

**UNDERSTANDING THE INFORMAL ECONOMY IN HOSPITALITY AND
TOURISM: A CONCEPTUAL REVIEW**

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SIGNATURE PAGE

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CONCEPTUAL REVIEW

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ABSTRACT

This paper provides a conceptual exploration and review of the research on the informal economy and practices of the hospitality and tourism industry. It provides an overview of the concept and development of the informal economy, analyzing the drivers of using the informal economy based on two aspects: participants and the government. It estimates the size of the informal economy via percentage of employment and percentage of GDP. It also presents various definitions advocated by scholars. Two typologies are presented that classify various kinds of work and various kinds of informal economic activities. Four key characteristics of informal work are discussed.

Key Words: Informal Economy, Tourism, Informal Tourism Economy, employment

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CHAPTER 1

INTRODUCTION

People often engage in legal but informal work in a system of cash-only exchanges. These individuals either operate unregistered businesses or engage in under-the-table employment. For example, some restaurants hire people and pay them in cash. Both the employer and the employee pay less tax or even no tax. In addition, some people buy a few vehicles for personal use, renting them to people they know. This type of economic activity is often called informal work or the informal economy (Losby, Kingslow & Else, 2003).

Worldwide, there has been a renewed interest in the informal economy. In part, this is because the informal economy has grown all over the world, emerging in new guises and in unexpected places (Arora, 1989). In part, this stems from the fact that informal employment expanded significantly during the recent recession (Horn, 2009). Today, informal employment is more than half of non-agricultural employment in most developed regions and as high as 82 percent of non-agricultural employment in South Asia (Vanek, Chen, Hussmanns, Heintz & Carre, 2012). If data on informal employment in agriculture were included in these estimates, the proportion of informal employment in total employment would be even higher in heavily agricultural regions, especially in sub-Saharan Africa and even more so in South Asia (Chen, 2012).

More than half of all employed people worldwide (almost 1.8 billion people) work off the books (Schneider & Enste, 2000). Moreover, that number is expected to climb over the next decade. In 2011, estimates are that the informal economy around the

world is worth approximately \$10 trillion a year (Schneider, 2012). The \$10 trillion global black market is the world's fastest growing economy—and its future. That is an astounding figure because what it means, essentially, is that if the informal economy were to be combined into one country, it would be the second-largest economy on Earth, rivaling the economy of the United States. Globalization helps the growth of the informal, off-the-books economy, which is growing faster than any other part of the economy and is an increasing force in world trade. It is crucial for the development of cities in the 21st century.

This renewed interest also stems from the recognition of the links between informality and growth on the one hand and the links between informality, poverty, and inequality on the other (Chen, 2012). There is increased recognition that much of today's informal economy is integrally linked to the formal economy and contributes to the overall economy. Moreover, supporting the working poor in the informal economy is a key pathway to reducing poverty and inequality. In addition, there is increased recognition that women tend to be concentrated in the more precarious forms of informal employment: supporting working-poor women in the informal economy is a key path to reducing women's poverty and gender inequality (Chen, Vanek & Carre, 2004).

In sum, although interest in the informal economy has waxed and waned since the early 1970s (Chen, 2012), the concept has continued to prove useful to many policymakers, activists, and researchers. This is because of significance of the reality that it seeks to capture: a large share of the global workforce contributes significantly to the global economy while remaining outside the protection and regulation of the state.

The informal economy is a field of study drawing an increasing number of scholars from multiple disciplines ranging from economics, anthropology, and industrial relations to gender studies, political science, sociology, and urban planning (Edgell, Gottfried, & Granter, 2015). Recent scholarship on informality focuses on the size and composition of the informal economy, what drives or causes informality, the consequences of informality in terms of welfare or productivity, and the linkages between informality and formality, growth, poverty, and inequality. This resurgence of interest in the informal economy has generated a significant rethinking of the concept and improvements in the official measurement of the phenomenon (Chen, 2012).

Since the informal economy concept was first introduced into anthropology by Keith Hart (1973), studies in economics (Loayza, 1996), sociology (Portes & Sassen-Koob, 1987), development (Moser, 1978), and other disciplines such as tourism (Wahnschaft, 1982) have sought to describe it and analyzed issues based on the size, definition, development, or government policies related to the informal economy. In addition, there is increased interest in tourism research. However, to the best of my knowledge, few studies have analyzed the impact of tourism on the informal sector, explored, or provided an overview of the informal economy in tourism industry. This paper will fill the gap, giving researchers a stepping stone to further study of the informal economy in the hospitality and tourism industry.

This paper provides a conceptual exploration and review of the research on the informal economy and the practices of the hospitality and tourism industry. The remainder of the paper is organized as follows: Chapter 2 provides a brief historical overview of the informal economy concept, its form, history, development, size,

characteristics, and advantages and disadvantages. Chapter 3 analyzes the drivers of the informal economy. Chapter 4 describes the tourism industry in the informal economy. This paper concludes with a discussion of the future trends and conclusions and limitations of the informal economy, which can be found in Chapter 5.

