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FACULTY OF SOCIAL SCIENCES
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Department of North American Studies

Master's Thesis

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CHARLES UNIVERSITY
FACULTY OF SOCIAL SCIENCES
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**Socio-economic Analysis of the Informal Economy in
San Diego County**

Master's thesis

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Study program: North-American Studies

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Year of the defence: 2022

Declaration

1. I hereby declare that I have compiled this thesis using the listed literature and resources only.
2. I hereby declare that my thesis has not been used to gain any other academic title.
3. I fully agree to my work being used for study and scientific purposes.

In Prague on 2nd January 2022

Marie Alice Kubánková

References

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Abstract

In the academic field the informal economy is vaguely represented and most of the research is focused on developing countries with many socio-economic issues. The informal economy in the developed world, mainly the European Union and the United States of America, has a minor share in the world's informal economy, as such it is not commonly discussed among academics. Some countries around the world are actively trying to battle this sector to minimize it and thus minimize its impact on the state economy and on the individual communities. To implement more effective policies it is important to know which factors are most conducive to the prevalence of the informal economy. Finding those factors became the aim of this paper.

Owing to the fact that there is a lack of research conducted in the developed countries about the informal economy the main focus of the thesis is the geographical area of San Diego County, predominantly for its diverse demographics.

The factors are identified and analyzed in detail in chapter 4. In “Discussion” the factors are evaluated to reveal the most conducive ones. It has been determined that the most conducive factors are “burdensome regulation” and “individual preferences”. Additionally factors that influence the informal economy in San Diego County are “low monitoring and enforcement” and “high economic inequality”. The findings offered do not only have academic value but they can be used to better understand the issue of the persistent informal economy in the San Diego County, and possibly the state of California.

Abstrakt

V akademické oblasti je neformální ekonomika zastoupena vágně a většina výzkumu je zaměřena na rozvojové země s mnoha socioekonomickými problémy. Neformální ekonomika ve vyspělém světě, zejména v zemích Evropské unie a Spojených státech amerických, má minimální podíl na světové neformální ekonomice, a proto se tak často nediskutuje mezi akademiky. Některé země po celém světě se aktivně snaží s tímto sektorem bojovat, aby jej minimalizovaly a tím i minimalizovaly jeho dopad na ekonomiku státu a na jednotlivé komunity. Pro provedení účinnějších nařízení je důležité vědět, které faktory nejvíce přispívají k převládání neformální ekonomiky. Hledání těchto faktorů se stalo cílem této práce.

Vzhledem k tomu, že ve vyspělých zemích chybí výzkum o neformální ekonomice, je hlavní těžiště práce kladeno na geografickou oblast okresu San Diego, a to především pro jeho různorodou demografii.

Faktory jsou identifikovány a podrobně analyzovány v kapitole 4. V „Diskusi“ jsou faktory hodnoceny tak, aby byly vidět ty nejdůležitější. Bylo zjištěno, že nejpříznivějšími faktory jsou „zatěžující regulace“ a „individuální preference“. Dalšími faktory, které silně ovlivňují neformální ekonomiku v okrese San Diego, jsou „nízké monitorování“ a „vymáhání a vysoká ekonomická nerovnost“. Nabízené poznatky nemají pouze akademickou hodnotu, ale lze je využít k lepšímu pochopení problematiky přežívající neformální ekonomiky v okrese San Diego, případně i ve státě Kalifornie.

Keywords

Informal economy, US local communities, social development, economic development, crime, standards of living, informal workers, San Diego County, immigrants, regulations, street vendors, day laborers;

Klíčová slova

Neformální ekonomika, místní komunity ve Spojených státech, sociální vývoj, hospodářský vývoj, kriminalita, životní úroveň, neformální pracovníci, okresek San Diego, regulace, pouliční prodavači, nádeníci;

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Závěrečné teze student odevzdává ke konci Diplomního semináře III jako součást magisterské práce a tyto teze jsou spolu s odevzdáním magisterské práce do SIS předpokladem udělení zápočtu za tento seminář.

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Socio-economic Analysis of the Informal Economy in San Diego County

Charakteristika tématu práce (max 10 řádek):

The Master thesis is analyzing the informal sector of the US economy in its wide spectrum of activities and its impact and correlation with the local communities. The subject of the analysis is San Diego County in California due to its economic and political development, economic status, geographical location, and popularity among immigrant workers. The primary areas of interest are the source and motivation for the growth of the informal economy, as well as its inner mechanism and structure. Furthermore, not only will the thesis look closely on the consequences of the informal economy to the state of California, but it will deeply discuss its effect on the local communities in the socio-political and economic manner. The thesis is going to use primary resources as well as secondary literature for better prehension of the complex issues that are presented.

Vývoj tématu od zadání projektu do odevzdání práce (max. 10 řádek):

The project did not change in its nature, although its name has been modified to better reflect the chosen subject for the analysis.

Struktura práce (hlavní kapitoly obsahu):

1. Introduction
2. Methodology
3. Informal Economy
4. Economy of San Diego County
5. Factors of Informal Economy
6. Discussion
7. Conclusion

Hlavní výsledky práce (max. 10 řádek):

The thesis has successfully discovered the major and minor factors that are prevalent to the informal economy in San Diego County. Mainly "Burdensome regulations" and "Individual preferences" were chosen as the major factors, together with "Low monitoring and enforcement", and "High economic inequality". Other factors listed in the thesis were determined as having minor or no influence on the prevalence of the informal economy.

Prameny a literatura (výběr nejpodstatnějších):

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* BAS – Balkánská a středoevropská studia; ES – Evropská studia; NRS – Německá a rakouská studia; RES – Ruská a eurasijská studia; SAS – Severoamerická studia; ZES – Západoevropská studia.

** Pokud je to relevantní, tj. vyžaduje to charakter výzkumu (nebo jeho zadavatel), data, s nimiž pracujete, nebo osobní bezpečnost vaše či dalších účastníků výzkumu, vysvětlíte, jak zajistíte dodržení, resp. splnění těchto etických aspektů výzkumu: 1) informovaný souhlas s účastí na výzkumu, 2) dobrovolná účast na výzkumu, 3) důvěrnost a anonymita zdrojů, 4) bezpečný výzkum (nikomu nevznikne újma).

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List of Abbreviations

ACA - Affordable Care Act
CA - California
CAPI - Cash Assistance Program for Immigrants
CHCI - City Human Capital Index
CIPC - California Immigrant Policy Center
DCI - Distressed Communication Index
DFEH - Department of Fair Employment and Housing
EIG - Economic Innovation Group
FALSA - Fair Labor Standards Act
FE - Formal Economy
GDP - Gross domestic product
HCI - Human Capital Index
ICE - Immigration and Custom Enforcement
IE - Informal Economy
IJ - Institute for Justice
ILO - International Labor Organization
IMF - International Monetary Fund
IRS(-CI) - Internal Revenues Servis (Criminal Investigation)
LA - Los Angeles
MIMIC - Multiple Indicators and Multiple Causes
NGO - Non-profit organization
OECD - Organisation for Economic Co-operation and Development
PCI - Perception corruption Index
SANDAG - San Diego Association of Governments
SD - San Diego
SDC - San Diego County
SDG - Sustainable Development Goals
SDIRC - The San Diego Immigrant Right Consultation
SSI - Supplemental Security Income
TRIP - National Transportation Research Nonprofit
UCLA - University of California, Los Angeles
UN - United Nations
US - United States
USD - United States Dollar
WB - World Bank
WBG - World Bank Group
WCO - World Customs Organization
WIEGO - Women in Informal Employment: Globalizing and Organizing
WJP - World Justice Project
WVS - World Value Survey

Introduction

The thesis deals with the informal economy (IE) in the US. The IE is also known as grey economy, because it lies between the formal sector and criminal sector, although there is a vague distinction between criminal and informal (depending on the literature). The generally accepted distinction is that the IE does not include criminal services or goods. To the contrary of a common misconception, the IE simply consists of people or communities that are avoiding the state regulations, and/or the taxation for a diversity of reasons. Determining the reasons why people are taking part in the IE could lead to a better understanding of the sector of the economy concerned, and consequently it could lead to finding effective means to reduce the IE, as the IE could be harmful to communities, its people and its businesses.

In the academic field not much is known concerning the IE in the US, as it is a developed country. More research has been conducted in the developing countries where the IE is more prevalent and it slows down the economic growth of the region. Although the United States (US) does not seem to be affected by the IE in terms of economic growth, there is a lack of data on said subject, and little to no research shows how the IE affects the economy in the developed countries, why it is prevalent, or what the most constructive methods could be to reduce the IE. There are many questions to be raised and much research still to be done on these subjects.

