

Does Family Matter? Investigating the Relationships Between Household Composition and Participation in the Informal Economy.

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Extended Abstract

Informal work is widely recognized as a commonly utilized economic strategy in developing countries, but much less is known about its function and the potential impact of household composition on participation in the informal economy in developed countries like the United States. Previous research has demonstrated that the informal economy remains present in the US despite its strong economic development (Jensen, Cornwell, and Findeis, 1995; Tickamyer and Wood, 1998; Tickamyer and Wood, 2003; Slack, 2007). This investigation will expand our knowledge about domestic informal economic activity and what factors contribute to participation. Furthermore, it will explore the role that household composition plays in various types of economic activity. Considering the lack of research targeting the US informal economy, it is necessary to draw from literature on the formal and self-employment economies as well as from informal economy participation in less developed countries in order to develop hypotheses regarding the relationship between household composition and informal economy in the US.

The literatures on formal and self-employment in developed countries typically focus on the impact of family composition and structure rather than more broadly on household composition, and –like with many literatures regarding family – the focus is even more specifically on the relationship between family composition and formal- and self-employment status and decisions and women (Brown and Lichter, 2004; Cancian and Reed, 2009; Connelly, 1992; Ewer, Crimmins, and Oliver, 1979; Snyder, McLaughlin and Findeis, 2006; Tienda and Glass, 1985). In regards to general household composition, the prevailing knowledge is that two or more adult earners in the household ease monetary constraints, which may help a household avoid poverty (Brown and Litcher, 2004; Snyder, McLaughlin, and Findeis, 2006), and may facilitate higher levels of self-employment, particularly for women (Budig, 2006; Hundley, 2000; Taniguchi, 2002). The picture is mixed concerning the impact of children on formal labor force participation, particularly in regards to women, and several researchers have found that children impact formal economic participation primarily through the cost of childcare (Budig, 2006; Hundley, 2000; Connelly 1992; Ewer, Crimmins and Oliver, 1979; Tienda and Glass, 1985; Snyder, McLaughlin and Findeis, 2006).

One must primarily look to research conducted outside of developed countries to examine informal economic participation generally, and household composition impacts on participation specifically. Similar to the formal and self-employment literatures on family structure, research that considers household composition tends to focus on gender differences and their impact on economic participation and decision making. Research of this type has focused on gender relations, power dynamics, and number and sex of children on women’s informal work participation (Espina, 1992; Malik and Khan, 2009). Physical and social boundaries limit the ability of women to both participate in the informal economy and the types of work done (Telscher, 1993; Elgiziri, 2010, Vincent 1998). Women’s informal work often includes the commodification of domestic responsibilities, although not necessarily in a way parallel to the domestic service sector. In the context of Peru, which was examined by Vincent (1998) women use unofficial work to increase their income in some cases but in others barter or trade. Participation is also related to issues of low income, low wages, or increase work load demands of the formal economy (Oberhauser, 1995; Vincent, 1998).

Relying on this literature would suggest that informal economic participation is highly dependent on the gender of the worker, the number of children in the household (and relatedly, the cost of childcare), socioeconomic factors, and the connection to the formal economy. Using the National Household Survey of the Informal Economy, the first nationally representative quantitative data set examining informal work in the United States, this exploratory research attempts to ascertain the level to which this is reflective of the impact of household composition on informal economic participation in the US context. Specifically the following questions are the focus of this analysis:

- 1) Does household composition influence the participation in the informal economy? If so, how?
- 2) Do the types of informal work, the purposes for participation, and/or the reasons for participation vary by household composition?
- 3) Does household composition affect participation in the informal economy differently than the formal economy?

For the analysis, household composition is considered in two different ways. First, it is recognized how many children under the age of 18 reside in the household. These are considered household dependents. Second, it is taken into account the number of adults in the household.

Data and Methods

The National Household Survey of the Informal Economy is the first nationally representative quantitative data set examining informal work in the United States. The data collection was funded by the National Science Foundation (NSF) and conducted by the Survey Research Center at the Pennsylvania State University. This data provides insight into the relatively unstudied domestic informal economy. Over 1800 households completed the survey during the time period of 2008-2009. The survey was executed using a listed sample and oversampled for low-income and rural households. The sample used random selection in telephone directories and selected the respondent as the person with the most recent birthday. In order to alert households of the focus of the study, a pre-notification letter was sent with a \$2 incentive. The survey received a response rate of 39%, a cooperation rate of 50%, and a refusal rate of 39%.

