applicable to such acts. The second element of note is that when discussing homeless people in the informal economy, it might be interesting to take into account the implications regarding statistics and employment categories: given that they are not officially employed, they may figure as unemployed or inactive. This is quite important with regard to statistics, which in any case are not homogenous from country to country. One might be formally employed as a number, but still take part in the informal economy. This also means that for homeless people, particularly when public social welfare and support systems are weak or non-existent, the informal economy represents the most formal option to try and find a way out of social exclusion.

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A QUESTION OF PERCEPTION: INFORMAL VERSUS « UN-FORMAL ».

"Alice had learnt several things of this sort in her lessons in the schoolroom, and though this was not a very good opportunity for showing off her knowledge, as there was no one to listen to her, still it was good practice to say it over."

It is significant that the sub-group who participate in the informal economy is certainly not the weakest group among homeless people, nor is it the most excluded. This means we are discussing the "strongest of the weakest". Thus, much like for Alice in Wonderland, it is therefore a matter of perceptions, which are themselves bound to which side of the mirror we are looking through. Therefore, let's examine it from a few different angles.

From the point of view of the legislative framework, as we said before, informal economy might be considered as illegal in itself, and the incomes generated on it are thus also illicit. On the legal side of the mirror, we have the mainstream labour market for the included and the includable, and welfare policies of minimum income for the excluded. Still on the legal side, social economy claims to have operate according to a different ethos, as businesses are *not-for-personal-profit* and based on principles such as solidarity and participation. But the point is, that even if ethical principles are more important than financial benefit, the production is still tailored to be part of a business-like framework, in which profit talks. Laying aside the different definitions, it is clear that they are still located firmly on the side of the official economy and so in the end it is the mirror-glass language that they talk, and not that of the subject.

Our subject is the person experiencing a situation of social exclusion, which means he/she has been rejected from the "normal economy". Aside ever from the question of his/her own responsibility, the fact is that the person has been excluded: this means the mainstream economy vs. welfare system produces such results. What will the person do then? He/she might look for immediate reintegration, and if he/she is strong enough, he/she may well succeed using the available resources. What if the person is weaker? If he/she is too weak, the only resources are from social assistance. So when might someone turn to the informal economy? When the person is in between: if he/she is proud enough to want to find a solution on his/her own, then the most evident thing to do may be to attempt something "informal" on his/her own account. This is even more the case in those countries where the minimum income isn't sufficient, or where the threshold for accessing the welfare resources doesn't cover all the population living in social exclusion. At this point the most obvious choice is to look for some "informal" activities. At this stage, such activities are "informal" from the legal, formal, economic, official... and other points of view. But for the person this choice is not informal, it arises solely from need.

"UN-FORMAL" AS A CATEGORY OF NEED.

If these activities represent a need, they might be taken into account along with its consequences within an overall holistic approach. To define these activities as "un-formal" instead of informal is not only a language trick: it's the sign that we are taking account of the needs of the person. We should move from the individual perspective to take account of the need which leads to something "un-formal" if we want to offer a real policy of care. These activities exist as an un-formal resource, that the person in a situation of social exclusion may choose as a solution to his/her situation. It would seem to be time to differentiate the same activities into two different realms of signification: when we refer to the person in need, un-formal economy might be taken as a signifier of self-esteem and the capacity to struggle against the situation of exclusion. As such they might be welcome, and should be taken into particular consideration.

If we should keep the more common understanding of the informal economy, it should be for when we refer those taking advantages of its informal nature, offering work, activities and salary outside the legislative framework for the undeclared purpose of earning more money through tax-evasion. And this doesn't only mean the employers, as the Commission document also seems to imply some State responsibility when it says "however, with the average gross level staying around 40%, these reductions may still be unconvincing when given the option of undeclared work (notably in combination with benefits)... moreover, the effect of these reductions may be negated in the case of overtime work, which is subject to significantly higher taxation in many Member States".



