RETHINKING INFORMALIZATION

POVERTY, PRECARIOUS JOBS AND SOCIAL PROTECTION

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‘Improvisational Reform’: building collective voice and security in Silicon Valley

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Motivated, sustained, and cumulative tinkering with institutional arrangements is an indispensable tool of democratic experimentalism, of improvisational reform, of jazzlike public action…. (Unger and West, 1998: 11).

INTRODUCTION

Processes of labor market informalization are most frequently examined in the context of poor countries and marginalized workers. Yet, one of the consistent themes in the study of informal work is that informalization is fundamentally shaped by processes of economic restructuring in the formal economy. Changing corporate structures; the rise of complex outsourcing arrangements; the decline in the institutionalized tripartite social compact between labor, capital, and the state; and increasing volatility associated with the rise of an information economy, all contribute to the informalization of labor in both developed and developing world contexts (Portes et al., 1989). This economic restructuring has resulted in a growing number of workers in formal sector labor markets in the core of the global economy facing increasingly tenuous employment and high levels of insecurity. Therefore, examining new strategies to build collective voice and security for workers that address these processes of restructuring in core labor markets can provide useful lessons that might be relevant in a variety of other contexts as well.

This paper explores strategies for building economic security that have emerged in response to the high levels of insecurity workers face in Silicon Valley.¹ The region, with its high concentration of information technology industries, arguably reflects fundamental changes in work and employment practices associated with a shift from an industrial to an information economy (Benner, 2002; Castells, 1996). There are two fundamental features of Silicon Valley labor markets that have contributed to the high levels of insecurity that many workers there experience. First is a high degree of labor flexibility, with rapidly changing work requirements, and high levels of subcontracting, temporary, and contract employment. Second is the importance of labor market intermediaries—a wide range of organizations that mediate work practices and broker employment relationships between workers and employers. The increasing flexibility and intermediation that characterizes Silicon Valley labor markets means that traditional institutions and policies

¹ Silicon Valley is generally understood to refer to the southern San Francisco Bay region, comprising Santa Clara County and portions of neighboring San Mateo, Alameda, and Santa Cruz counties. It is home to some 2.4 million people and 1.3 million jobs heavily concentrated in information technology and related industries (see JV:SVN, 2003).
that promote collective voice and social protection for workers, which are based on a model of a stable workplace with clear employer/employee relations, are largely ineffectual.

In response to the ineffectiveness of traditional institutions in this context, two broad alternative approaches may provide some promise in addressing the problems of intermediation and flexibility. First, there is significant potential for improving the functioning of labor market intermediaries. These institutions have received relatively little attention in labor market policy, which tends to focus primarily on the supply and demand side of the labor market. The growing importance of intermediaries provides opportunities for innovative policy interventions that can assist more positive aspects of intermediary activity while hindering their more pernicious elements.

Second, policies for addressing labor flexibility can be improved by understanding the distinctions between flexible employment and flexible work, and trying to transform the growing individualized employment relations so they are more aligned with widespread collective work practices. The rapidly changing work demands that are inherent in the region’s rapidly changing, knowledge-driven industries—such as changing tasks, shifting skill requirements, and varying work colleagues both within the firm and in cross-firm business relationships—requires high levels of social interaction. This social interaction frequently crosses firm boundaries, and the social networks that are built in the process of performing these work activities are critical in shaping individual career trajectories and trajectories of regional competitiveness. In essence, these collective work practices are a critical component of Silicon Valley’s labor flexibility. At the same time, however, workers face increasing fragmentation and individualization of employment relations, with no collective representation, diverse individual mobility paths, varied compensation packages, and widespread use of subcontracted, temporary, and contract employment. This employment fragmentation makes workers more isolated and vulnerable to employer malfeasance and labor market shocks. It is possible, however, to promote more collective employment relations that can build on and reinforce the social networks and social support built through the collective work practices. This can be done, for instance, through improving multi-employer collective representation for workers within similar occupations, helping to create a better balance between workers’ and employers’ needs in the labor market, and by promoting more diverse and collective compensation systems; thus, flattening out the inevitable ups-and-downs in earnings and providing workers with greater resilience in the face of inevitable labor market shocks.

Together, improving intermediaries and promoting more collective employment relations provide opportunities for restructuring labor market processes in ways that would expand the workers’ collective voice and build greater security for many workers. Though the specific approaches discussed in this paper are exploratory, they directly address aspects of growing insecurity that are associated with the rise of an information economy, and thus are likely to have relevance in other regions as well.

This paper proceeds first by discussing key features of labor markets in Silicon Valley and their relationship to broader processes of labor market informalization. Of central concern here are the ways that the growth in labor flexibility and intermediation reflects a mismatch between fundamental "new economy" labor market processes and the existing legal and social institutions regulating labor markets. I then move to a more detailed discussion of strategies for influencing the activities of labor market intermediaries,
followed by a discussion of policies aimed at collectivizing employment relationships. In the final section, I discuss some of the strengths and limitations of these strategies for addressing a broader process of labor market informalization and building greater security for workers.

LABOR MARKET INFORMALIZATION IN SILICON VALLEY

The term "informal economy" refers to a diverse and heterogeneous range of economic activity, which Portes et al. (1989) define as "a process of income generation characterized by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated" (Portes et al., 1989). The process of labor market informalization, therefore, is a process in which changes in the institutional environment and changes in production practices create conditions in which a significant portion of economic activity is unregulated. From this perspective, only a small portion of economic activity in Silicon Valley is entirely "unregulated" and therefore fully "informal," though there is anecdotal evidence of some truly informal activity in the area, including street trading (primarily by immigrants), unregulated home-based work, and casual subcontracting relations between software programmers (LaGuerre, 1993; Zlolniski, 1994; Lozano, 1989). More important than full informality in the region, however, is the ways that work practices and employment relationships are only poorly regulated by existing labor market institutions and legislation.