CHAPTER 2

LITERATURE REVIEW OF THE INFORMAL ECONOMY

Concept

Informal economic activity is a fact around the world. The size, cause and consequences of the informal economy vary by country (Schneider & Enste, 2000). Disagreement persists about definitions. There are many definitions of the informal economy. Here are three definitions from Wikipedia, the Business Dictionary and Women in the Informal Employment: Globalizing and Organization (WIEGO). Wikipedia defines the informal economy as the informal sector, informal economy, or gray economy, which is the part of an economy that is neither taxed nor monitored by any form of government (Gërxhani, 2003). Unlike the formal economy, activities of the informal economy are not included in a country's gross national product (GNP) and gross domestic product (GDP) (Gërxhani, 2003). According to the Business Dictionary, the informal economy is a system of trade or economic exchange used outside state-controlled or money-based transactions (Arthur, 2003). Practiced by most of the world's population, it includes barter of goods and services, mutual self-help, odd jobs, street trading, and other direct sales activities (Radonshiqi, 2016). Income generated by the informal economy is usually not recorded for taxation purposes and is often unavailable for inclusion in GDP computations. WIEGO states that the informal economy is the diversified set of economic activities, enterprises, jobs, and workers that are not regulated or protected by the state (Chen, 2012). The concept originally applied to self-employment

in small unregistered enterprises. It has been expanded to include wage employment in unprotected jobs (Chen, 2012).

There is no definition that perfectly describes the informal economy. The concept of the informal economy has evolved from solely describing Third World economies to encompassing various types of cash and non-cash transactions in both developing and industrialized economies (Feige, 1990). Broadly defined, the informal economy refers to economic activities that, by occurring outside the arena of the conventional regulated economy, escape official recordkeeping and regulation (U.S. Department of Labor, 1992).

In recent years, a group of informed activists and researchers, including members of the global research policy network WIEGO, have worked with the International Labor Organization (ILO) to broaden the earlier concept and definition of the “informal sector” to incorporate certain types of informal employment not included in the earlier concept and definition (including the official international statistical definition) (Chen, 2012). They seek to include all informality as it is manifested in industrialized, transitioning and developing economies, along with the real-world dynamics in labor markets today, particularly the employment arrangements of the working poor (Buehn & Schneider, 2012). These observers want to extend the focus to include not only enterprises that are not legally regulated but also employment relationships that are not legally regulated or protected. In brief, the new definition of the “informal economy” focuses on both the nature of employment and the characteristics of enterprises (Chen et al., 2004). It also includes informal employment both within and outside agriculture. Under this new definition, the informal economy is composed of all forms of informal employment—that

is, employment without labor or social protection—both inside and outside informal enterprises, including both self-employment in small unregistered enterprises and wage employment in unprotected jobs (Chen, 2006).

The concept of the informal sector was first coined in an International Labor Organization (ILO) study of Ghana’s urban labor market (Hart, 1973). It was subsequently used by the ILO in reports of labor market conditions in other African cities and by the World Bank in a series of studies of urbanization and poverty in the Third World (Sethuraman, 1981; Mazumdar, 1981). The term “informal economy” first came into widespread use as a means of describing a dualistic economic structure found in developing countries (Losby et al., 2003). Such an economy involves both the mainstream formal economy and an unofficial economy within which economic transactions occur outside of traditional channels and deliver explicit economic and social benefits (Losby et al., 2003).

Forms

Broadly, there are two types of informal economy (Arthur & Sheffrin, 2003). One type of informal economy involves the self-employed, i.e., people who informally operate their own businesses, are paid in cash or personal check, do not file income taxes, and are unregistered (Losby et al., 2003). They operate a range of businesses: home repair, lawn care, hairstyling, child care, home health aide and residential cleaning. They often rely on strong family and neighborhood networks or referrals from their customers to generate business. One example is the street vendor who sells breakfast every morning. Most of that vendor’s business is from customers who live nearby or who find it very

convenient to buy their breakfast on the way to school or work. Such vendors only accept cash. The other type of informal economy involves informal employment, that is, people employed by companies and paid in cash (Losby et al., 2003). Such people informally work in the service sector: restaurants, cleaning, retail sales, office support and movers/haulers. They work for businesses that employ from one to 55 employees. Lower-wage workers or those in positions that could be easily filled are paid informally. None receives traditional work-related benefits such as health coverage, sick or vacation days, or a retirement plan. Some do not have legal working status: one example of this situation would involve an international student working as a server or bartender outside school. Some merely want to be paid more, even if they have a working permit.

Historical Development

The history of the informal economy dates back to early civilizations and the beginning of the barter system, which is an old method of exchange (Arthur & Sheffrin, 2003). This system has been used for centuries, long before money was invented. People exchanged services and goods for other services and goods, creating one kind of informal economy. During the 1950s and 1960s, it was widely assumed that with the right mix of economic policies and resources, low-income traditional economies could be transformed into dynamic, modern economies and petty traders and that small producers and many casual jobs would be absorbed into the formal economy. This assumption was reinforced by the successful reconstruction of Europe and Japan and the industrial expansion in Europe and North America following World War II. By the mid-1960s, however, optimism about economic growth in developing countries began to give way to concerns about widespread unemployment and persistent traditional economies. Reflecting this

concern, the International Labor Organization (ILO) mounted large, multi-disciplinary “employment missions” to various developing countries.

British anthropologist Keith Hart coined the term “informal sector” during his 1971 study of economic activities among rural migrants in Accra, Ghana (Hart, 1973). Hart concluded that despite external constraints and capitalist domination, most migrants were engaged in informal activities that had “autonomous capacity for generating incomes.” The first ILO World Employment Mission was to Kenya in 1972. The mission team found that the traditional sector had not merely persisted, it had expanded to include both marginal activities and profitable and efficient enterprises (ILO, 1972).

Both Hart and the Kenya missions noted the efficiency, creativity, and resilience of the sector, but the concept got a mixed reception in development circles. Many held that the informal economy in developing countries was peripheral, not linked to the formal economy or modern capitalist development, and would disappear with economic growth or modern industrial development. Others argued that industrial development might take a different pattern in developing countries than in developed countries, including the expansion of informal economic activities.