This thesis asserts its main goal as to determine the most conducive factors to the prevalence of the IE. In the following pages, we will look for the factors that compel people to take part in the IE, and look for any causes behind it. One of our hypotheses is that the most workers participating in the IE are undocumented immigrants. Their involvement might be due to the fact that it is difficult to obtain the required documents, and therefore to be able to obtain a job in the formal sector.

On that account, the thesis focuses on the geographical region of San Diego County (SDC). SDC was chosen due to its location, as it lies closest to the southern borders and has a high agglomeration of non-US citizens.

Consequently, the thesis is set in the period between the Great Recession (2007 - 2009) and COVID-19 pandemic. The time period was chosen between two great economic crises, mostly because during crises the IE unusually rises as it is connected to the rise of unemployment. The latest data collected in the thesis are from the end of 2019. And although the Covid-19

pandemic is not included in the research, in the early months of the pandemic the informal sector has grown according to Schneider¹.

¹ Friedrich Schneider, (2021), 2-6.

1. Methodology

This thesis uses a combined approach of quantitative and qualitative methods. The factors are descriptively and quantitatively analyzed, based on data from surveys, Census Bureau, economic and journalist articles. The collected data are recent with the latest dated to December of 2019. The year 2020 was intentionally left out due to the Covid-19 pandemic. The Covid-19 has shaken the US economy, and made the data unreliable and incomplete, therefore unusable for the purposes of the thesis.

The most complicated and challenging part of research was measurement of the IE. Different authors use different approaches. The presented estimate is inspired by the research paper “Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders”² by Matthew R. Graham and Paul Ong. In their paper, Graham and Ong have combined two datasets from the Census Bureau - Longitudinal Employer-Household Dynamics (LEHD) Program and 2000 Decennial Census Long Form (LF).³ The results presented them with insights in demographic data of the workers, industry of their employment, their income, and even their commuting patterns. Unfortunately, the estimate is missing in this thesis, due to the lack of available data, as most of the used datasets by Graham and Ong are confidential and not publicly accessible.

Numbers presented in the rough estimate of the IE in the US are based on the calculation by Friedrich Schneider and his paper⁴. Schneider uses the MIMIC (Multiple Indicators and Multiple Causes) method with a combination of “the currency demand approach or the income discrepancy method”⁵ to estimate more precise numbers.

² Matthew R. Graham, Paul Ong, “Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders.” Technical Paper No. TP-2007-02. Longitudinal Employer-Household Dynamics,(April, 2007): p. 7, https://www.un.org/esa/desa/papers/2007/wp46_2007.pdf.

³ Graham, Ong, “Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders,” 7.

⁴ Friedrich Schneider, (2021), 1-7.

⁵ Friedrich Schneider, (2021), 1.

2. Informal Economy

IE has its own special place in the economic field. The reason for this is that the IE has lacked a proper definition and concrete empirical measurements, which would help to estimate the size of the sector. Over the decades the academic approach has changed as more and more experts dove into this field of study. This chapter is going to present the definition and explain what the informal sector is with the aid of examples from the US. Some of the theories that help illustrate the gravity and size of this sector will be presented as well as a description of the social impact on workers.

The IE has been the subject of economic studies since the 1970s. The first International Labor Organization's (ILO) mission in Kenya in 1972 discovered the informal sector that had been described as "activities that are unrecognized, unrecorded, unprotected or unregulated by public authorities" that have not been "confined to marginal activities but also included profitable enterprises"^{6,7}. Because a large margin of profits was made by unregistered workers and therefore not recognized by the authorities, in addition to the government failing to secure the transfer of the informal activities into the formal sector, the economic development of Kenya had failed to ensure more formal job opportunities which lead to surplus of able workers. Such conditions drove more workers into informal employment.

In the 1970s, theory that would explain the cause or inner mechanism wasn't available although a dual-sector model, economic theory by W. Arthur Lewis, was applied for better understanding.⁸ The theory of the dual-sector model was developed in the 1950s and Lewis received the Nobel Prize for economics in 1979 for this theory.⁹ The model attempted to explain why many so-called "Third World" countries (mostly the African region during the 1950s) were behind in economic growth despite the industrialization and modernization of the market.¹⁰ Lewis discovered that this is due to the fact that there is a surplus of laborers who would go from the underdeveloped agriculture sector to the modernized industrial sector for a more attractive pay, but as there were more workers than needed the wages wouldn't grow

⁶ Kristina Flodman Becker, "The Informal Economy." Fact finding Study. Swedish International Development Cooperation Agency, (March, 2004): p. 8, <http://www.rrojasdatabank.info/sida.pdf>.

⁷ Becker, "The Informal Economy," 8.

⁸ Martha Alter Chen, Renana Jhabvala, Frances Lund, "Supporting Workers in the Informal Economy: A Policy Framework." Working Paper on the Informal Economy. Employment Sector, International Labour Office Geneva, (February, 2002): p. 1, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_122055.pdf.

⁹ Chen, Jhabvala, Lund, "Supporting Workers in the Informal Economy," 1, 7.

¹⁰ Becker, "The Informal Economy," 8.

and a state of stagnation would arise. Lewis had shed new light on that matter, as he saw this latent stage as temporary, although his hopes were not generally shared.¹¹

Aforementioned theory is applicable to the IE as it explains and describes how two different models of economic activities can simultaneously exist and interact in one region. In Lewis's model the duality lies in the developed contra the underdeveloped sector that created the earlier noted surplus of laborers which resulted in wage stagnation. Later economists used this model to understand and to some extent explain the mechanics of coexistent formal and informal sectors of the economy which will be discussed in depth later in this thesis.

2.1. Definition

In attempt to establish consensus regarding the definition of the IE, the ILO has published a universally acceptable definition in 2002:

The informal sector is broadly characterized as consisting of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units typically operate at a low level of organization, with little or no division between labor and capital as factors of production and on a small scale. Labor relations - where they exist - are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangements with formal guarantees.¹²

The first half of the definition is broadly general and best reflects the fragmentation of this sector, as the IE is heavily segmented by the employment sector, place of work, status of employment and even by social groups and gender. The other half of the definition captures the core of the informal sector as it is understood today. The core idea is that “[the] units typically operate at a low level of organization, with little or no division between labor and capital as factors of production and on a small scale” which defines two main insights – the size of the operations and activities in the informal sector, and what is exchanged for what. The IE stands

¹¹ Chen, Jhabvala, Lund, “Supporting Workers in the Informal Economy,” 1.

¹² OECD Statistics Directorate, “Glossary of Statistical Terms,” OECD Glossary of statistical terms - informal sector – ilo definition, accessed March 5, 2021, <https://stats.oecd.org/glossary/detail.asp?ID=1350#:~:text=Definition%3A,incomes%20to%20the%20persons%20concerned.>

on the trading relationships; as it is defined it can be a trade of services or goods without involvement of capital (the infamous “quid pro quo” could be used as an example – on smaller scale it could be an exchange of favors between two friends or an exchange of the goods [groceries] for service [doing chores for certain period of time] between households members). When capital is involved, the trade relationship and mostly trust between two parties is necessary as there is no official way to control such an exchange, whether it is the example of street vendors providing goods/products in exchange for money, or freelancing developers from underdeveloped countries positioned as subcontractors. The critical part of the definition is in the end. The lack of “formal guarantees” is the key difference between the informal and formal sector of the economy.

According to the ILO the definition has been formulated for statistical purposes and to exclude the criminal sector of the economy¹³. As there is a thin line between the informal and the criminal sector a definition that would distinguish them both was needed. The difference between the informal and the criminal economy is the trade relationship that is established in the IE and may not be strictly legal (or at least is positioned in the “grey” area of the law) but the goods and services are legal, as usually they are the connecting link between the informal and the formal sectors of the economy¹⁴. This best could be explained through the example of producing handmade/crafted clothes and/or accessories - some companies “employ” stay-at-home mothers who need financial support to make products that they later sell.¹⁵ As there is no official employment, only subcontractors, there is no need for companies to follow any protocols, or to cover social securities. The subcontractor, in our example stay-at-home mother, has usually no license or permit to barter or run her own business which is not legal. This serves as an opposite to the situation where merchants are selling stolen goods, or strictly illegal products such as drugs, firearms, and/or human beings.¹⁶

For the purposes of this thesis, the ILO definition is going to be used, as it excludes the criminal sector. Although the ILO definition was designed to include all that is connected and could be considered as a part of the IE, it does not go into much detail as it is purposely vague. Previous attempts to define the IE were based on classification and more detailed descriptions

¹³ OECD Statistics Directorate, “Glossary of Statistical Terms.”