Silicon Valley labor markets are characterized by high levels of labor turnover, and widespread use of nonstandard employment, including the use of temporary agencies, independent contractors, and subcontracted employment systems. In the late 1990s, the Silicon Valley region had two times the national percentage of the workforce employed in temporary agencies, with up to 40 percent of the region's workforce, and up to 80 percent of all job growth between 1984 and 1998, in nonstandard employment relationships. Median job tenure in the region is only three years, and rapid turnover has become the norm (Benner, 2002). In a California statewide survey, it was estimated that only 33 percent of the labor force, ages 18-64, have "traditional" employment (single job, full-time, day-shift, permanent employee, not working from home or as an independent contractor) and only 22 percent had held such a job for three years or longer.

Such labor flexibility would not be a major social concern if it resulted in widespread economic prosperity. Even during the booming '1990s, however, wages stagnated for the bottom half of the labor market and inequality increased (Benner, 1996; Benner, 2002). In 1996, as the cost of housing skyrocketed in the region, an estimated 55 percent of jobs in the Valley paid less than $15.72 an hour, the threshold of pay in full-time work needed to sustain a family of four without public support (Rosner and Benner, 1997). In addition, with high levels of temporary and contract employment, Silicon Valley workers are particularly vulnerable to economic downturns, as firms are able to shed workers rapidly. The unemployment rate in

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3 Between January 1996 and January 2001, the median house price in Santa Clara County, the core of Silicon Valley, more than doubled, rising from $251,000 to $577,500. Source: www.penwest.com, accessed 05/2001.
Santa Clara County (the heart of Silicon Valley), for instance, soared from a low of 1.3 percent in December 2000, to 7.7 percent in the space of just 13 months, and peaked at 8.9 percent in October 2002: more than 3 percentage points higher than the national average at the time. By 2003, the region had lost a total of nearly 20 percent of all jobs and average pay declined by 22 percent (Sylvester, 2003). A survey of Silicon Valley workers in June 2003 found that more than a quarter of adults in the valley—a full 25.6 percent—had been laid off at least once since January 2001, and that 34.7 percent had at least one person in their household out of work for more than three months in that time (Steen, 2003; JV:SVN, 2003).

The insecurity and inequality that workers experience in Silicon Valley are not the result of being entirely unregulated, a sign of true informal employment. They are, however, at least in part the result of being poorly protected by existing labor market regulations and institutions. Nearly all of these regulations and institutions either explicitly or implicitly assume relatively stable, long-term, full-time employment for a single employer who largely controls the conditions of employment (Benner et al., 1999; Osterman et al., 2001). They largely ignore the needs of workers who are in nonstandard employment contracts or who move frequently from employer to employer. The system for ensuring collective representation for workers, for instance, based on well-defined “communities of interest” in stable workplaces, makes it nearly impossible for workers in unstable work conditions to have collective representation (Friedman, 1994; Gould, 1993; Stone, 2004). Self-employed workers, independent contractors, and temporary workers are largely ineligible for unemployment insurance (U.S. Department of Labor, 1998). Workplace antidiscrimination and health and safety legislation largely assume legal employers have the ability to control employment conditions, which frequently does not apply to workers in subcontracted employment or employed by temporary agencies.

What is needed to address these problems is a sustained public dialogue aimed at a comprehensive reform of labor market institutions so they are more in line with these information economy labor practices. Efforts made in recent years to spark such a debate have had little effect. While the success of such efforts will depend on political leadership and political will, it will also depend in part on a clear understanding of policies that can address fundamental new labor market dynamics. In an effort to contribute to that understanding, what follows are some exploratory proposals for institutional reforms that are built on fundamental dynamics evident in Silicon Valley labor markets related to the widespread use of labor market intermediaries, and the problems of insecurity associated with labor flexibility.

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4 Including the National Labor Relations Act of 1935, the Fair Labor Standards Act of 1938, the Social Security Act of 1935 (which also established the unemployment insurance system), Title VII Civil Rights Act, the Age Discrimination in Employment Act, the Occupational Safety and Health Act, and so on.

5 In one particularly poignant example in 1999, an assembly worker who was employed by Manpower Temporary Services in a warehouse packing Hewlett-Packard printers became concerned about respiratory problems. He discovered that one of the chemicals in the ink cartridges used in Hewlett-Packard printers had been linked to respiratory irritation and was a possible carcinogen. When he asked that an air quality check be conducted in the warehouse, he lost his job. He filed a complaint with the California Industrial Relations Board, which took more than 20 months to determine whether to fine Hewlett-Packard or Manpower or both. Ultimately, the California labor commissioner ruled that Manpower, as the legal employer, had violated the employee’s right to express health safety concerns at work. In this case, however, Manpower had no power to order an air safety check at the plant or to improve air circulation systems in the facility (Jayadev, 2000).