By the 1980s, the debate expanded to include changes in advanced capitalist economies, where production was being reorganized into small, decentralized and more flexible economic units. These changes are associated with the informalization of employment. Standard jobs became non-standard or atypical jobs with hourly wages and few benefits, or production was contracted at piece rates with no benefit to small, informal units and industrial outworkers. The informal economy became a permanent,

albeit subordinate and dependent, feature of capitalist development (Portes, Castells, & Benton, 1989).

Economic crises such as those in Latin America in the 1980s and in Asia in the 1990s demonstrated that people who lose formal jobs turn to the informal economy to earn their livelihoods. In addition, high inflation often requires households to supplement formal-sector incomes with informal earnings. During the 1990s, globalization also contributed to the informalization of the workforce in many industries and countries (Standing, 1999).

Since its “discovery,” the informal economy and its role in economic development have been hotly debated (Chen, 2012). Some observers view the informal economy as a “pool” of entrepreneurial talent or a “cushion” during economic crises (Boyle & Joham, 2013). Sometimes informal business will be the first stage at which entrepreneurial talent pursues a formal business. Others view it more problematically, arguing that informal entrepreneurs deliberately avoid regulation and taxation (Chen, 2012). They believe that the larger the informal economy, the lower the government’s revenues and ability to provide public goods and services. Still others see the informal economy as a source of livelihood for the working poor. Each of these perspectives is right about specific components or aspects of the informal economy. Contrary to early predictions, the informal economy has continued to grow and has appeared in new forms. Today, it represents a significant share of the global economy and workforce (Chen, 2012).

Size

Gathering information about underground economic activity is a difficult and challenging task because no one engaged in such activity wants to be identified and participants in such economies attempt to hide their behavior. However, obtaining accurate statistics about the allocation of a country's resources in the informal economy is important for making effective economic policy decisions (Schneider & Enste, 2000). Although many countries have surveyed employment in the informal sector, very few countries do so on a regular basis. Furthermore, only a handful of countries have collected data to measure informal employment outside informal enterprises. In addition, the available data are not comprehensive. Many countries exclude agriculture from their measurement of the informal sector, whereas others measure only the urban informal sector. In most developing countries, however, most of the informal workforce may well be in agriculture. Many problems limit the international comparability of data. However, in the absence of reliable data collected directly, various indirect methods can be used to estimate the size and composition of the informal economy. The following paragraphs summarize main findings from the most recent and comprehensive estimates of the informal economy in developing countries and size of the informal economy of the 39 Organization for Economic Co-operation and Development (OECD) countries based on GDP (Schneider, 2009).

Regional Estimates of Employment in the Informal Economy

Informal employment, broadly defined, comprises one-half to three-quarters of non-agricultural employment in developing countries: specifically, 48 percent in North

Africa; 51 percent in Latin America; 65 percent in Asia; and 72 percent in sub-Saharan Africa. (Schneider, 2016). If South Africa is excluded, the share of informal employment in non-agricultural employment rises to 78 percent in sub-Saharan Africa; and if comparable data were available for other countries in South Asia in addition to India, the regional average for Asia would likely be much higher (Schneider & Enste, 2000). Some countries include informal employment in agriculture in their estimates. This significantly increases the proportion of informal employment: from 83 percent of non-agricultural employment to 93 percent of total employment in India; from 55 to 62 percent in Mexico; and from 28 to 34 percent in South Africa (Losby et al., 2003).

A large share of the labor force in developed countries works under arrangements that offer limited benefits and social protection and would be identified as informal employment in developing countries. Such arrangements are generally referred to as non-standard employment because they do not afford workers the protection of regular, full time, year-round employment. Non-standard arrangements involve own account self-employed workers, temporary (or fixed-term) employment, including temporary help agencies, contract companies, on-call workers, and some part-time workers. The significance of non-standard employment arrangements is shown in 2008 data for OECD countries in the areas of self-employment, temporary employment and part-time jobs, respectively.

Own Account Self-employment

Own account self-employment is as high as 20 percent of total employment in Greece and Turkey; for 11 of the 28 countries with data, it is from 10 to 19 percent of

total employment, and for the remaining 15 countries, it is 4 to 9 percent of total employment (Vanek et al., 2012).

Temporary Employment

Temporary or fixed-term employment ranges from a high of 29 percent of wage and salary employment in Spain to a low of approximately 4 percent in Slovakia and the United States; of the 28 countries with data, temporary employment is over 20 percent of wage and salary work in 4 countries, from 10 to 18 percent in 11 countries and from 4 to 9 percent in 13 countries (Vanek, Chen, & Hussmanns, 2012).

Part-time Work

Part-time employment is over 20 percent of total employment in 8 of the 29 countries, with data reaching a high of 36 percent in the Netherlands, between 11 and 19 percent in 13 countries and under 10 percent in 8 countries (Vanek et al., 2012). Part-time workers are concentrated in service industries, notably the wholesale and retail trade sectors. Median hourly earnings for part-time workers are lower than for full-time workers in most sectors, and the overall earnings of part-time workers are quite slightly lower than for full-time workers even within the same sectors.

Size of the Informal Economy of 39 OECD Countries Based on GDP

Although informal economic activities have been studied for a long time, the discussion regarding the “appropriate” methodology to assess them has not ended. Schneider, Buehn, and Montenegro (2010) suggested measuring the informal economy as

a percentage of a country's registered gross domestic product (GDP). This percentage is highest in developing countries such as Georgia, which has a rate of 67.3%; it is lowest in developed countries such as Canada, with the lowest rate of 3% (World Bank, 2005).