¹⁴ Martha Alter Chen, “Rethinking the Informal Economy: Linkages with the Formal Economy and the Formal Regulatory Environment.” DESA Working Paper No 46. Economic and Social Affairs, (July 2007): p. 2-3, https://www.un.org/esa/desa/papers/2007/wp46_2007.pdf.

¹⁵ Becker, “The Informal Economy,” 11, 52.

¹⁶ Becker, “The Informal Economy,” 11, 52.

based on different factors, whether it was classified by different schools of thoughts¹⁷, work positions and sectors, gender, or size. One of the earliest theorists was economic sociologist Dr. Jonathan Gershuny who divided the IE into three sectors based on its inner mechanism and people involved. In his 1979 article he explains what the IE is and how it surpasses house production. In his article he argues that the formal economy (FE) is based on the informal one and it actually depends on it. He presents the example of a FE where money flows from a formal production to households and back. The principle is very basic as an employee gets paid, and the money then goes back to circulation as the household exchanges it for services or goods. Those relations are specific, quantified, short-term, and valued by the monetary exchange (for example - buying groceries, hiring a repairman etc.). In contrast to this Gershuny describes the households themselves and their inner exchanges that are “generalized-implicit, non-quantified, and often very long-term-indeed often never consummated”¹⁸. According to Gershuny the household is an important element for the flow of money in the FE, although the exchanges within the households are not monitored, governed, regulated, or controlled by anyone, therefore it is considered to be a part of the IE.

In his paper Gershuny continues by presenting another two forms of the IE: communal economy, and underground economy. The second sector operates similarly to the first one but instead of households it extends to the whole community. Accordingly, Gershuny calls it “the ‘communal’ production system”¹⁹. This system includes activities by which community members support each other and help each other, such as religious organizations, babysitting, transport cooperatives, housing improvement, etc. Some of those “jobs” are compensated by near money (gift cards, monetary tokens, etc.), and the exchange is not equally valued, as members of the community are “paid honoraria” as in recognition and not the actual exchange of service or commodity. In reality, “paid honoraria” could be demonstrated on the religious figure providing services for community (weddings, funerals etc.). In some religions the members of the community are not obliged to pay for such services, or are paying for different services (such as the rent for used establishments) but in most cases members of the community will pay their religious figure a monetary compensation based on their position.

¹⁷ For more information, see:

Martha Alter Chen, “The Informal Economy: Definitions, Theories and Policies.” WIEGO Working paper No 1. Women in Informal Employment Globalizing and Organizing, (August 2012): p. 4-6, https://www.wiego.org/sites/default/files/publications/files/Chen_WIEGO_WP1.pdf.

¹⁸ J.I. Gershuny, “The Informal Economy,” *Futures* 11, no. 1 (1979): pp. 3-15, [https://doi.org/10.1016/0016-3287\(79\)90065-x](https://doi.org/10.1016/0016-3287(79)90065-x), 6.

¹⁹ Gershuny, “The Informal Economy,” 6.

The last sector, the underground economy, as Gershuny states, is the result of a labor market in developed countries that lack flexibility. He argues that:

There are inflexibilities in the FE's demand for labor resulting from employment-protection legislation, employers' social security contributions, and labor-union restrictive practices. And the supply of unskilled labor is restricted by the high marginal tax rates which result from the high rate of loss of social-security benefits with low earnings. These market imperfections mean that full employment in the formal economy cannot be achieved by lowering wage rates.²⁰

As a consequence of such practices in the formal sector, the underground, hidden, or black economy rises to balance the inflexibility. The informal underground activity distinguishes itself, according to Greshuny, by being at least to some extent illegal (avoidance of tax and/or regulations, or involving crime such as theft, etc.). The first two sectors differ from the underground one by not being monetary based, although Gershuny mentioned that sometimes the motivation to join in the informal hidden sector of economic activity is based on the impulse from social relationships.

Gershuny classification and explanation is outdated and part of it is refuted by the ILO definition, but besides giving us a window to the past understanding of the IE, Gershuny provides a distinction between small households and community economies. As those two sectors are usually omitted or forgotten in academic debate, they are the informal sectors of the economy every single one of us is a part of. In the following chapters, the understanding of households and community economies will be based on Gershuny's description. In accordance with the ILO definition the third sector of the IE by Gershuny will be omitted.

2.2. Formal vs. Informal

As some enterprises in the IE interact with businesses in the formal sector, a clear differentiation of them both is needed. In this subchapter we will examine not only the difference between the informal and formal sectors, but how the informal activities are linked to the formal ones, where lies the position of informal workers, and what the role of regulation

²⁰ Gershuny, "The Informal Economy," 7.

is (its lack, as well as its abundance), followed by a debate whether the informal sector should be formalized. As it was explained earlier in this thesis, the informal sector takes place mostly where the formal sector fails to secure job opportunities and/or where the state regulations prevent business opportunities. The informal sector has to some extent filled the needs of the market, and has therefore become beneficial for people and communities. This poses the question if the informal sector should be formalized and if so, what the best means of transition would be, and for whom it would mostly be beneficial.

It is vital to understand how enterprises and workers are connected to the formal sector, through which links and what kind of impact one has on the other.

According to Chen informal enterprises operate outside of the formal sector. Their only connection to the formal one is through their business relation with formal firms to which they supply materials, and/or goods. This link can be direct as well as through individual transactions. Chen suggests that most likely is to take place through “a sub-sector network of commercial relationships or a value chain of subcontracted relationships”²¹.

To understand the linkages between informal enterprises and formal firms it is important to consider the nature of the production system through which they are linked. This is because the nature of the linkage—specifically, the allocation of authority and risk between the informal and formal firm—varies according to the nature of the production system. Chen distinguishes three types of linkages: “individual transactions”, “sub-sectors”, and “value chains”.²²

Individual transactions are described as open or pure exchange. It is a “typical” transaction when in exchange of goods and/or services with the formal firm. In the scenario the dominant force is the formal firm, as it has the position of dominance based on the market knowledge and power, and thus controls the exchange or transaction.²³

Sub-sectors are networks of independent units involved in the production and distribution of particular products or commodities. In those networks informal operators carry out transactions with formal firms in the relationship of supplier and customer. The dominant firm is as previously mentioned the formal firm (in individual transactions), but the sub-sector are also governed by their own rules which are determined by dominant firms in the network.²⁴

²¹ Chen, “Rethinking the Informal Economy,” 7.

²² Chen, “The Informal Economy: Definitions, Theories and Policies,” 12.

²³ Chen, “The Informal Economy: Definitions, Theories and Policies,” 12.

²⁴ Chen, “The Informal Economy: Definitions, Theories and Policies,” 12.

Value-chains have all the produced goods by subcontracted workers. The terms and conditions of production in value chains are determined largely by the lead firm: in domestic chains, a large national firm and, in global value chains, a large transnational company. The major supplier (might be an informal operator) helps determine the terms and conditions of subcontracts.²⁵

Employment relationship has been one of the cornerstones for the legally recognized relationship of the exchange of wage and labor. Such agreements have the power to protect the rights of workers. The concept of employment relationships has always excluded those workers who are self-employed. Increasingly, some categories of wage workers have found themselves to be without legal recognition or protection because their employment relationship is informal. Chen distinguishes three types of such informal employment: “disguised”, “ambiguous”, and “not clearly defined”²⁶.

A disguised relationship is intentionally “masked” by giving it the appearance of a relationship of a different legal nature. For better understanding an example may be used. For example, the lead firm in a subcontracting chain may claim that it has a “sales purchase” relationship with those who produce goods for it, rather than a subcontracted employment relationship. Such avoidance puts the informal worker in the position of enterprise and the lead firm does not have to care about any regulation and protection that would apply if the person was employed.²⁷

An ambiguous relationship is, as its name suggests, a relationship with doubts about whether or not an employment relationship really exists. An example for this might be the case of street vendors who depend on a single supplier for goods or sell goods on commission for a distributor.²⁸

A not clearly defined relationship is the type of employment that exists but the identity of the employer is ambiguous, as it is not clear who the employer is, what rights applied to the worker, and who is responsible for securing these rights. The value chain production is a good example as there is a chain of subcontractors and many parties from the lead firm, through the supply firm until the subcontractor at the end of the chain. Other examples could be found in

²⁵ Chen, “The Informal Economy: Definitions, Theories and Policies,” 12.

²⁶ Chen, “Rethinking the Informal Economy,” 8.

²⁷ Chen, “Rethinking the Informal Economy,” 8.