6 Example given, the 1994 Dunlop Commission’s efforts to promote labor law reform (U.S. Department of Labor, 1994), or the MIT-sponsored Task Force on Reconstructing America’s Labor Market Institutions (Osterman et al., 2001).
LABOR MARKET INTERMEDIARIES

One of the more striking characteristics of Silicon Valley labor markets is the prominence of a wide range of intermediaries that help both employers and workers navigate through the complex and unpredictable labor market. Workers turn to intermediaries to help find jobs and to deal with changing information and skill requirements. Employers turn to intermediaries to help find workers and to help address fluctuating work demands. Intermediaries themselves have taken advantage of these needs of both workers and employers, and have actively expanded their activities, helping to further reinforce their importance in the regional labor market. Intermediaries respond to critical problems that are prevalent in flexible labor markets, such as high search costs, imperfect information, and increased risk. Intermediaries are thus emerging as critical institutions shaping the dynamics of flexible labor markets and thus labor market outcomes for both workers and employers (Benner, 2003b).

There are broadly three different types of labor market intermediaries that are active in Silicon Valley, distinguishable by organizational structure and origins. These include:

- **Private sector intermediaries.** Temporary agencies, contractor brokers, web-based job boards, and professional employer organizations all place workers with many different skill levels across a range of occupations and industries, from assembly and clerical positions to high-end computer programmers and engineers. What distinguishes all private sector intermediaries is that they are market-based organizations dependent on selling their services and ultimately making a profit in order to survive. As a result, private sector intermediaries are primarily oriented towards meeting the needs of employers. While they may provide some assistance to job seekers, their revenue and thus their profits come from employers. While they clearly contribute to the profitability of their client firms, the implications of their activities for workers’ career paths or the long-term sustainability of the regional production complex is much more contradictory. Private sector intermediaries rarely engage in significant skills development or training for the workers they place. Though many temporary agencies offer self-paced computer courses, this training serves largely as a screening device to identify workers with significant initiative, rather than a substantial investment in worker training (Autor et al, 1999). In an environment where skills and ongoing learning are so essential for workers’ career paths—because of more limited attachment to their workforce—these private sector intermediaries may actually undermine the long-term competitiveness of the region as well.

- **Membership-based intermediaries.** These are intermediaries whose organizational base is rooted in the membership of individual employees. This category includes professional associations, guilds and guild-like organizations, and various union initiatives, which have become increasingly prominent in recent years (Benner, 2003a). The activities of these organizations range from creating job listings and organizing networking opportunities to providing skills training and building learning communities.
Many, though not all, also engage in advocacy activities, such as promoting codes of conducts or lobbying for particular legislation. Overall, their activities help build ties between workers and employers, and shape the nature of that relationship in ways that are primarily aimed at improving the labor market outcomes of their members. Membership-based intermediaries are typically rooted in particular occupations, in which the skills, knowledge base, work practices, and labor market experiences associated with each occupation provide organizational coherence and shape the structure and activities of the association. The skills and knowledge development that occurs in these occupational communities is as important for the region's long-term competitiveness as it is for individual workers' outcomes (Benner, 2003c).

- **Public sector and nonprofit intermediaries:** There are a number of public sector programs and educational institutions that directly play an intermediary role in the labor market as well. In recent years, these programs have expanded their activities and grown more explicit in building their role as intermediaries. These include three types: first, a wide range of public workforce development and training organizations that have become increasingly integrated into a "one-stop career center system" aimed at improving their effectiveness as intermediaries; second, education-based institutions, which have become more active in providing adult education and customized job training for employers (including developing specialized curriculum and training programs geared to employers’ needs, and providing a wide range of on-site custom training for employers); and third, community and nonprofit organizations that engage in job training and placement activities, and are more strongly integrated into particular communities of disadvantaged workers than public workforce development institutions. As the public sector has become more aware of the importance of intermediaries in the labor market, these initiatives have expanded in size and become more conscious about being more comprehensive and strategic in their approach.

All three types of intermediaries are quite widespread in Silicon Valley. A recent survey of workers’ job search experiences found that one out of four people had held a job that they got through an intermediary in the previous three years (Pastor et al., 2003). This is likely a conservative estimate of the impact of intermediaries in the labor market since it doesn’t include jobs found through web-based intermediaries, and doesn’t examine the extent to which social networks, which account for the largest single means of job search, were built through intermediary activity.

Intermediaries have contradictory impacts on labor market outcomes for workers, in some cases undermining opportunities for upward mobility, and in other cases helping build those opportunities. There has been little sustained public attention, however, to affecting the activities of intermediaries as a whole. Typical approaches, such as reforms of public sector workforce development activities, or strategies to reduce temporary employment, tend to be fragmented and ineffectual. There is growing attention being paid to what are being called "workforce intermediaries," a subset of all labor market intermediaries that are more specifically focused on helping disadvantaged workers (Giloith, 2004; PEERS, 2003; Fischer, 2005; Fitzgerald, 2004). These newer initiatives are providing useful insights, but have yet to be integrated into a more comprehensive approach to influencing all types of labor market intermediaries.
Intermediaries and Labor Market Policy

Most labor market policy has been directed either towards the demand side of the labor market (e.g., subsidizing particular types of development, or regulating employment practices) or to the supply side (typically through promoting skills development). It is possible, however, to develop public policy directed at intermediaries. One approach clearly is to attempt to regulate temporary help firms and other intermediaries that act as legal employers of contract workers (e.g., employee leasing firms and contractor brokers). This may include such provisions as limiting the length of time someone can be employed in a “temporary status”; trying to ensure equal pay for equal work; clarifying provisions for collective bargaining and coemployment status; improving access to health care; and so on (Theodore and Mehta, 1999; NELP, 1999). Such provisions are relatively weak in the United States, though they have been somewhat stronger in Europe (Messmer, 1994; Overman, 1993; Houseman and Osawa, 1995). While such regulatory efforts are important, they sometimes have unintended consequences that tend to undermine their overall impact on improving labor market outcomes. For example, a legal case arguing that Microsoft should make their contract workers eligible for the same employment benefits provided to permanent workers actually resulted in Microsoft strengthening the distinction between permanent and contract workers rather than making contract workers eligible for their generous benefits (De Haas, 1998). Similarly, a Flexicurity Act in the Netherlands with a provision requiring temporary firms to give many of their workers "permanent status" after a certain period of time, resulted in many temporary workers being laid off prior to the law taking effect. This is not to suggest that regulating intermediary activity is not worthwhile, but simply to suggest that where firms have a high demand for labor flexibility, they are likely to find ways of subverting many kinds of regulation.