No detailed interpretation is given here, but some general trends of informal economy of these 39 OECD countries are discussed. In most countries, the informal economy increases in the year 2009 because of the world financial and economic crisis. For example, in Canada the informal economy was 14.9% of official GDP in the year 2008 and increased to 15.5%. In Chile, the informal economy was 19.1% of official GDP in 2008 and increased to 20.5% in 2009; in Norway, the informal economy was 17.7% of official GDP in 2008 and increased to 18.6% in 2009 (Schneider, 2016). The countries with the largest shadow economies are Bulgaria, Romania and Turkey with 34.6%, 32.2%, and 30.6%, respectively; Luxemburg, Switzerland and the United States are the countries with the smallest shadow economies, at 9.2%, 8.6% and 9.0% of official GDP, respectively (Schneider, 2016). The unweighted average size of the informal economy across the 39 OECD countries was 20.3% of official GDP in 1999 and decreased to 18.3% in 2010 (Schneider & Enste, 2000).

Characteristics

Since informal work takes so many forms, defining informal work presents many challenges. Perhaps the only way to define informal work is to identify its characteristics. The following presentation discusses four key characteristics that are widely accepted and includes multiple aspects of some of these characteristics as follows: legal vs. illegal,

cash as the most common medium of exchange, unreported income or wages and labor conditions (Losby et al., 2003).

Legal vs. Illegal

Within the category of informal work, activities may be either legal or illegal. Economic activities can be distinguished by how goods or services are produced or exchanged. For example, food, clothing, and childcare services are legal commodities, but may originate in either regulated or unregulated production arrangements (Raijman & Tienda, 2000). These activities are not intrinsically unlawful, but violate some non-criminal rule or law such as not filing taxes or adhering to labor laws (Castells & Portes, 1989; Portes & Sassen-Koob, 1987; Sassen-Koob, 1989; Stepick, 1989).

Income generated by economic activities may be differentiated by the legality of the production or provision of goods and services and the legal status of the goods and services themselves. For example, a hot dog vendor on the street is selling a perfectly legal product—a hot dog that he or she has bought at the supermarket and is offering with value added (prepared, at a convenient location, etc.) to a consumer. It may be, however, that the vendor does not have the proper permits from the health department or evades paying sales tax. The hot dogs are still legal, however. If the police stop the vendor, they may seize the goods as evidence, and the vendor may be ultimately fined for violating health and tax codes. The situation of a street crack vendor is dramatically different. Even if the crack dealer has legal permits to sell on the street, the product itself is illegal. Although technically both individuals have violated a law, their situations when stopped or arrested are distinctly different. The crack dealer routinely violates the law by virtue of

the very business he or she is transacting. For the hot dog vendor, the violation occurs only because of his or her failure to follow formal regulations (Cross & Johnson, 2000).

Thus, there is a distinction between informal economic activity that derives its illegality from noncompliance with tax filings and reporting and activity that is criminal, such as illegal drug distribution, gambling, money laundering, prostitution, and trafficking in stolen goods or human beings.

Cash as the Most Common Medium of Exchange

Another key aspect of the informal economy is that cash is most commonly exchanged between parties rather than a check, payroll statement, or credit card. The purpose of using currency instead of bank credit is to avoid creating a record (McCrohan, Smith, & Adams, 1991). The nature of this arrangement is captured in the popular terms of “off-the-books” or “under-the-table” which recall the image of a person receiving payment in a way that is not traceable.

Some transactions in the informal economy may be based on an exchange of services, which is often called bartering or swapping. For example, an auto mechanic may not charge a fee for services provided, but may expect a customer who is a drywaller to complete the construction on a room addition. The essential element of this exchange is that there is no official record of this transaction.

Unreported Income or Wages

As noted above, the nature of the exchange is cash or bartering, so there is no record of the transaction; therefore, the income is not reported for taxation. Both the

individuals who work informally and the companies that employ them follow this arrangement. Informal workers do not claim the income on their state and federal tax forms. Employers that “hire” informal workers do not file employee records for state and federal taxes.

The issue of taxation is an important consideration. Not all economic activities occur in full view of government officials who can record them, tax them, and regulate them. Government agencies have very different perspectives on informal economic activity (McCrohan et al., 1991). Both revenue and measurement agencies are interested in informal work, but there are significant differences between the two agencies. For example, the Internal Revenue Service (IRS) becomes interested in informal earnings when they exceed a certain level (Nagac, 2015). On the other hand, National Income and Product Account (NIPA) economists at the Bureau of Economic Analysis (BEA) are interested in all earnings without considering the amount (Nagac, 2015).

The subject becomes more complicated when market activity is divided into taxable and nontaxable activity. Taxable means subject to federal income taxation and other taxes such as, sales, excise, and state income. The core of the difficulty is that illegal economic activity is omitted from the Gross National Product (GNP) but is taxable. In contrast, legal market activity is part of GNP but may or may not be taxable depending upon the individual's total earnings. (McCrohan et al., 1991).

For example, if an individual employed as a high-school custodian were to finish a neighbor's basement, charging for materials plus \$2,000, without filing an income tax return, both the IRS and the BEA would be interested in the transaction, but for different

reasons. The BEA would simply want to add the money to the national accounts, whereas the IRS would want to collect the taxes due on the money. In this case, payment for the basement would be both taxable and measured. However, if this person were unemployed and the \$2,000 would not push the informal contractor's income over a certain level, the IRS would have no interest in the money, but the BEA would. In this case, the payment would be measured but not taxable (McCrohan et al., 1991).