²⁸ Chen, “Rethinking the Informal Economy,” 8.

the case of temporary workers, as there is a problem to determine whether the agency that supplies the worker or the firms that hire them on a temporary basis is the employer.²⁹

In the second half of the 20th century, especially in the 80s, a trend has occurred in developed countries to favor flexible labor relationships. Important to note here, it was not in response to raising wages or labor costs, but rather to accommodate the flexible specialized production. Also since the 1980s many formal firms in developed countries have decided to subcontract production out to unprotected workers in developing or transition countries, where labor costs are already low and where there is no real threat of rising wages due to legislation or unionized labor.³⁰

For statistical purposes and better orientation in the complicated relation between the formal and informal sector the ILO has stated several examples of possible formal-informal crossings. It is important to note that the ILO classifies informal labor as an employment that does not provide social and legal protection.³¹ With this simplification it is easier to recognize several classes of employment with the nature of formal-informal.

Firstly, workers can be positioned in the informal sector as employees or employers in informal enterprises, or can be self-employed (in their own informal business and/or in an informal enterprise owned by a household or family member), or can be part of informal cooperatives. In all those cases workers can scarcely achieve formal employment in the informal sector.

Secondly, the ILO distinguishes another possible employment relationship transcending the informal sector. Workers can be employed informally outside the informal sector. For those occurrences it is important to acknowledge the simplified definition of informal employment by the ILO. The obvious example of such employment would be an “employee in the formal enterprises not covered by social protection through their work”³². Similar to the previous category is “paid domestic workers”³³ that are also not protected, and family workers in the formal business. According to the ILO only few countries (in their legislation) see the informal self-employment (DIY, arts and crafts and in nature similar jobs) that results in the final

²⁹ Chen, “Rethinking the Informal Economy,” 8.

³⁰ Chen, “The Informal Economy: Definitions, Theories and Policies,” 13.

³¹ *Women and Men in the Informal Economy: A Statistical Picture* (Geneva, Switzerland: ILO, 2013), https://www.ilo.org/wcmsp5/groups/public/---dgreports/---stat/documents/publication/wcms_234413.pdf, 3.

³² *Women and Men in the Informal Economy*, 3.

³³ *Women and Men in the Informal Economy*, 3.

product being formally purchased as another example of informal-formal overlapping. The majority of countries do not even acknowledge such instances as employment³⁴.

Throughout this chapter, issues with regulation were mentioned several times, especially when an over-regulated market is given the credit to push people into the informal sector of the economy. The excessive regulation might be creating barriers and costs to formal employment. From the WIEGO perspective, over-regulation not only raises barriers to working formally but also raises costs to operating informally. The impact is mostly noticeable in negotiating the price on the market for goods and services, as denied access to the open market in general through obstruction that is impacted on the informal workers who presumably cannot obtain a formal registration or permit.

Deregulation was supposed to be the answer to the problem of over-regulation, although it helped with the rise of “flexible” labor markets. In today’s global economy, many wage workers are caught between two contradictory trends: “rapid flexibilization of the employment relationship (making it easy for employers to contract and expand their workforce as needed) and slow liberalization of labor mobility (making it difficult for labor to move easily and quickly across borders)”³⁵. This situation raises the issue of changing the focus from whether to regulate to which regulations are harmful and which are helpful.³⁶

Another issue considering regulations is the lack of them. The regulatory environment often overlooks whole categories of the IE. A missing regulatory environment can be as costly to informal operators as an excessive regulatory environment. If local governing bodies overlook those regulations, or decide to go with the policy of a “blind eye”³⁷ and leave this matter to most police departments. Such an approach can be very harmful and ineffective. The example for such a situation might be street vendors in cities. Every country and every region has a different manner of dealing with street vendors, some cities are trying to eliminate them, and others are “ignoring” them. Either stance has a “punitive effect: eviction, harassment, and the demand for bribes by police, municipal officials and other vested interests”³⁸. From the economic point of view it might have been effective to put some regulation in place.³⁹

³⁴ *Women and Men in the Informal Economy*, 35.

³⁵ Chen, “The Informal Economy: Definitions, Theories and Policies,” 14.

³⁶ Chen, “The Informal Economy: Definitions, Theories and Policies,” 14.

³⁷ Chen, “The Informal Economy: Definitions, Theories and Policies,” 14.

³⁸ Chen, “The Informal Economy: Definitions, Theories and Policies,” 14.

³⁹ Chen, “The Informal Economy: Definitions, Theories and Policies,” 14.

In regard to the last statement there has been an ongoing formalization debate whether and how to formalize the IE. Different observers have different notions of what formalization of the IE means. To some, it means shifting informal workers to formal wage jobs—but this requires creating more formal wage jobs. It is important, also, to understand that formalization has different meanings and implications for different categories of informal workers. To date, the formalization debate has focused primarily on the self-employed in informal enterprises; and often, more specifically, on informal entrepreneurs who hire others.⁴⁰

2.3. Workers in the IE in the US

The following and final subchapter is going to look more closely at the workers who participate in the IE. The main focus will be placed on which sector the laborers are most attracted to, additionally the workers' social status, education and work qualification, ethnicity, and others will be examined. As the IE is not well documented, especially in the US, there are limited sources of information. Despite that fact, professor Ong in collaboration with US Census Bureau created a technical paper about the informal sector in Los Angeles (LA). In their paper, they monitored the demographics of the informal workers, the chosen industries, and even the commuting patterns⁴¹.

In the paper, Ong states that the informal workers compound about 13.8% of the workers in LA.⁴² Based on the gather data prior to 2009, the average informal worker in LA would be a white US born male between 25 and 44 with college education⁴³. The presented demographic data reflects the reality of the job market, as it compares the formal and informal sector. In the overview of the total sample, the same profile of worker has the highest percentual share. Despite that fact, the data still shows interesting results - for example a higher percentage of workers aged 45-64 are involved in the IE (27,4% are formal job holders vs. 31,3% are informal job holders). In education, it seems that people with less than a high school diploma are more drawn to the informal sector (20% are formal job holders, and 26,9% are informal job holders). Considering nativity of the workers, non-US citizen workers are less represented in the formal sector (19.5% are formal job holders, 28.4% are informal job holders). Lastly, the table shows the ethnicity of the workers. Although white informal workers

⁴⁰ Chen, "The Informal Economy: Definitions, Theories and Policies," 15.

⁴¹ Graham, Oong, "Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders," 5-9.

⁴² Graham, Oong, "Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders," 19.

⁴³ Graham, Oong, "Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders," 10.

have the highest percentual share (36.6%), it is still lower than the share of the white formal workers (39.8%). The rest of the listed races/ethnicities (black, Asian, Hispanic, and others) has higher percentual share of the informal workers than the formal workers.⁴⁴

In addition, examining the industry of the informal workers, it seems that in LA most of the informal workers are employed in the “installation, maintenance, [or] production sector”⁴⁵. The lowest share of the informal workers is employed in the “communication, education, law, arts, sports, [and] media”⁴⁶ sectors. It is worth noting that in the “management, business, [and] financial services” sectors, there is a higher percentage of informal workers (6.3%) than formal workers (4.7%). Ong offers the explanation that it might be due to misreporting. Another sector with a higher share of informal workers is for example transportation.⁴⁷

As stated in an article by A. Visser from 2017, the largest sector of the IE in the US is day labor. As Visser describes, day labor is an example of “extreme contingent employment”⁴⁸. The process of hire is outside any regulations, as in most cases it happens directly on the street corners, or in big parking lots of home improvement retailers. As its name suggests, day laborers are hired for a day’s work, usually at construction sites, or landscaping, and in some instances they are hired to perform manual labor around a household. It is not illegal to hire a day laborer, as there is usually a verbal agreement between the employee and the day laborer.⁴⁹

This type of employment seems to be beneficial for the employers and hurtful for the day laborers. Employers do not have to pay for social security and there is no additional cost, as well as no liability in case of the day laborer’s injury. On the other hand, day laborers have no guarantee to receive the promised pay (in case of a verbal agreement); also there is no insurance through the employer, or social security.⁵⁰ Visser acknowledges that as “exploitative conditions and limited rights”⁵¹, and argues that social status of such workers is equal to “undocumented migrants, ex-offenders and the homeless”⁵². Those stigmatized demographic

⁴⁴ Graham, Oong, “Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders,” 10.

⁴⁵ Graham, Oong, “Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders,” 13.

⁴⁶ Graham, Oong, “Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders,” 13.

⁴⁷ Graham, Oong, “Social, Economic, Spatial, and Commuting Patterns of Informal Jobholders,” 13.

⁴⁸ M. Anne Visser, “A Floor to Exploitation? Social Economy Organizations at the Edge of a Restructuring Economy,” *Work, Employment and Society* 31, no. 5 (January 2016): pp. 782-799, <https://doi.org/10.1177/0950017016638020>, 783.

⁴⁹ Visser, “Social Economy Organizations,” 783.