Another perhaps more promising approach is to put significant resources into promoting the development of positive intermediary models that can then replace more negative intermediaries. With adequate public assistance, many nonprofit and membership-based intermediaries could find win-win opportunities, meeting the needs of firms while also providing better career outcomes for workers. For intermediaries to be effective in building such win-win opportunities, they must move beyond the short-term, placement orientation that characterizes most intermediaries today—an orientation that is reinforced by most publicly funded programs which emphasize placement to the detriment of retention and advancement issues. Longer-term, more in-depth relationships with both employers and workers are important for developing effective understanding of employers’ labor force needs, providing effective formal training and informal learning opportunities, and contributing to improved competitiveness of firms over time. Developing the capacities, relationships, and resources to do this effectively, however, is not easy. It requires sophisticated knowledge of labor market and economic trends, access to a range of skill training, the ability to build trusting relationships with multiple employers often with very different labor force needs, and the ability to provide opportunities for workers with a range of backgrounds, skill levels, and career aspirations. Developing this capacity will require a significant and sustained commitment of public funds, including funds to support networks of relationships between different intermediaries who may specialize in different

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activities, thus promoting greater coordination and cooperation between the variety of different intermediaries in regional labor markets.

Even promoting existing positive intermediary activities, however, is limited when intermediaries simply accept the demand side of the labor market as given. In this context, intermediaries may be able to improve workers’ mobility, but don’t affect the quality of jobs or working conditions being offered by employers. It is possible, however, for intermediaries to have a more direct impact on the quality of jobs, though in both positive and negative ways. Private sector temporary agencies, for example, typically act as the legal employer and thus have some leeway in setting wages, benefits, and working conditions. This is especially true with the growing trend of larger temporary help agencies moving to on-site arrangements with their client firms. There they take on direct personnel management responsibilities and in the most developed cases even responsibility for managing work flow and productivity (Bernhardt et al., 2001; Staffing Industry Review, 1997). For the majority of workers, wages in temporary help agencies are lower than those for comparable workers in client firms, and what they offer their workers is limited by what their client firms are willing to pay (Houseman et al., 2001; Erickcek and Houseman, 1997). Yet, there are cases where temporary agencies will advocate for higher wages for particular workers, and an increasing number of nonprofit and membership-based intermediaries are experimenting with becoming “employer of record” for the workers they place, as a way of trying to improve their placements and give them greater leverage for paying higher wages (Neuwirth, 2004; Carre et al., 2003). Some membership-based intermediaries have also been promoting codes of conduct and other advocacy efforts as a way of improving job quality (Bernhardt et al., 2001). Finally, in the cases where union hiring halls are linked with multi-employer collective bargaining units, these intermediaries can maintain high wages and employment security, at least when high-skill levels contribute to greater productivity to help union firms be competitive against nonunionized competitors (Wolf-Powers, 1999). At the moment, under U.S. labor laws, pre-hire agreements (important for maintaining hiring halls) are only allowed in the construction industry and multi-employer bargaining units are rarely approved outside the building trades and entertainment industry (Friedman, 1994).

Specific policy mechanisms that might be pursued to move intermediary activity in a more positive direction might include the following:

- **Incentive structures.** Any public funding or subsidies of intermediaries, including possible tax structures, should be explicitly geared towards meeting two fundamental objectives: providing long-term opportunities to all employees and meeting the needs of disadvantaged workers. Achieving this will require reforming existing funding streams, which neglect training and career mobility in favor of rapid placement, even if it is a dead-end, temporary job. Funding instead could be focused on career advancement services such as planned mentorship relationships, annual “follow-up” contacts with career planning objectives, or ongoing “alumni” services. Intermediaries of all types could be encouraged to design their own innovations through funding bonuses based on the demonstrated

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8 Pastor et al., 2003.
long-term income growth of clients. In addition, support could be provided for membership associations that are currently generally excluded from public training funds.

- Public disclosure. Legislation should increase public knowledge of the services provided by intermediaries, the benefits received by their employees, and the economic consequences that follow placement for the short term and long term. While some advocacy groups attempt to rate temporary agencies based on their willingness to agree to codes of conduct, adequate information to inform potential users is unlikely to become available without government regulatory requirements.

- Performance targets. Intermediaries that are recipients of either direct or indirect government support (such as training funds) should be required to meet performance standards based on job quality as well as success in placement. Local and regional requirements could be based on existing formulations including living wage ordinances, prevailing wage laws, or local self-sufficiency standards.

- Networking and coordination. High performance intermediaries, such as community colleges and unions, can become more effective if they coordinate their activities and form networks with public and nonprofit organizations that offer support services. Public policy should encourage innovative forms of collaboration both between these standard-setting intermediaries and between them and other intermediaries that may profit from their experience and philosophy.

Whether restricting negative intermediary practices or providing support for positive practices, the underlying premise of these proposals is the recognition that intermediaries have become a fundamental component of the structure and dynamics of labor markets. Efforts to entirely get rid of intermediaries and build a stronger direct tie between workers and employers are likely to prove ineffective and possibly detrimental to the vitality of regional economies. The best approach is to accept intermediaries as a reality in contemporary labor markets, do our best to understand the forces contributing to their activities, the impact of their efforts, and influence their activities in ways that lead to desired outcomes.