Illegal market activity is omitted from GNP but is taxable and not measured. Finally, if a family were to have a garage sale and sell a used lawnmower for more than they paid for it, the profit should be reported as income, and taxes paid to the IRS. The BEA, on the other hand, would not be concerned because this transaction represents an intra-sector transfer.

As the preceding points indicate, the informality of the transaction is based upon the factors of legality, the supplier's tax situation, and the need for an intersect or exchange. Again, although somewhat subjective, such determinations are necessary for income and economic measurements. The house painter who insists on being paid in cash to avoid claiming income and paying taxes does not contribute his dollars to the official GNP. For these reasons, this literature review reports on only legal activities within the informal economy.

Conditions of Labor

A final characteristic of informal work is the conditions under which workers are employed—labor laws, health conditions, safety hazards, or the location of activities that disregard zoning laws (Castells & Portes, 1989). The informal sector is often viewed as

an inferior alternative to formal sector employment for earnings, security, and protection from exploitation of labor. For example, workers may be offered wages lower than the minimum wage. These wages also lack legally required benefits such as Social Security, workers' compensation or unemployment insurance, since there is no official record of employment to file with state and federal authorities. In most informal arrangements, employment standards related to age, wage, and hours are typically disregarded. The physical structure in which employees' work may also be environmentally harmful and the equipment may be out-of-code and unsafe.

Advantages and Disadvantages

The clear message is that operating in the informal economy is neither entirely positive nor entirely negative. There are pros and cons associated with both cash jobs and wage jobs. It depends on the type of person and whether he or she has a family to support that determines which arrangement will be best. No matter what people are doing, if they are working and it is honest work and it is legal work, they are doing the best they can. It is normal for people to be more likely to identify advantages instead of disadvantages of operating an informal business or working informally. Most of them recognize that by being in the informal economy, they give up something, such as employment benefits or a regular paycheck, to obtain independence and immediate cash income. Quite often, an advantage produces a related disadvantage. A review of advantages and disadvantages from the participant's perspective is provided as follows.

Advantages of Informal Economy

There are several important advantages of the informal economy, including being paid in cash without taxes being withheld, flexibility, controlling one's income and working environment, exercising creativity and self-expression, building occupational skills and obtaining the best solution to a temporary situation (Losby et al., 2003). Each is described below.

The most important benefit to being paid in cash immediately is "having the money in your hand," not having to pay check-cashing fees, not needing a bank account, etc. Not having to pay taxes is another commonly cited advantage. Although people recognize that it is illegal to evade state and federal taxes, they often justify for their actions. By not limiting themselves to one employer and controlling how and when they enter the labor market, people can create new economic opportunities and exploit the opportunities that present themselves most efficiently and productively, given their needs at the time. People who work in the informal economy want flexibility, controlling their time, income, and work environment, exercising creativity and self-expression, financial independence, and control of labor productivity. Independence is the driver. Many people credit informal arrangements as a chance to acquire on-the-job training and develop valuable skills. Some believe they have achieved a level of job responsibility well beyond what they could achieve in a formal wage job. In addition to building their own skills, many are providing skill-building opportunities for others. For some people, the relaxed or casual nature of the informal employment arrangement appeals to them. They can come and go as they please. Most recognize that their employment ties are not as rigid as they would be if they held formal jobs. For example, leaving a formal wage job has

implications, i.e., their reputations are damaged if they walk away from a wage job, making it more difficult to find another job. Some people had never worked in the informal economy prior to the loss of their wage jobs. They desire to work in the formal economy and/or anticipate working informally only as dictated by pressing needs, not as a way of life.

Disadvantages of the Informal Economy

The informal economy also has obvious disadvantages, including the lack of employment benefits, the lack of economic security, the reduced opportunity to establish credit, dealing with unscrupulous employers, and the risks/penalties of not reporting income (Losby et al., 2003). A common disadvantage is the absence of employment benefits: paid sick days, paid vacation days, retirement, health insurance and dental insurance. Another common disadvantage is the lack of economic security. Economic security is affected by several factors-income irregularities, pricing skills, a low-income customer base, difficulties collecting payments from customers and a small customer base. Each of these problems described below. The income from cash jobs and self-employment varies from week to week, month to month. The variability and unpredictability of income makes it difficult for people to budget and plan. Price-setting skills affect the income levels of the self-employed. Some people do not earn very much from their cash jobs because many of their customers are low-income. Another factor that makes entrepreneurs' income unpredictable is that some of the self-employed, especially people offering services in their own neighborhoods, have a very small customer base. By being paid in cash, people do not have an opportunity to build their credit, apply for

credit cards or loans, or have a bank account. There is no enforcement of labor laws or avenues for redress associated with informal work.

Clearly, it is complicated to operate in the informal economy. They are both advantages and disadvantages. People carefully weigh their options. Although some recognize that there may be more disadvantages, they believe they have little choice.

CHAPTER 3

WHY PEOPLE PARTICIPATE IN THE INFORMAL ECONOMY

People engage in informal economic activities for a variety of reasons. For some, it is a necessity, their last resort, or their best option: a better alternative than low-wage formal employment (Losby et al., 2003). Others are involved in informal work as a choice, for personal fulfillment, social connection, or to supplement primary income (Schneider, 2011). Following are reasons that people participate in the informal economy: the desire for nontaxable income, the ability to secure formal employment, the dissatisfaction with formal employment, the desire for independence and control, the first stage in the pursuit of a formal business and the desire to strengthen neighborhood social support networks and economic conditions (Losby et al., 2003).