⁵⁰ Visser, “Social Economy Organizations,” 786.

⁵¹ Visser, “Social Economy Organizations,” 787.

⁵² Visser, “Social Economy Organizations,” 787.

groups “lack effective recourse against abusive employers and access to government agencies charged with protecting workers”⁵³.

Visser in her article sees civil society institutions, and consequently social economy organizations, as remedies for improving the conditions of day laborers.⁵⁴ The social economy organizations seek to provide help by different means. They usually provide workplace, up skilling, worker organizing, social welfare services, and in some cases help to reach self-employment.⁵⁵ Visser in her article points out that those organizations can vary in their size and funding (by government, or by local residents) but it is an example of community serving and helping their members.⁵⁶

This subchapter presented an informal worker. As seen in both presented papers, the common theme seems to be undocumented workers that are forced into informality due to a lack of needed documents. Surprising findings were presented in the first paper that showed that the highest percentual share of the informal workers are white US citizens in LA. Also, the chosen industry in LA supports the fact that the day laborers are the largest group of informal workers. It is also important to note that the IE is in its nature difficult to measure and to properly examine.

⁵³ Visser, “ Social Economy Organizations,” 787.

⁵⁴ Visser, “ Social Economy Organizations,” 795.

⁵⁵ Visser, “ Social Economy Organizations,” 787.

⁵⁶ Visser, “ Social Economy Organizations,” 787.

3. Economy of San Diego County

The following chapter will present the essential facts about the economy in San Diego County (SDC). In the subchapters below the most prominent economic sectors will be introduced, as well as the taxation system which will be briefly explained, followed by the most pressing economic issues, after which the informal and criminal sector of the economy will be discussed, lastly at the end of this chapter the immigrant demographic group will be presented.

Firstly, we will introduce some of the general information. SDC is one of the 58 counties of California (CA), and it is located on the borders with Mexico. San Diego (SD) is considered to be a twin city to Tijuana which is located in Baja California in Mexico. Due to its geographical location there is a strong community of immigrants, arriving into the country mostly from Mexico, followed by the Philippines, and China⁵⁷.

The state economy is one of the largest, as CA's economy accounts for about 14.8% of the US GDP⁵⁸. CA's population was estimated to more than 39.51 million in 2019, of which about 8.44% (3.338 million) live in SDC⁵⁹.

3.1. Economic sectors and employment

Trade Industry Clusters play a major role for SDC's economy. By definition they are interconnected groups of industries that are exporting goods and service outside a given region⁶⁰. The San Diego Association of Governments (SANDAG) stated in their report that about 25% of all employment is represented by Trade Industry Clusters, and cluster jobs had a significant wage growth compared to non-cluster employment in the years 2010-2015⁶¹. Based on job density the most important industry clusters are Aerospace, Navigation, and Maritime Technologies; Biomedical Devices and Products; Biotechnology and Pharmaceuticals; Entertainment and Hospitality; Information and Communications Technologies; Publishing and Marketing.⁶²

⁵⁷ "San Diego County, CA," Data USA, accessed November 30, 2021, <https://datausa.io/profile/geo/san-diego-county-ca#demographics>.

⁵⁸ Katharina Buchholz, "Which States are Contributing the Most to U.S. GDP?", last modified April 12, 2021, <https://www.statista.com/chart/9358/us-gdp-by-state-and-region/>.

⁵⁹ "U.S. Census Bureau Quickfacts: San Diego City, California ...," accessed November 20, 2021, <https://www.census.gov/quickfacts/fact/table/sandiegocitycalifornia,sandiegocountycalifornia,CA/PST045219>.

⁶⁰ "Clusters 101," Clusters 101 | U.S. Cluster Mapping, 2020, <https://clustermapping.us/content/clusters-101>.

⁶¹ SANDAG, "Traded Industry Clusters in the San Diego Region: 2016 Data Update." SANDAG info, (March, 2016): p. 7, https://www.sandag.org/uploads/publicationid/publicationid_2017_20489.pdf.

⁶² SANDAG, "Traded Industry Clusters in the San Diego Region: 2016 Data Update," 17-29.

According to the city of SD there are four most important economic sectors - International Trade, Manufacturing, Military, and Tourism⁶³.

The “Management, Business, Science and Art” occupational group accounts for the most employment (about 44%)⁶⁴. About 181 419 people (11.2%) found employment in management positions, followed by business and financial operations with 101 134 (6.22%). The second biggest occupational sector is “Sales and Office Occupations” (20%), the third is “Services” (19%), the fourth “Production, Transportation, and Material Moving Occupations” (10%), and lastly “Natural Resources, Construction, and Maintenance” (7%).⁶⁵

As shown above, the industry of SDC can be categorized into quaternary sector, or tertiary sector in the three-sector hypothesis of industry. Such sectors are defined to use high-qualified labor with emphasis on higher education.⁶⁶

3.2. Taxes

The taxpayers in the US have to pay federal, state and local taxes. The US federal and state income taxation systems are both progressive. The income tax is paid yearly with several deductions. In the state of CA, the taxpayer may have a deduction based on marital status, medical (and dental) expenses, mortgage interest and similar⁶⁷.

There are different properties to local and state taxes. The tax from personal income is taxed both on the federal and on the state level. The state of CA also collects corporation tax and fuel tax. Local tax, which is decided by the counties, is constituted mostly of property tax and a small portion of sales and use tax⁶⁸. Property tax is funding schools and municipal services in different shares, depending on locality. Two thirds of SDC property tax goes to funding schools, and only one third is dedicated to municipal services. Also SDC property tax revenues are estimated between \$520 and \$640. Areas around San Francisco have revenues higher than \$890, and counties like Stanislaus, or Madera have tax revenues lower than \$410.⁶⁹

⁶³ “Key Facts and Figures,” The City of San Diego, 2002, <https://www.sandiego.gov/economic-development/sandiego/facts>.

⁶⁴ “San Diego County, CA.”

⁶⁵ “San Diego County, CA.”

⁶⁶ “Quaternary Sector,” Economic Development, accessed November 30, 2021, <https://economicsectordevelopment.weebly.com/quaternary-sector.html>.

⁶⁷ Kemberley Washington, “California State Taxes 2020-2021,” Forbes (Forbes Magazine, December 22, 2021), <https://www.forbes.com/advisor/taxes/california-state-tax/>.

⁶⁸ Ryan Miller, Vu Chu, “California’s Tax System.” A Visual Guide, Legislative Analyst’s Office, (2016): p. 3, https://www.sandag.org/uploads/publicationid/publicationid_2017_20489.pdf.

⁶⁹ Miller, Chu, “California’s Tax System,” 24.

Considering sales tax, which is another major part of taxation in CA, the highest share of taxable sales are motor vehicles and parts dealers (more than over 12% in 2015). In SDC the rate of sales tax varies between 7.75 - 9.5% (which are the most common sales tax rates in CA)⁷⁰.

On the state level, SDC does not belong to the most taxed counties in CA. CA on the federal level however has one of the highest taxes⁷¹.

3.3. Issues

SDC deals with several economic issues, most noticeably with the unemployment, wealth gap (and the connected inequality and poverty), and a lack of affordable housing.

CA has been known to be one of the states with the highest unemployment rate. In 2014 CA ranked 44th with an unemployment rate of 7.4%⁷². In 2019, CA placed itself in 42nd place together with Ohio (4.2%)⁷³. Comparing the state and county, SDC has had lower percentages of unemployment than the state average, as presented in the table below.

⁷⁰ Miller, Chu, "California's Tax System," 33.

⁷¹ "California Taxpayers Association: California Tax Facts," CalTax, May 20, 2021, <https://www.caltax.org/caltax-resources/california-tax-facts/>.

⁷² "Unemployment Rate, State by State," CNNMoney (Cable News Network), accessed November 30, 2021, <https://money.cnn.com/interactive/economy/state-unemployment-rates/>.

⁷³ "Unemployment Rates for States," U.S. Bureau of Labor Statistics (U.S. Bureau of Labor Statistics, March 3, 2021), <https://www.bls.gov/lau/lastrk19.htm>.