LABOR FLEXIBILITY AND THE SOCIAL WAGE

In addition to the widespread importance of intermediaries, the second fundamental characteristic of labor markets in Silicon Valley is the high level of labor flexibility. As many analysts have argued, some aspects of this labor flexibility have been critical for the region’s economic success. The region’s open labor markets, with rapid circulation of workers, information, and knowledge between firms, has contributed significantly to the region’s remarkable 40-year record of innovation and dynamism (Saxenian, 1996; Saxenian, 1994). The widespread use of independent contractors and temporary workers, combined with the ease with which firms hire and fire workers and restructure their subcontracting relationships, facilitates their ability to adjust to rapidly changing technology and competitive conditions. Yet, as pointed out previously, labor flexibility also has a significant downside, evident in the high levels of insecurity and inequality that workers in the region experience.
The challenge for labor market policy in this context is to develop strategies that can help improve labor market outcomes for workers while also promoting competitiveness throughout the region. In attempting to meet these dual goals, it is useful to make a distinction between flexible work and flexible employment. Flexible work refers to the actual activities workers perform, the skills, information, and knowledge required to perform those activities, and the social interaction involved in the process of performing that work. Flexible employment, on the other hand, refers to the contractual relationship between employer and employee, including compensation systems and management practices. Rapid changes in flexible work—in the quantity of work; in the skills, information, and knowledge required to perform that work; and the social interactions involved in that work—are largely rooted in the dynamics of competition in information technology industries, where continual innovation is central for competitive success (Shapiro and Varian, 1998). This importance of innovation is related to the increasing importance of information and knowledge in the economy, and the rapid change inherent in producing information and knowledge as commodities. These dynamics are particularly evident in information technology industries but also have applicability in a wide range of other industries as well—wherever information (both in analytical and aesthetic form) is an important part of the value of the commodity or service being produced (Lash and Urry, 1994). In essence, flexible work is an essential component of competitive success in the information economy.

In contrast, rapid changes in employment—including high levels of turnover, shorter periods of employment, and widespread contingent employment contracts—are only partly shaped by the importance of flexible work. The nature of the employment relationship is also shaped by the legal, institutional, and organizational environment that is deeply rooted in an older industrial economy, as described previously. This mismatch between contemporary employment practices and outdated labor market institutions allows many firms to pursue flexible employment relations for a variety of reasons, such as simply cutting costs or shifting risk, that have little to do with promoting long-term competitive success. The recognition that flexible employment is primarily shaped by the institutional and legal environment, rather than underlying economic changes, suggests significant scope for intervention strategies, without threatening economic dynamism.

In developing these intervention strategies, I want to argue the value of promoting an increased social wage. In essence, a social wage provides compensation on a broader more equitable basis, based not on a worker's individual contribution to profitability, but based instead on their membership in a broader society. Frequently the term is used to refer specifically to public expenditures, in which tax revenue is used to provide benefits to citizens through such programs as education, subsidized health care, housing assistance, and the like (Moudud and Zacharias, 1999). It is important to recognize, however, that direct public expenditures are not the only mechanism through which compensation can be "socialized" or spread through a broader community of workers. During much of the twentieth century, for instance, it was large corporations with well-developed internal labor markets who implemented compensation systems that had the effect of socializing the wage distribution within the corporation. In these systems, compensation was not based solely on an individual's direct contribution to the firm's profitability, but was instead partially based on seniority, with systems that tended to raise workers' wages at the bottom and limit them at the top. This wage compression was further reinforced through the training practices of these
firms. With a high value of firm-specific knowledge, new hires were frequently given lengthy training programs, with firms willing to forego immediate contributions to the firm’s activities in the knowledge they would reap ample rewards over the long period of time employees would stay with the firm. Compensation for new employees was greater than their contribution to the firms’ profitability, but firms would gain in the long run from their employees’ increased productivity, given compressed wage structures. In essence, these compensation systems were not based on individuals, but were structured based on the relationship between different groups of workers in a firm—a limited social wage within the corporate community.

Ironically, during this time that the employment contract for many workers was socialized across large firms, work itself, at least in classic blue-collar jobs, was in many ways more individualized. Taylorized management practices and assembly lines ensured that much (though not all!) of the control over the pace and intensity of work was removed from the workers’ control. Traditional assembly line work tied workers to a particular space on the shop floor, making it difficult to have social interactions with anyone more than a few feet away. Specific work tasks were often proscribed by long and complex job descriptions and bureaucratic rules, further limiting the room for worker initiative. Overall, then, during much of the twentieth century, broad sectors of the U.S. labor market could be characterized as having individualized work practices but socialized employment contracts. Clearly this representation is not accurate for all types of work and employment, but it is a useful characterization of the dominant labor market practices that existed in the largest, most dynamic sectors of the U.S. industrial economy in much of the twentieth century.

In contrast, in Silicon Valley, which represents the largest and most dynamic sectors in the contemporary information economy, labor markets can be broadly characterized as involving an increased socialization of work, and an increased individualization of the employment contract. With high levels of self-employment, temporary and contract labor, rapid mobility between firms, and the near absence of unions in high technology industries, employment contracts in the region are largely driven by individuals’ negotiating skills and the market value of their skills, experience, and relationships. In contrast, however, work tasks (and the information and knowledge they involve) depend on high levels of social interaction and communication, not just in the workplace but across firm boundaries. Complex production networks mean that workers frequently collaborate with colleagues in other firms in the course of their work activities. Much of the knowledge required for work is not firm specific, and workers gain the required knowledge through their participation in dense social networks and their interactions with colleagues in a variety of different contexts. Furthermore, long-term career success for workers is also increasingly dependent on social interaction, as the strength and character of people’s social networks fundamentally shapes their work trajectories.