Desire for Undocumented Income

Some people pursue informal arrangements because they wish to hide their income from a government institution; they want to avoid paying child support; or they do not wish to jeopardize their public assistance, disability, or unemployment benefits. For some it is a long-term arrangement, whereas for others, it is short-term. For example, some men are non-custodial fathers responsible for child support payments. These fathers offer two rationales for seeking undocumented income. Some men want to “hide” as much income as possible to minimize child support levels. Others, who accept their fatherhood responsibilities and readily make support payments, believe they need to supplement their income to make ends meet. Many small-scale Chinese bakery and

restaurants in Chinatown only accept cash. Most of their employees are family members. They do not report accurate income, and they pay less tax.

Unable to Secure Formal Employment

Some people operate informal businesses or engage in informal work when they are unable to find formal wage employment. This is often because they have low education or minimal skills, a criminal record or drug problem. Some people have low education or limited skills. Most wage jobs are hard to get and the wages that they do earn are low; when taxes are taken out, there is nothing left for rent or food. Working for cash is really the only option for such people. Some have criminal records that directly affect their ability to find formal employment. They cannot have a regular job, although they have tried to seek formal employment. The reality of not finding a wage job limits the options, and a person must eke out a living. Sometimes the combination of racial discrimination and a criminal record is a double hindrance.

Even working informally is not without its concerns for people who have a criminal record. Once they begin working informally, there is still the threat that their record might curtail their earning power. For people with current or recent drug problems, it is either difficult to work (not showing up for jobs or getting fired) or impossible to work (being in a mandatory court-ordered drug treatment program).

Dissatisfaction with Formal Employment

Some people have held formal wage jobs at some point in their lives and have had negative experiences with formal employment. Consequently, they see informal

arrangements either as a better option or as their only option. Some people have had long-term formal jobs and decided they did not want to continue wage employment. Some have had frustrating experiences in formal jobs, including unreasonable bosses, difficulties with co-workers, or undesirable work conditions. Some had been hired full time, but slowly their hours were reduced or their shifts switched. Therefore, they sought informal work, often with trusted relatives or friends. Some people believe they have achieved a higher level of responsibility than was possible in either a wage job or working for a non-relative. Some remarked that tight hiring, networking, politics and race often play a role in their disenchantment with formal wage work. Some turn away from formal wage employment as a deliberate decision to change their careers or their lives. For example, people work at a front desk for minimum wage. Usually, they cannot afford their living expense after paying tax. Either they find another part-time job or they prefer to work informally.

Desire for Independence and Control

The lure of independence and control is very strong for some people. Motivating factors include the desire to set one's own work schedule, earn as much as one is willing to dedicate in work hours, and be free from outside forces. Some determined that formal wage employment would not help them achieve their goals. Some people mention their need to avoid being at the mercy of an unstable economy. They view their decision to pursue informal work as a viable strategy in a job market that is very different from what it was 30 years ago. Many have been laid off themselves or have seen people laid off or

fired and left with nothing (e.g., retirement, security). People get tired of working many years and then getting laid off. They want to be their own boss.

Others have family commitments that make standard 9-to-5 jobs implausible. For example, one person is unable to work a regular wage job, since she is raising her two young granddaughters. She needs to have a flexible work schedule to allow her to be home in the afternoon when the children are out of school. Many housewives can either work from home while their babies are young or do informal work such as babysitting, waitressing, working at a front desk, or doing some other job that allows them to adjust their work hours.

First Stage in the Pursuit of a Formal Business

Some people are strategizing about formalizing and registering their businesses. Some people think it would be nice to a real business, and they are taking deliberate steps to achieve their goals. They make efforts to expand their self-employment activities into registered businesses. They take entrepreneurship classes, take job training classes, complete the certifications required for licensing, and consult with institutions that can provide technical assistance. Some street vendors want to create a formal business with a stable place and relatively stable customers. However, when they start up, sometimes they do not have enough money to rent a place or obtain all of the required certificates. They need a cushion period to help them create a formal business.

Desire to Strengthen Neighborhood Social Support Networks and Economic Conditions

Some people want to strengthen their neighborhoods' social support networks and economic conditions. They explicitly explained their decisions to participate in the informal economy in the context of the economic disinvestment and structural conditions affecting poor neighborhoods such as theirs. Through their efforts, they hope to increase accessible, affordable goods and services; increase economic and consumer choice; and develop and sustain supportive social and financial networks. Many see themselves as filling a niche left by the lack of economic choices and social services. Their informal work is a way for them to contribute to their communities and help sustain a fragile social and economic infrastructure. Individuals expressing these community sentiments include elderly care givers, hair care providers, a street vendor, cleaners, construction/home repair workers, an upholsterer, sales persons, and a professional services provider. Some people have been motivated by personal suffering (either a medical condition or a personal loss) that heightens their sense of social responsibility and is a factor in their decision to work informally.

Others enjoys giving back to their neighborhoods in a meaningful way and intentionally do not charge very much for their services. For example, many home health aides and elder-care providers care for people in their family and social networks (such as church) and typically do not charge for their services; instead, they accept what people can afford to pay. For many people, the social relationships nurtured through their informal businesses are important. Some spoke about the social benefits they derive from

working informally, such as keeping abreast of family and neighborhood news and issues and learning about other employment opportunities.