	2017 (SDC/CA)	2018 (SDC/CA)	2019 (SDC/CA)
Janury	4.5/5.2	3.6/4.4	3.6/4.3
February	4.3/5.1	3.4/4.3	3.2/4.3
March	4.0/5.0	3.3/4.3	3.3/4.2
April	3.7/5.0	3.0/4.3	2.8/4.1
May	3.6/4.9	2.8/4.3	2.7/4.1
June	4.1/4.8	3.5/4.2	3.3/4.1
July	4.3/4.7	3.5/4.2	3.5/4.1
August	4.2/4.7	3.4/4.2	3.3/4.1
September	3.7/4.6	3.1/4.2	2.9/4.1
October	3.6/4.5	3.2/4.2	3.0/4.1
November	3.5/4.5	3.2/4.2	3.0/4.1
December	3.3/4.4	3.2/4.3	2.9/4.2

Table 01 – Unemployment rate in %^{74,75}

As shown in Table 01 the unemployment rate has slowly decreased in the span of three years. Also, the unemployment rate in CA has been steady without any significant increase or decrease. The last measurement is from December 2019. In the following year, due to the Covid-19 pandemic, the unemployment rate rose significantly. In March 2020 it increased from 3.6% to 15.6%. For the whole state of CA the rate was 4.5% in March 2020 and 16% for April 2020.

One of the most important issues is the wealth gap in SDC. The wealth gap is related to other issues such as inequality and poverty (both of them are mentioned in the following chapter).

According to the Census Bureau, California had the most cities with unequal wages in 2015. SD has a mark between 6 and 7 on the index (1 most equal, 10 most unequal).⁷⁶ One of the reasons for such inequality is that “wages for skilled workers toward the top of the wage

⁷⁴ San Diego, CA unemployment rate, accessed November 30, 2021, https://ycharts.com/indicators/san_diego_ca_unemployment_rate.

⁷⁵ California unemployment rate, accessed November 30, 2021, https://ycharts.com/indicators/california_unemployment_rate.

⁷⁶ Jaison R. Abel and Richard Deitz, “Some Places Are Much More Unequal than Others,” Liberty Street Economics, October 7, 2019, <https://libertystreeteconomics.newyorkfed.org/2019/10/some-places-are-much-more-unequal-than-others/>.

distribution have increased significantly relative to those at the middle and bottom, resulting in relatively high levels of wage inequality.”⁷⁷ CA has emerged with a knowledge-based economy that rewards high skilled workers immensely, compared to low skilled workers or manual laborers.

In 2018 the difference between incomes was even more noticeable in SDC. In a more recent report, SDC was ranked 9th in the US with the highest wealth gap. A report by Bloomberg shows that “the gap between the San Diego average household incomes in the top 20 to the bottom 20 was \$43,000”. The nationwide average gap was \$31,000.”⁷⁸ This difference between incomes causes another economic issue - non-affordable housing. As rising wages for high skilled workers raised the prices for housing as well, workers with stagnating wages were economically crippled by the cost of housing⁷⁹.

The US Department of Housing and Urban Development has stated that “households who spend more than 30% of their monthly income on housing costs to be housing burdened”⁸⁰. In 2018, 57.8% of households in SDC were spending over 30% of their income on rent⁸¹, therefore we can conclude that more than half of the residents of SDC are considered to be housing burdened. The rising prices of housing could aggravate the issues listed above, and have a negative effect on inequality, and poverty, therefore possibly affecting other economic parts of CA.⁸²

In a survey conducted in CA by Edelman Trust Barometer in 2019, most people select high housing costs as the issue most likely to hold back CA’s economy. Other options were high healthcare costs, crime and security, lack of affordable higher education/college debt, and the recent drought. None of the other options draw close to 40% of CA’s population who view the housing crisis as an actual threat to the growth of the economy.⁸³

⁷⁷ Abel, Deitz, “Some Places Are Much More Unequal than Others.”

⁷⁸ Phillip Molnar, “Wealth Gap Grows in San Diego, Report Says,” *The San Diego Union-Tribune*, May 11, 2018, <https://www.sandiegouniontribune.com/business/economy/sd-fi-wage-gap-20180511-story.html>.

⁷⁹ Molnar, “Wealth Gap Grows.”

⁸⁰ “County of San Diego Remains Filled with Inequality,” Center on Policy Initiatives, May 28, 2020, <https://cpisandiego.org/county-of-san-diego-remains-filled-with-inequality/>.

⁸¹ “County of San Diego Remains Filled with Inequality,”

⁸² Leonardo Castañeda, “San Diego County’s Income Inequality Increases despite Falling Unemployment Rate,” *Inewsourc*e, January 5, 2018, <https://inewsourc.org/2018/01/05/san-diego-income-inequality-increases/>.

⁸³ “2019 Edelman Trust Barometer, Special Report: California.” Annual Global Study, (January, 2019): p. 8, https://www.edelman.com/sites/g/files/aatuss191/files/2019-02/2019_Edelman_Trust_Barometer_Special_Report_California_0.pdf?utm_source=website&utm_medium=special_report_california&utm_campaign=downloads.

3.4. Immigrants

SDC has been chosen for its rich cultural exchange and for its large immigrant demographic group. In the following subchapter, the demographic group will be presented.

According to the U.S. Census American Community Survey (ACS) there were about 344 000 foreign-born citizens in SD in 2018.⁸⁴

This represents 27.1% of the city's total population, which is just under twice the national average of 13.7%. The foreign-born population in the City of San Diego is deeply rooted in the community, as the average number of years spent in the U.S. is now nearly twenty-three years which is 27,1% of the total population of SD.⁸⁵

Not only is the foreign-born population in SD higher than the national average, but it also appears that foreign-born communities have a certain tradition and history. As it was mentioned earlier most foreign-born population came from Latin America (43.7%) and Asia (42.9%), then Europe (6.3%), Africa (4.2%), North America (1.4%), Caribbean (1.1%) and lastly Oceania (0.3%)⁸⁶. More precisely, the most common countries of origin are Mexico (39.1%), Philippines (13%), and Vietnam (7.5%)⁸⁷. Considering the age and sex, most of foreign born population in this study falls into economically active years (23.4% are between 18-34 years; 54.6% are between 35-64 years), and the majority is female (52.6%) with some proportional variations by race and ethnicity⁸⁸.

In 2018 there were about 213 000 workers and an employment rate of 93.8%. The table below shows the most common occupations for foreign-born workers:

⁸⁴ Tom K. Wong, Mikayla Sanchez, "Immigrant Integration in the City of San Diego." US Immigration Policy Center, (June, 2020): p. 4, <https://usipc.ucsd.edu/publications/usipc-immigrant-integration-san-diego-final.pdf>.

⁸⁵ Wong, Sanchez, "Immigrant Integration in the City of San Diego," 4.

⁸⁶ Wong, Sanchez, "Immigrant Integration in the City of San Diego," 5.

⁸⁷ Wong, Sanchez, "Immigrant Integration in the City of San Diego," 6.

⁸⁸ Wong, Sanchez, "Immigrant Integration in the City of San Diego," 10-11.

Occupation	# Foreign-Born Workers
Maids and housekeeping cleaners	8,300
Cooks	7,900
Janitors and building cleaners	7,700
Personal care aides	7,300
Retail salespersons	5,900
Software developers	5,300
Construction laborers	5,000
Waiters and waitresses	4,900
Registered nurses	4,300
First-Line supervisors of retail sales workers	3,600
Physical scientists, all other	3,500
Driver/sales workers and truck drivers	3,400
Childcare workers	3,400
Elementary and middle school teachers	3,300
Managers, all other	3,200
Landscaping and groundskeeping workers	3,000
Manicurists and pedicurists	2,900
Accountants and auditors	2,700
Postsecondary teachers	2,500
First-Line supervisors of non-retail sales workers	2,500

Source: USIPC analysis of 2018 ACS 1-YR microdata. Occupations are identified using IPUMS "OCC" codes. Rounded to the nearest hundred.

Table 02 – Most common occupation for foreign-born workers⁸⁹

The occupations are multifarious, suggesting that the incoming foreign-born working force has diverse skills and education. Another table shows foreign-born workforce distributed by the industry.

Industry	# Foreign-Born Workers
Restaurants and other food services	23,000
Construction	14,900
General medical and surgical hospitals, and specialty hospitals ^a	9,500
Elementary and secondary schools	8,000
Colleges, universities, and professional schools ^b	7,100
Computer systems design and related services	5,900
Private households	5,700
Individual and family services	5,400
Services to buildings and dwellings ^c	4,800
Scientific research and development services	4,400

Source: USIPC analysis of 1-YR microdata. Industries are identified using IPUMS "IND" codes. ^a Specialty hospitals exclude psychiatric and substance abuse facilities. ^b Colleges, universities, and professional schools include junior colleges. ^c Services to buildings and dwellings exclude cleaning during construction and immediately after construction. Rounded to the nearest hundred.

Table 03 – Most common industry for foreign-born workers⁹⁰

⁸⁹ Wong, Sanchez, "Immigrant Integration in the City of San Diego," 12.

The industry distribution reflects the occupation listed above. As we can see from both tables the hospitality industry has the highest share of foreign-born workers⁹¹.