By recognizing the central importance of these social work processes to overall economic competitiveness, and acknowledging the existence of socialized compensation systems in the past, it is possible to develop arguments for innovative new compensation systems that can result in a greater social wage and thereby help minimize the insecurity that workers face in volatile labor markets. Social wage systems could either be built through formal public sector programs, or they could be encouraged through
building on collective work processes to help formalize collective representation amongst occupational communities of workers, or workers within industrial clusters. Below I will discuss some ideas for innovative compensation systems that can increase the social wage and build on these work practices. Sahll I look first at those that have emerged in information technology industries; then innovative compensations systems that have emerged in the entertainment industry (which has similar work and employment practices at the IT sector); and finally at government policy initiatives. First, however, I will turn to some reforms in the industrial relations system required to promote more collective representation along occupational or industry cluster lines, rather than within the workplace, an essential component of building greater security in the context of these individualized employment relations.

Reforming Industrial Relations

The current labor relations system discourages representation for workers in flexible employment relations. Under the current system, for workers to gain collective representation, they must identify and defend a clear and sufficient “community of interest” with a clear employer, and ensure that a majority of workers within that community vote for collective representation even in the face of significant employer opposition. Rather than being based almost exclusively on increasingly ephemeral worksite-based communities of interest, an improved labor relations system should encourage collective representation along somewhat more stable occupational and industry lines, with the community identified informally through similar work practices and labor market experiences. One well-developed presentation of what such a system might look is Charles Heckscher’s (1996) The New Unionism. His system doesn’t depend on collective bargaining, but instead collective strength is built through “associational unions,” whose activities focus on advocacy, legal representation, and the provision of a broad range of educational and service activities. To be fully effective, however, associations must also be able to enter into contractual agreements with employers—with individual companies certainly but more importantly with multiple employers and industry associations. This would give them greater ability to curtail bad employment practices, improve career opportunities, and negotiate improved compensation systems. Building representation along such occupational and industry lines, however, would require some significant changes in labor law (Stone, 2004). At the minimum, it would require provisions for allowing pre-hire agreements and creating incentives for promoting industry-wide bargaining, which are currently prohibited outside the building trades (Friedman, 1994). Workers should also once again have the ability to exert economic pressures on employers. Many such efforts used to be legal prior to the Taft-Hartley Act of 1947 and, in fact, millions of nonfactory workers—teamsters, longshoremen, waitresses, cooks, musicians, and others—who successfully organized between the 1930s and the 1950s relied on pre-hire agreements; recognition picketing; secondary boycotts; limitations on nonunion or nonunion goods; and other approaches to secure bargaining rights. Making these approaches legal once again would make representation more possible for subcontracted workers, as well as for more mobile professionals, consultants, and technical workers. Another legal reform that would assist collective representation is to develop mechanisms for minority representation, requiring employers and industry associations to negotiate with groups of workers, even if they didn’t have majority representation. In essence this would help lower the bar for workers seeking assistance in negotiating better employment relationships, by
allowing a minority of workers to have outside support even if they are not able to convince a majority of the need for union representation.

In many cases, employers would be resistant to the expansion of collective representation, thus requiring significant political pressure based largely on collective organizing amongst workers in an industry cluster. In many situations, however, it is possible to develop win-win strategies in which employers also benefit from collective organization in an industry, and thus might be less resistant to workers’ collective representation. This is particularly evident in cases where unions or other workers’ associations can solve collective actor problems that employers face, particularly around skills development and training. All employers like to have a well-trained workforce, but individual employers have little incentive to contribute to training their own when high levels of turnover mean they are unlikely to reap the benefits of increased training investments. In a classic collective actor problem, what is rational from the perspective of individual firms ends up undermining skill development in the industry as a whole. This dynamic was evident in the "shortage" of information technology workers the U.S. experienced in the late 1990s. Many detailed examinations of this phenomenon made it clear that management practices and the institutional framework of skills development were a key part of the problem, helping to explain the ineffective response to the rapid growth in demand for information technology workers at the time (Cappelli, 2000; National Research Council, 2001). Unions and other workers’ associations organized on an occupational or industry level could help solve problems like this, by negotiating with employers to invest in regional training programs and collaborative learning networks. Workers would gain from improved career opportunities, while employers would be able to capture many of the same gains from investment in human resources in organized regional labor markets that they used to capture in internal labor markets. When unions or professional associations play a strong role in helping with skill development and promoting improved competitiveness in the industry, such win-win strategies are possible (AFL-CIO Working For America Institute, 2000).