The framework arising from the mirror seems to confirm the holistic approach, which differentiates and defines issues relating to economic exploitation; State responsibility in terms of welfare policies ("Member States are invited to give due attention to undeclared work when deciding on the pathways they intend to follow in implementing the common principles of flexicurity"); and also the "un-formal" search for a solution by people in need. While the debate on what constitutes formal, informal and un-formal will keep going, certainly Alice would agree with these people living a condition of social exclusion, people who may become our users and clients, saying: "If you don't know where you are going, any road will take you there". •

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¹ Behind the poverty line is the general wait-to-say to define the limit for the inclusion/exclusion process

² Definitions were set as a guidance for a Europe-wide report, available at: www.feantsa.org/code/en/theme.asp?ID=36

³ Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, *Stepping up the fight against undeclared work*, Brussels, 24.10.2007, COM(2007) 628 final. The document is available at: http://ec.europa.eu/employment_social/news/2007/oct/undeclared_work_en.pdf

⁴ *Stepping up the fight against undeclared work*, Brussels, 24.10.2007 COM(2007) 628 final, p. 2, referring to previous document COM (98) 219

⁵ *Stepping up the fight against undeclared work*, COM(2007) 628 final, p. 2

⁶ Alejandro Portes and William Haller (2005). "The Informal Economy". N. Smelser and R. Swedberg (eds.) *Handbook of Economic Sociology*, 2nd edition, Russell Sage Foundation

⁷ *Stepping up the fight against undeclared work*, COM(2007) 628 final, p. 5, referring to *Undeclared work in an enlarged Union*, May 2004, http://ec.europa.eu/employment_social/incentive_measures/activities_en.htm

⁸ Data taken from *Men and Women in the informal economy*, International Labour Organisation, 2002-2006

⁹ Data from World Bank (http://ru.worldbank.org/Documents/Papers/Links/informal_economy.pdf). Looking at the first 100 countries world wide, the European area countries are set the following order:

32 Latvia: 39.9%	63 Serbia: 29.1%	75 Spain: 22.6%	89 Denmark: 8.2%
41 Bulgaria: 36.9%	64 Greece: 28.6%	76 Portugal: 22.6%	90 Germany: 6.3%
51 Bosnia: 34.1%	66 Poland: 27.6%	82 Czech Rep: 19.1%	91 Ireland: 15.8%
55 Albania: 33.4%	67 Slovenia: 27.1%	83 Sweden: 19.1%	93 France: 15.3%
56 Croatia: 33.4%	68 Italy: 27%	84 Norway: 19.1%	97 Netherlands: 13%
58 Turkey: 32.1%	72 Hungary: 25.1%	85 Slovakia: 18.9%	99 UK: 12.6%
61 Lithuania: 30.3%	73 Belgium: 23.2%	88 Finland: 18.3%	100 Austria: 10.2%

¹⁰ Elaboration on World Bank data - http://ru.worldbank.org/Documents/Papers/Links/informal_economy.pdf

¹¹ *Stepping up the fight against undeclared work*, COM(2007) 628 final, p. 2

¹² The following definitions (to be taken as general guidance during its research) have been set by FEANTSA employment working group, where "inactive" means a person who is not officially registered as unemployed and does not participate in any kind of organised activity, neither remunerated nor unremunerated, on a regular basis. Unemployed is the person who is officially registered as unemployed but does not take part in any organised remunerated or unremunerated activity on a regular basis.

¹³ In some countries, one is considered employed if one works for a significant portion of the year although working for a part of the year may not be enough to ensure a decent standard of income or living.

¹⁴ Lewis Carroll, *Alice's Adventures in Wonderland*, 1865

¹⁵ Minimum income provisions are social assistance schemes of last resort. Many European and international declarations, conventions and treaties have set out the human right to incomes at levels which respect people's human dignity and enable them to experience inclusion in the societies in which they live. Everyone in Europe has the right to a minimum income according to the standards. But Minimum income isn't available in all Eu countries...

¹⁶ Taken from FEANTSA definition: with social economy we refer to businesses that are *not-for-personal-profit* as for cooperatives, associations, foundations, community-owned-businesses; self-help organisations...; such experiences represent, in many countries a possible resource for homeless people seeking reinsertion.

¹⁷ When it happens that in conventional businesses on the same market there is a competition between social enterprises and mainstream enterprises adopting Corporate Social Responsibility schemes, the different might become a light edge with risk of interpretations mistakes...

¹⁸ Here it's not significant the debate on the weight of "self-responsability", as the focus is on the factual situation of social exclusion.

¹⁹ We refer to life skills training, supported employment, agency for temporary work...

²⁰ We refer to activities such as vocational training, participation in meaningful occupation...

²¹ *Stepping up the fight against undeclared work*, COM(2007) 628 final, p. 6

²² *Stepping up the fight against undeclared work*, COM(2007) 628 final, p. 12

²³ Lewis Carroll, *Alice's Adventures in Wonderland*, 1865