For the purposes of this paper, the information about tax contribution is considerably significant.⁹² It is estimated that foreign-born workers contributed about “\$2.68 billion in federal taxes and (...) [an] estimated \$946.29 million in state and local taxes.”⁹³ Also, it is assessed that about \$143.7 million was contributed to Medicare and about \$614.4 million to Social Security.⁹⁴

Concerning the question of US citizenship, more than a half (53.6%) of the foreign-born population are naturalized citizens.⁹⁵ It is estimated that about 19.7% (67 900) of all the foreign-born population are undocumented immigrants.⁹⁶ This amount is about “42.5% of the foreign-born noncitizen population in the City of San Diego.”⁹⁷ Most undocumented immigrants are 64.5% from Latin America, and 29.5% from Asia. There is 92.7% employment rate among undocumented workers, with the most common occupations listed as “cooks”, “janitors and building cleaners”, “maids and housekeeping cleaners”, “landscaping and grounds keeping workers”, and “software developers”⁹⁸.

As shown in this short description of immigrant demographics, foreign-born residents of SD are an important part of communities. They have roots, and are active participants in economic development of the region and improving the quality of life in the local communities. Lesser percentual share shows that there are undocumented workers that are probably taking part in the IE, as it is nearly impossible to acquire employment without the necessary paperwork.

⁹⁰ Wong, Sanchez, “Immigrant Integration in the City of San Diego,” 14.

⁹¹ Wong, Sanchez, “Immigrant Integration in the City of San Diego,” 12-14.

⁹² Hamutal Bernstein and Christin Durham, “Urban Institute,” *Urban Institute* (blog), July 31, 2019, <https://www.urban.org/urban-wire/san-diego-strengthening-its-workforce-welcoming-immigrants>.

⁹³ Wong, Sanchez, “Immigrant Integration in the City of San Diego,” 18.

⁹⁴ Wong, Sanchez, “Immigrant Integration in the City of San Diego,” 18.

⁹⁵ Wong, Sanchez, “Immigrant Integration in the City of San Diego,” 20.

⁹⁶ Wong, Sanchez, “Immigrant Integration in the City of San Diego,” 23.

⁹⁷ Wong, Sanchez, “Immigrant Integration in the City of San Diego,” 23.

⁹⁸ Wong, Sanchez, “Immigrant Integration in the City of San Diego,” 24.

4. Factors

The following chapter will critically discuss which major factors play a role in keeping workers in informality. In chapter 2 of this paper, we discussed the lack of information about the informal sector. The chosen and discussed factors in this chapter are based on a document published by the WB where several potential causes are presented. In the document the following are listed: “burdensome regulations”; “low institutional quality”; “low human capital”; “high economic inequality”; “low trust in institutions”; “low quality of public services”; “lack of access to resources”; “low monitoring and enforcement”; “individual preference for independent work”.⁹⁹

The listed potential causes were used as the factors and are presented below divided into separate subchapters. Some of them were put together connected by theme. Each of the subchapter critically analyses the given factor. Several surveys and researches are referenced in order to present the most accurate description of the given situation. Although the thesis is focused on SDC, some of the sources have data only for state level.

4.1. Burdensome Regulations

Burdensome regulations are one of the factors that may lead people into the IE as it may represent unnecessary obstacles for small businesses to open or for people to get a freelancing job.¹⁰⁰ Regulations are usually connected with long waiting periods of time, additional costs and complicated procedures that may be discouraging for people, thus motivating business owners and freelancer to avoid the official/formal way.

Another way how the regulations may have a negative impact is described by Friedrich Schneider. He states that “regulations lead to a substantial increase in labor costs in the official economy. But since most of these costs can be shifted to employees, regulations provide for another incentive to work in the shadow economy where they can

⁹⁹ Ana Maria Oviedo, Mark R. Thomas, Kamer Karakurum-Özdemir, “Economic Informality: Causes, Costs, and Policies.” Literature Survey, World Bank Working Paper No. 167. The World Bank, (May, 2009): p. 8, <https://documents1.worldbank.org/curated/en/567571468331805356/pdf/503600PUB0Box3101OFFICIAL0USE0ONLY1.pdf>.

¹⁰⁰ Friedrich Schneider, “The Shadow Economy and Work in the Shadow: What Do We (Not) Know?” Discussion Paper Series. Institute for the Study of Labor, (March, 2012): p. 11-12, <https://ftp.iza.org/dp6423.pdf>.

be avoided.”¹⁰¹ Schneider suggests that overregulated policies may negatively, monetarily affect even the workers themselves who rather shift to the IE.

In the US regulations are drafted on federal, state and local levels. The environment for businesses is set by the state. According to several studies, CA appears to be one of the most regulated states in the US.

Mercatus Centre, part of the George Mason University, compared several states and counted their regulations in 2019 and in 2020¹⁰² and the result concerning CA was that “California is the most regulated state, with 395,608 regulatory restrictions”¹⁰³.

The regulatory restrictions are deeply measured from the point of view of entrepreneurs in the research paper by Wayne Winegarden. In her paper she presents one method of analysis that uses “seven labor regulatory categories: workers compensation costs, occupational licensing requirements, state minimum wages, right to work laws, mandatory medical benefits, unemployment insurance, and short-term disability regulations.”¹⁰⁴ According to this classification occupational licensing requirements could present the largest obstacle for small businesses created by low-income entrepreneurs (given examples are restaurants, landscaping service etc.).¹⁰⁵

Winegarden also points out that CA restrictions are mostly focused on “provide[ing] employees with insurance that partially replaces any lost wages due to non-work-related sicknesses or injuries.”¹⁰⁶ According to her study CA restrictions are concerned mostly with categories that provide welfare and social protection for the employees. She further provides a monetarily example - “... a firm with a \$1 million payroll would spend around \$8,700 annually on workers compensation costs in North Dakota and \$18,500 annually in North Carolina, but approximately \$34,800 annually in

¹⁰¹ Schneider, “The Shadow Economy and Work in the Shadow, ” 12.

¹⁰² For more information see:

Kofi Ampaabeng, James Broughel, Ethan Greist, Patrick A. McLaughlin, Jonathan Nelson, Walter Stover, Stephen Strosko, Hayden Warlick, “A Policymaker’s Guide to State RegData 2.0.” Policy Brief. Mercatus Center,(October, 2020): p. 1-3, <https://ftp.iza.org/dp6423.pdf>.

¹⁰³ Ampaabeng, Broughel, Greist, McLaughlin, Nelson, Stover, Strosko, Warlick, “A Policymaker’s Guide to State RegData 2.0,” 4.

¹⁰⁴ Wayne Winegarden, “Incenting an Entrepreneurial Society: A Regulatory Perspective.” Breaking Down Barriers to Opportunity #1. Pacific Research Institute,(April, 2019): p. 5, https://www.pacificresearch.org/wp-content/uploads/2019/04/Entrepreneurship1_fweb.pdf.

¹⁰⁵ Winegarden, “Incenting an Entrepreneurial Society,” 11.

¹⁰⁶ Winegarden, “Incenting an Entrepreneurial Society,” 23.

California.”¹⁰⁷ As Winegarden points out this might be the reason why entrepreneurs would take their business to a different state.

Different study focusing solely on the occupational licensing ranked CA as “1st most broadly and onerously licensed state”¹⁰⁸ in 2019/2020. The institute for Justice (IJ) counted that CA requires licenses for “76 of the 102 lower-income occupations”. Also, CA was ranked 3rd on the federal level as it has one of the highest burdens due to “high average fees (\$486), lengthy average education and experience requirements (827 days lost), and a high average number of licensing exams (about two).”¹⁰⁹ The research concluded that CA is “the worst licensing environment for workers in lower-income occupations.”¹¹⁰

Taking into consideration all of these studies, it is safe to say that CA’s regulations are considered to be burdensome and might be one of the major factors for the prevalence of the IE in CA.

4.2. Low institutional quality and Low trust in institutions

Institutional quality is another factor that can affect the decision to be part of the IE. It mostly refers to the concept of corruption and rule of law, although there are several key aspects¹¹¹. According to Schneider “corruption of bureaucracy and government officials seems to be associated with larger unofficial activity”¹¹², meaning that there is observable correlation between corruption and informal activity. This concept is also connected to the low monitoring and enforcement, and weak rule of law. Strong rule of law can have a negative impact on the prevalence of IE “by securing property rights and contract enforceability”¹¹³.

¹⁰⁷ Winegarden, “Incenting an Entrepreneurial Society,” 6.

¹⁰⁸ Dick M. Carpenter II et al., “California,” Institute for Justice, January 1, 2020, <https://ij.org/report/license-work-2/ltw-state-profiles/ltw2-california/>.

¹⁰⁹ Carpenter II et al., “California.”