Social Compensation System

Collective representation, however, is simply one avenue towards improving working conditions. The greatest challenge unprotected workers face is the unpredictability of earnings over time, and the vulnerability to layoffs and economic downturns. With high levels of volatility, information technology workers face frequent periods of unemployment, while sustained downturns often require complete career shifts. Long-term skill obsolescence can result in declining earnings over time as well. In essence, workers face increased risk in contemporary labor markets. One of the basic principles of mitigating risk in all contexts is to spread the risk across larger numbers of risk-bearers, and to diversify, in this case, income streams. In essence, promoting broader social wage systems becomes an essential tool in mitigating the impacts of our high-risk economy (Mandel, 1996). What follows are some schematic suggestions of ways that an increased social wage could be implemented in innovative ways, looking first at initiatives that have emerged from information technology industries themselves, then in related industries (e.g., entertainment), and finally those that are not industry specific but depend instead on direct government policy.
One way to increase the social wage would be to expand the use of stock options, which have been a critical form of compensation for certain middle- and upper-level employees in Silicon Valley. While the bursting of the late 1990s stock market bubble has made many stock options worthless, they still provide a valuable model in which employees can benefit from the increased value of the entire company, not just their own work. Of course there are problems with the way stock options have been provided to date. Most importantly, they have generally been made available to only a relatively limited portion of the direct workforce, primarily executives and higher-level professionals, excluding many lower-level employees and “indirect workers” (e.g., temporary, independent contractors, and subcontracted workers). It would be possible, however, to pass legislation prohibiting discrimination in the provision of stock options, similar to legislation prohibiting discrimination in the provision of health and pension benefits. This might require, for instance, that stock options be provided to all employees if they are provided to any employees, perhaps in proportion to their salary.

An even broader, more ambitious approach would be to promote increased access by workers’ to stock ownership in the economy. One innovative proposal developed in the Silicon Valley context was to create a California Lifelong Learning Fund (Benner et al., 1999). The idea behind this proposal was that all businesses operating in the state would be required to make annual payments (including possible stock contributions) to a fund that would then be invested primarily in California-based companies. This would have the effect of helping to improve the California economy, but revenue from the fund over time would then be made available to all residents of the state. The concept was based on the Alaska Permanent Fund, which was established through an Alaskan constitutional amendment approved by Alaska’s voters in 1976. It provided that at least 25 percent of oil revenues paid to the state would be deposited into a public savings account and invested for the benefit of current residents and all future generations of Alaskans. In the Alaskan case, dividends from the fund are paid directly to all Alaskan residents (this totaled $1,963.86 per person in 2000). The proposal in California was to make the funds available to every state resident, but only specifically for education purposes, and to help (albeit disproportionately) lower-income residents. While the proposal never made it beyond the conceptual stage, it was an innovative idea that built directly on the notion that work in an information economy is a collective task, requires collective learning, and should be rewarded at least in part through collective means.

Another direct way of mitigating risk is to expand workers’ access to income beyond wage-labor, such as promoting asset ownership and equity stake in economic enterprises. One model that workers themselves could try to negotiate for is to have some portion of their compensation linked with the revenues generated from projects they have worked on. This idea builds from the model developed in the Motion Picture and Television Industry, another highly volatile, information-based industry. Unions in this

10 A similar principle underpins an even more ambitious proposal developed in a national context. In The Stakeholder Society, Bruce Ackerman and Anne Alstott propose that every U.S. born resident be provided with a $80,000 “stake” when they turn 18 years old, to be funded out of an annual wealth tax. The motivation for their proposal is primarily to address inequality in economic opportunity, but clearly it could also decrease workers’ vulnerability to labor market shocks through expanding their wealth and thus, diversifying their income sources.
industry\textsuperscript{11} have negotiated a compensation system with the Alliance of Motion Picture and Television Producers (the dominant employers’ association) that includes the provision of residuals. These are additional payments to workers for the exhibition of a product in media other than the one for which it was originally created (e.g., movies shown on TV), or for its reuse within the same medium subsequent to the initial exhibition, and payment continues as long as the product continues to be sold. Residuals have become an extremely important source of income for many people in the industry. For actors in particular, residuals account for 46 percent of all compensation in 1990. For actors in television commercials, who are at the bottom of the acting hierarchy and mostly only receive the minimum pay scale, residual compensation is particularly important, amounting to four times as much as initial session fees (Gray and Seeber, 1996; Paul and Kleingartner, 1994; Christopherson and Storper, 1989). It is possible to imagine similar compensation systems being negotiated by associations of workers in high-tech industries as part of their compensation packages, and thus have income sources even when they are unemployed.

At the broad governmental level, another clear area where reforms are warranted, and could help spread risk and diversify income streams for workers, is in the area of the unemployment insurance (UI) system. Designed more than 60 years ago to provide partial, temporary replacement of wages to workers during temporary cyclical downturns, this system has now become outdated, making it more difficult for unemployed workers to benefit. The UI system assumes that layoffs are primarily temporary, not structural, and that workers will return to the same job or industry. It provides no assistance to help workers develop new skills or get retraining—indeed it discourages workers from getting significant retraining since workers lose their benefits if they are not actively looking for work, even if this involves going back to school to get skills for a new career. Furthermore, the eligibility requirements for unemployment benefits exclude many unemployed workers, particularly those in nonstandard employment relations,\textsuperscript{12} and by the late 1990s only 42 percent of the unemployed actually received UI benefits, down from a high of 75 percent in 1975. The benefits provided through unemployment insurance are also inadequate, typically only replacing 40-45 percent of a worker’s wage up to a maximum benefit. Such a low replacement level provides little assistance for people trying to refine or expand their skills to meet the needs of our rapidly changing economy. Consequently, the program does little to reduce chronic and repetitive unemployment (U.S. Department of Labor, 1998). Reforms should expand eligibility, increase benefit levels, and make it easier for workers to continue to receive benefits even while improving their skills or shifting careers. In essence, the goal should be to transform the unemployment insurance system into a “retraining and reemployment insurance” system.

A more innovative “layoff insurance” program should also be seriously considered. This concept, which has gotten support from some labor economists, is designed to compensate workers for income losses they may experience after being laid off. Since the 1980s, between 45 and 50 percent of displaced full-time workers who find full-time replacement jobs within two years are consistently earning less than they

\textsuperscript{11} Primarily the Screen Actors Guild (SAG), the Writers Guild of America (WGA), and the Directors Guild of America (DGA).