In addition to the above reasons based on the perspective of informal participation, from the angle of government policy, the most important and frequently cited reasons are the increased burden of taxes and social security contributions; increased regulation in the official economy, especially of labor markets; forced reductions in weekly working time; earlier retirement; unemployment; and the decline of civic virtue and loyalty towards public institutions combined with declining tax morale (Schneider & Enste, 2000). The following paragraphs concretely describe these three factors: tax and social security contribution burdens, regulations, and tax morale.

Tax and Social Security Contribution Burdens

The overall tax burden affects labor-leisure choices and may stimulate labor supply in the shadow economy (Nagac, 2015). The bigger the difference between the total labor cost in the official economy and after-tax earnings (from work), the greater the desire to reduce the tax dues and work in the shadow economy. This tax wedge depends on social security burden/payments and the overall tax burden, making them key features in the existence of the shadow economy.

Regulations

Regulations, for example, labor market regulations and trade barriers, are another important factor that reduces individuals' freedom (of choice) in the official economy. Labor costs will increase substantially in the official economy due to regulations. As a

result, regulations provide another incentive to work in the shadow economy: countries that are more heavily regulated tend to have a higher share of the unofficial economy in total GDP (Kim, 2001). It is not the enforcement of regulations but the overall extent of regulations – mostly not enforced – that is the key factor for the burden levied on firms and individuals, making them operate in the shadow economy.

Tax Moral

The efficiency of the public sector also has an indirect effect on the size of the shadow economy because it affects tax morale (Schneider & Enste, 2000). Tax compliance is driven by a psychological tax contract that entails rights and obligations from taxpayers and citizens on the one hand and from the state and its tax authorities on the other hand. Taxpayers are more inclined to pay their taxes if they receive valuable public services in exchange. However, taxpayers are honest even in cases in which the benefit principle of taxation does not hold, i.e., for redistributive policies, if such political decisions follow fair procedures. The treatment of taxpayers by the tax authority also plays a role. If taxpayers are treated such as partners in a (tax) contract instead of subordinates in a hierarchical relationship, taxpayers will stick to their obligations of the psychological tax contract more easily. Hence, (better) tax morale and (stronger) social norms may reduce the probability that individuals will engage in undeclared work.

CHAPTER 4

TOURISM AND THE INFORMAL ECONOMY

The informal economy in tourism has been defined as “all those individuals and businesses that engage with tourists and the tourism industry but are not members of any formal association or trade organization” (Slocum, Backman & Robinson, 2011). Street vendors, unofficial tour guides, shoe shiners, transport providers, musicians and dance troupes, artisans, prostitutes, providers of home stays, owners of food stalls, and chamber maids comprise this informal economy. Their activities are generally beyond the effective control of tourism authorities (Crick, 1992).

There is ample evidence of the reality of the informal economy and its cross-sectoral and international existence, arguably making it the dominant form of capital labor in both developed and developing countries (Portes, Castell and Benton, 1989). Although for some, working in the informal economy is an option, for others, mainly those living in developing countries, working in the informal economy is not an option, it is a must. For decades, tourism scholars have examined questions that are mostly centered on the formal tourism economy and have hoped that the informal tourism economy would diminish by improving developing countries’ economies. However, the informal (tourism) economy is not a set of activities that will disappear with modernization: it is a fundamental component of developing economies (World Bank, 2005). Relatively recently, the International Labor Organization (2009) recognized the permanent nature of informal work (ILO, 2009).

The informal tourism economy merely relies on formal tourism agents' customers. Although the informal economy can complement the formal economy's products and services, there is a tension between the formal and informal economies in tourism (Meyer, 2006). The formal economy has been always the dominant party (Kermath & Thomas, 1992) with the power to force informal ventures to leave principal sites (Tan, 2004). The informal tourism economy is a growing phenomenon in both developing and developed countries and is often associated with poverty alleviation in developing countries. The dynamics and realities of informal labor or more broadly, informal livelihoods, are heterogeneous and complex. The travel and tourism industry is a system that can support marginalized communities' livelihoods (William, Melo, & Ofer, 1994).

Tourism creates multiple opportunities for employment in both the formal and the informal sectors of the economy (Sharma, 2004). In developed countries, the tourist industry can be split into formal and informal activities that together form an entire dualistic economy. The tourism sector is based on formal associations that are legally recognized, including hotels, airlines and restaurants that are licensed, registered, and taxed by the government. The informal tourism sector includes tourism activities that are generally beyond the effective control of the authorities: accommodation, services, and other businesses (sales of souvenirs, guides, and taxi companies) that are unauthorized and unofficial. One of the most important differences between the two sectors is the government's official recognition of the formal sector and non-recognition of the informal sector (Timothy & Wall, 1997).

The consequences of this separation of the two sectors is that only the formal sector receives assistance from the state in providing favorable locations, loans, subsidies, tariff protection, management training, etc. Workers in the informal tourism sector have always been unemployed or temporarily employed, contributing little to local income, and governments often have a negative attitude toward this sector. Nevertheless, the literature has found that informal enterprises contribute to economic development through their ability to attract a large amount of labor, since it is assumed that the informal sector directly addresses the need of their poor to increase income, providing a solution to the unavailability of formal employment and low wages (Timothy & Wall, 1997).