The survey questionnaire includes data on household and individual demographic information, formal employment participation, self-employment participation, informal economic activities, various income sources, social capital indicators, and community involvement. The analysis was completed using a series of chi squares and logistic regression. The regression model included the independent variables of demographic characteristics of the household (residence, race, income, other livelihood strategies, and social capital indicators) as well as household composition variables (number of children under 18, number of adults) to predict the likelihood of participation in the informal economy (designated by specific economic activities).

Findings

The most striking finding of the logistic regression is the distinct *lack* of significant findings regarding the relationship between household composition and the informal economy. As expected, household composition variable are highly significant predictors of participation in the formal economy, but with the exception of having one adult in the household, which is marginally negatively associated with participation in the informal economy, none of the household composition variables prove to significantly impact household participation in the informal economy. This is particularly surprising given the literature on both the formal economy and self-employment, most of which suggests that household composition – particularly number of children – have a direct impact on decisions regarding employment and economic participation.

The rest of the informal economy regression proved to be equally as different from the formal economy regression. Although race is negatively associated with participation in both forms

of the economy, it is not significantly related to the formal economy. Being non-white is highly significant in informal economy. Additionally, household incomes of less than \$20,000 and between \$20-39,000 are highly significant and negatively associated with participation in the formal economy. The only significant finding in regards to income in the informal economy, however, is the \$20-39,000 category. Not only is this variable not as significant a predictor as was found in the formal economy regression, but it is *positively* related to informal economic participation. Where receiving transfer payment is highly significant and negatively associated with formal economy participation, and receiving outside support lacks any significance, the exact opposite is true in the informal economy – receiving outside help is positively, highly significant and receiving transfer payments is not at all significant. For fairly obvious reasons, the number of full-time workers in the household was not included in the regression for the formal economy, but this is a highly and *positively* significant predictor for participation in the informal economy, perhaps indicating that having additional full-time workers in the household provides enough stability and economy for other adults to participate in the informal economy. The number of part-time workers was not significant in the informal regression, but it was highly and negatively associated with participation in the formal economy. Finally, the social capital variables produce similarly opposite findings for the formal and informal economies. The only significant finding for social capital in the formal economy was community connection, which was negatively related to participation in the formal economy. This variable was equally as significantly, but positively so, in the informal economy. Additionally, but organizational members and community presence were found to be significant predictors of participation in the informal economy with organizational membership being highly and positively related and community presence being marginally and negatively so.

Given all these significant differences between participation in the formal and informal economy, it could be suggested that the decision to participate in these economies functions in fundamentally different ways in the United States. This suspicion becomes stronger when the fit of the model is considered. Because there is a distinct lack of literature on the informal economy in the US or other developed countries, the inclusions of variables was based on what the literature highlights as important predictors of participation in the formal economy. It should come as no surprise, then, that the model is fairly well specified with an R^2 of 0.365. The fit of informal economy model is quite different, however, with an R^2 of only 0.095, again indicating that participation in the informal economy is based on different variables, and perhaps functions in a significantly different way, than in the formal economy.

Based on this assumption, we proceeded to look at household composition and participation in the informal economy more closely, focusing specifically on the relationship of the number of adults and children in the household to the types of informal work, the purposes for participating, and the reasons for engaging in informal work. The number of adults was broken into the categories: one adult, two adults, and three or more adults. The categories for number of children were the same except it also included the category “no children.” A substantial amount of variation and significance is found in relation to household composition variables when the informal economy is looked at more closely and broken down in this way which clearly indicates that household composition is related to participation in the informal economy in the United States, but not in the way that one might expect or in the way that it is related to participation in the formal economy.

These findings lay the basis for deeper analysis of the relationship between household composition and participation in the informal economy, as well as the interaction between the formal economy and the informal economy in one household. Additional analysis could be completed by conducting an individual-level analysis looking at the gender of the worker, especially considering the wide literature on gender and the formal and self-employment economies, and gender and the informal economies in less developed countries.

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