\textsuperscript{12} Including the self-employed, many part-time and temporary workers, anyone who may have left a job for any reason other than being involuntarily laid off, and anyone still unemployed after the time limit for benefits, typically 26 weeks, though it varies by state.
earned prior to being laid off—a full third typically earning more than 20 percent less than prior to being laid off (Hipple, 1999). Layoff insurance would supplement pay for these workers for a period of time even after they get a new job, helping to make up a portion of their lost income. This would cushion the impact of the disruption, while helping workers plan more confidently for the future knowing they wouldn’t suddenly find themselves with much lower pay for an extended period of time. It would also encourage people in their efforts to move to a new career or industry, knowing they can supplement their lower earnings for a period of time until they gain more experience and expertise (Jacobson, 1995; Baily et al., 1993; Mandel, 1996).

Clearly one of the other areas with the most pressing needs is health care benefits, and in particular addressing the problems associated with the current system of employer-based health insurance. The current system is very poorly suited for a mobile workforce and rapidly changing industries. Workers without a long-term, stable employment relationship, including many part-time, temporary, and contract workers along with many low-wage workers, all have a more difficult time getting health care insurance. Meanwhile, the substantial administrative costs involved every time someone switches an employer wastes unnecessary resources while providing suboptimal care for large sectors of the workforce. The goal of an efficient, truly universal single-payer system may seem impossible in the current climate. Nonetheless, health insurance coverage should not be based on one’s place of work. One highly innovative program in Silicon Valley provides universal health insurance coverage for children, funded in part through funds the City of San Jose and County of Santa Clara received in the Tobacco Industry lawsuit settlement (Long, 2001). Other opportunities include promoting portable union benefits programs or collective programs available through professional associations, which would allow for the benefits of economies of scale in purchasing and administration. Many small businesses would benefit from such expanded systems as well, since they would be able to reduce administrative costs of benefits systems.

CONCLUDING REMARKS

Obviously the reforms and new ideas outlined above are schematic, and far from a complete program for building collective voice and security in volatile labor markets. Rather than develop a detailed set of policy proposals, however, my purpose has been to explore more far-reaching concepts and ideas. Labor markets in the information economy are significantly different from those that existed during the height of the industrial era. The policies, programs, and institutions that shape contemporary labor markets, however, still reflect many of their industrial age origins. As a result, the working conditions for many workers are poorly regulated, and consequently, workers are poorly protected from the volatility inherent in contemporary high-risk labor markets. In essence, workers at the core of the most dynamic information technology-based region face processes of labor informalization that make them highly vulnerable.

The proposals to address this problem that are outlined here are primarily conceptualized in the context of a relatively vibrant economy. Furthermore, they are not designed to address the conditions of extreme poverty that many workers in true informal employment situations face. As a result, clearly the strategic approaches outlined in this paper would be limited in their ability to significantly impact the lives of truly
impoverished or marginalized workers trying to survive at the margins of contemporary society. The strength of these proposals, however, lies in their attention to fundamental features of labor markets that seem associated with an information-based economy. This lends them particular salience in current policy debates, since it suggests that what is required to address broader problems of informalization is not simply incremental tinkering with existing institutions, but a more far-reaching restructuring of labor market institutions to make them more suited to contemporary labor market dynamics.

In addition, many of the proposals suggested here provide intellectual support for policies being proposed in other contexts with more desperate economic circumstances. For instance, the arguments for greater socialization of compensation systems provides further support for the economic benefits of social wage programs in various forms, such as the Basic Income Grant currently being debated in South Africa (Samson et al., 2002) or other forms of basic income being proposed in Europe by the Basic Income European Network (BIEN). The arguments for improved mechanisms to ensure multi-employer collective bargaining arrangements could help provide resources to workers in subcontracted sweatshops of major multinational firms. The arguments to try to influence the activities of a wide range of intermediary organizations might bring to light effective ways of restricting exploitative labor brokers, and supporting membership-based intermediaries in a variety of different contexts.

Regardless of the utility of these ideas for specific application in different contexts, the central argument remains the same: Processes of labor market informalization are not limited to peripheral workers and regions of the work economy, but are in fact characteristic of fundamental transformations in labor market processes in the core of arguably the most dynamic region in the emerging information economy. As a result, developing new strategies for building collective voice and security will require far-reaching approaches that don't assume that “good jobs” are characterized by stable work and unmediated employment relationships. There is an urgent need for more creative thinking and the exploration of more extensive policies that can directly address the structure and dynamics of labor markets in the information age.

REFERENCES


See http://www.bien.be/


Globalization, deep economic restructuring, and neoliberal policies have transformed the world of work and labor markets in the North and the South. Contrary to expectations of those who studied the “informal sector” in the 1970s and 80s, the informal economy keeps expanding. This collection brings together an interdisciplinary group of researchers and activists to rethink informalization and the world of work. Together they explore the processes and reasons behind the growth of informal activities and the possibilities for generating decent work and equitable labor markets under the present conditions.

Rethinking Informalization includes papers that examine the heterogeneity of informal activities, the processes that generate its growth, and the lack of concern over increasing economic and social inequalities. Some contributions focus on the need to rethink social protections for labor and the generation of decent work. Others focus on the linkages between informality and poverty, and the final essay focuses on the impacts of informality on the segmentation of urban space and politics.

The volume will be of interest to anyone concerned with the continued growth and dynamism of the informal economy, as well as its pernicious effects on workers’ lives everywhere.

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