Tourism offers three employment opportunities: direct, indirect and induced (Frenchtling, 1994). Direct employment in tourism refers to jobs created by companies such as tourist accommodation, travel agencies, tour operators, transport companies, catering facilities and others that provide goods and services to tourists and earn income from them. Indirect employment refers to jobs offered by firms that are closely related to tourism companies, namely, by firms that supply and produce goods and services for tourists and residents in destinations: stores, construction companies, hotel furniture companies, etc. Induced employment refers to jobs created in businesses that provide tourist workers and residents with goods and services that they pay for with revenues from tourism activity (Frenchtling, 1994). People whose incomes and standard of living have increased because of their tourism activities create new employment opportunities by spending this acquired income in other sectors of the economy (Önder & Durgun, 2008). The combination of direct, indirect and induced employment in the formal and

informal tourism sectors can be described as tourism employment (Cukier, 2002).

Tourism is regarded as an important means of combating unemployment and underemployment because its related industries offer multiple employment opportunities for all people, including those marginalized in the labor market, including unemployed youth or graduates, long-term unemployed, less skilled people, minority ethnic groups, etc.

Informal labor is primarily studied by economists addressing governments, international and non-governmental organizations that aim to stimulate economic growth and reduce poverty. These accents on development and poverty naturally affect our understanding of informal labor. In the tourism literature, informal labor is more often emphasized together with poverty alleviation and tourism is seen as a tool to stimulate marginalized communities' livelihood (Ashley & Roe, 2002; Scheyvens, 2007).

Tourism is a labor-intensive industry because it uses many people in its activities (McIntosh, Goeldner & Ritchie, 1995). Tourism development has led to the creation of both skilled and unskilled jobs in both developed and developing countries. Increasing employment is one of the most important indicators of the social impact of tourism because creating new jobs improves living standards and conditions, creating socioeconomic progress in the host communities.

CHAPTER 5

CONCLUSION

Summary

In most countries, tourism is an important economic activity (McIntosh et al., 1995). It affects the economy and lives of communities and has proven to be a lifesaver for many destinations (McIntosh et al., 1995). Tourism is an industry that involves intensive labor and has the capacity to provide more job opportunities than any other sector, both directly and indirectly (Frenchling, 1994). At the same time, human resources employed in tourism play an important role in developing the tourism industry by attracting and retaining customers, creating a pleasant environment for tourists, awakening and maintaining interest in tourist destinations, establishing positive and long-term relations with tourists to encourage their return, and providing quality services in line with customer expectations (Losby et al., 2003).

In addition to tourism's economic and employment benefits, its social and cultural implications must be considered. Job creation in the tourism industry gives local people the opportunity to increase their incomes and improve their living standards. Furthermore, employment in tourism can positively affect quality of life by increasing residents' social status and providing opportunities for young people and women (Archer, 1973).

In today's global economy, not enough formal jobs are being created, and many existing formal jobs are being informalized. Informal employment is here to stay in the short, medium, and probably long term. It is the main source of employment and income

for most of the developing world's workforce and population (Losby et al., 2003). On average, compared to formal workers, informal workers have lower earnings and face higher risks, are less likely to enjoy economic opportunities and legal protections and are less able to exercise their economic rights and collective voice (ILO, 2009). In addition to the risks and unfair treatments involved in informal activities, there are numerous opportunities for people working in informal tourism activities. Tourism businesses engage with relatively wealthy end consumers. Even backpackers and domestic tourists are wealthier than average consumers in other sectors. Accordingly, informal tourism workers are paid better than other informal sector workers. In addition to this financial advantage, Wahnschafft (1982) found that informal tourism workers develop many skills (e.g., foreign languages, marketing techniques, equipment maintenance skills, social skills in approaching tourists) that directly result from their on-the-job informal education. This informal skill acquisition contributes significantly to an informal worker's livelihood assets and would be useful not only in tourism-related jobs but also in other jobs outside of the industry. Therefore, the informal economy and workforce need to be recognized as the broad base of the global economy and workforce. Both informal enterprises and workforce in the hospitality and tourism industry need to be valued for their contributions and integrated into economic planning and legal frameworks.

This study provides an overview of the history and development of the informal economy and analyzes the drivers of the informal economy from the perspectives of both participants and the government. Statistics on the informal economy are difficult to collect, and they vary for different types of countries. This article estimates the size of

informal economy using two measures: percentage of employment and percentage of GDP. The concept of the informal economy is a hot topic, and there is no one definition that can completely encompass it. This paper presents the various definitions advocated by scholars. Two typologies are presented that classify various kinds of work and various kinds of informal economic activities. Four key characteristics of informal work are discussed.

Future Trends

Today, there is a new economic paradigm: a model of a hybrid economy that embraces the traditional and the modern, the small scale and the large scale, the informal and the formal (Chen, 2012). Some years ago, the world embraced biodiversity—and still does. Today, the world needs to embrace economic diversity. Both are needed for sustainable and inclusive development (Chen, 2012). The informal economy is not a hidden economy, but a very visible, growing, effective one, which fosters entrepreneurship. Our challenge is not to end squatter cities or shut down gray markets, but to engage and empower those who live and work in them (Losby et al., 2003).

Limitations

This study has limitations. First, this paper provides a conceptual review of the informal economy and its relevance to the hospitality and tourism industry without building a theoretical framework or conducting empirical tests. Therefore, more studies of the informal economy in the hospitality and tourism industry are needed. Second, although this paper discussed many aspects of the informal economy, including its size, history, cause, consequences, and so on, it left many aspects of informal economy untouched. One example includes the government's policy on the informal economy.

Most economic and social policies have an impact—direct or indirect—on the informal economy. The challenge is both to monitor the positive and negative impacts of different policies on different categories of the informal workforce and to address the negative impacts.

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