¹¹⁰ Carpenter II et al., “California.”

¹¹¹ For more information, see:

Allard Bruinshoofd Rabobank KEO +31 30 21 62666, “Institutional Quality and Economic Performance,” RaboResearch - Economic Research, January 20, 2016, <https://economics.rabobank.com/publications/2016/january/institutional-quality-and-economic-performance/>.

¹¹² Lars P. Feld, Friedrich Schneider, “Survey on the Shadow Economy and Undeclared Earnings in OECD Countries.” (29th January, 2010), p. 11, <http://citeseerx.ist.psu.edu/viewdoc/download;jsessionid=36EBA578678C80E0C6C08D7836BA9708?doi=10.1.1.612.4598&rep=rep1&type=pdf>.

¹¹³ Feld, Schneider, “Survey on the Shadow Economy,” 11-12.

The trust in institutions might be one of the major factors affecting the decision to continue or join the IE. Trust in institutions does not only mean the willingness to pay taxes and thus support institutions, but also having faith in the systems and acting accordingly to its rules and regulations. Considering measurement, trust is more biased as it depends on the opinions and feelings of respondents. Thus the primary sources for determining trust in institutions are heavily based on surveys.

4.2.1. Corruption

The World Customs Organization (WCO) presented two methods to measure a level of corruption.¹¹⁴ The first method is called the “Perception Corruption Index” (PCI) and the other one is “SDG indicator 16.5”¹¹⁵.

The PCI is measured by Transparency International, a German institution devoted to eliminate corruption¹¹⁶. The PCI works with various dataset¹¹⁷ and creates a scale 0-100 with 0 equal to the highest perceived corruption. According to the PCI, the US scored 71 points out of 100 in 2018, thus positioned itself on 22nd place internationally as being least corrupted. The study also shows that the US improved its status by 4 points in the previous 4 years¹¹⁸. In the following year, the US dropped to the score of 69 and 23rd rank¹¹⁹. Unfortunately, as this study is globally conducted there is not any precise data considering the state of CA or even SDC.

The second method mentioned that SDG indicator 16.5 is a study conducted by the UN. The abbreviation stands for Sustainable Development Goals and it is made up from 17

¹¹⁴ Maka Khvedelidze, “How do we measure corruption?” World Customs Organization, (2020): p. 5, <http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/capacity-building/activities-and-programmes/cooperation-programme/acip/integrity-webseries/5-how-do-we-measure-corruption-en.pdf?la=en>.

¹¹⁵ Khvedelidze, “How do we measure corruption?” 5.

¹¹⁶ “Who We Are,” Transparency.org, accessed November 30, 2021, <https://www.transparency.org/en/who-we-are>.

¹¹⁷ For more information, see:

“Corruption Perceptions Index 2020: Full Source Description.” Dataset, Transparency International, https://images.transparencycdn.org/images/CPI_20_SourceDescription_EN.pdf.

¹¹⁸ “Corruption Perceptions Index 2018,” Transparency International, (2019): p. 7,

https://www.transparency.org/files/content/pages/2018_CPI_ExecutiveSummary.pdf.

¹¹⁹ “Corruption Perceptions Index 2018,” 7.

different goals, the 16th of which is “peace, justice and strong institutions”¹²⁰. As it is stated goal 16 stands for “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels”, and target 16.5 has a mission to “Substantially reduce corruption and bribery in all their forms”¹²¹. SDG conducts reports on states and cities as well. Therefore we know that SDC scored an “average” score while considering the level of corruption¹²² which measures the number of corrupt acts¹²³.

The US based Centre for Public Integrity administered “2015 State Integrity Investigation” that measure government accountability and transparency with the help of Global Integrity¹²⁴. In comparison to the rest of the US, CA was ranked 2nd.¹²⁵

Additionally, Coalition for Integrity (a non-profit and non-partisan organization¹²⁶) published a comparative scorecard called “The States with Anti-Corruption Measures for Public officials (S.W.A.M.P.) Index”¹²⁷. It compares states of the US “based on the laws and regulations governing ethics and transparency in the executive and legislative branches”¹²⁸. CA scored 75% and is considered to be among the stronger states.¹²⁹

Based on collected data, we conclude that CA is overall doing very well considering laws against corruption, and transparency of the institution. Considering the

¹²⁰ “Home - United Nations Sustainable Development,” United Nations (United Nations), accessed November 30, 2021, <https://www.un.org/sustainabledevelopment/>.

¹²¹ “SDG Indicators - SDG Indicators,” United Nations (United Nations), accessed November 31, 2021, <https://unstats.un.org/sdgs/metadata/?Text=&Goal=16&Target=16.5>.

¹²² Alainna Lynch, Anna LoPresti and Caroline Fox, “The 2019 US Cities Sustainable Development Report.” Development Report. Sustainable Development Solutions Network, (2019): p. 12, <https://s3.amazonaws.com/sustainabledevelopment.report/2019/2019USCitiesReport.pdf>.

¹²³ “SDG Indicators - SDG Indicators.”

¹²⁴ Nicholas Kusnetz, “Only Three States Score Higher than D+ in State Integrity Investigation; 11 Flunk,” Center for Public Integrity, November 9, 2015, <https://publicintegrity.org/accountability/only-three-states-score-higher-than-d-in-state-integrity-investigation-11-flunk/>.

¹²⁵ For more information, see:

Robert B. Gunnison, “California Gets C- Grade in 2015 State Integrity Investigation,” Center for Public Integrity, November 9, 2015, <https://publicintegrity.org/politics/state-politics/state-integrity-investigation/california-gets-c-grade-in-2015-state-integrity-investigation>.

¹²⁶ “Who We Are,” Coalition For Integrity, March 30, 2017, <https://www.coalitionforintegrity.org/who-we-are/>.

¹²⁷ “The S.W.A.M.P. Index 2018,” S.W.A.M.P. Index, accessed December 2, 2021, <http://swamp.coalitionforintegrity.org/>.

¹²⁸ “The S.W.A.M.P. Index 2018.”

¹²⁹ “The S.W.A.M.P. Index 2018.”

conducted SDG report, we might assume that SD is not dealing with heavily corrupted local government. Therefore, corruption as a factor is not dominant to informality in SDC.

4.2.2. Rule of law

Rule of law is, according to the World Justice Project (WJP), “durable system of laws, institutions, norms, and community commitment that delivers”¹³⁰ accountability; clear and stable law; open, accessible and fair government; and accessible and impartial justice¹³¹. The WJP therefore presented a Rule of Law Index that globally measures 8 factors from 0 to 1. Categories that are examined are “Constraints on Government Powers”, “Absence of Corruption”, “Open Government”, “Fundamental rights”, “Order and Security”, “Regulatory Enforcement more”, “Civil Justice”, and “Criminal Justice”¹³². Overall score was 0.73 on the index and ranked 19th globally¹³³, although it seems to be slightly declining¹³⁴.

Any state or local measurements were not found, as it does not appear to be a dominant factor for prevalence of the IE.

4.2.3. Low trust in institutions

According to the UN there are several ways of measuring trust¹³⁵. Some of the mentioned methods are the World Values Survey (WVS) and Edelman Trust Barometer. Although the presented methods are listed by the UN, the results should be more of illustration of the situation as the sample groups are rather small in both studies.

¹³⁰ “What Is the Rule of Law?,” World Justice Project, accessed December 2, 2021, <https://worldjusticeproject.org/about-us/overview/what-rule-law>.

¹³¹ “What Is the Rule of Law?.”

¹³² “WJP Rule of Law Index,” World Justice Project, accessed December 2, 2021, <https://worldjusticeproject.org/rule-of-law-index/country/2017-18/United%20States/>.

¹³³ “WJP Rule of Law Index.”

¹³⁴ “WJP Rule of Law Index 2020,” World Justice Project, accessed December 2, 2021, <https://worldjusticeproject.org/our-work/research-and-data/wjp-rule-law-index-2020>.

¹³⁵ “Trust in Public Institutions: Trends and Implications for Economic Security | DISD,” United Nations (United Nations), accessed December 2, 2021, <https://www.un.org/development/desa/dspd/2021/07/trust-public-institutions/>.

The World Bank Group is also referencing the WVS in its report¹³⁶. It was used mostly because the WVS asks questions about cheating on taxes which is imperative for the topic of informality.

The World Values Survey is composed of several hundred questions; for the purpose of this paper two questions were chosen: “Q180 Cheating on taxes if you have a chance” and “Q181 Someone accepting a bribe in the course of their duties”¹³⁷. The respondents had the option of choosing their answer on the scale of 1 (never justifiable) to 10 (always justifiable). The answers were presented based on the gender of respondents and their age group.¹³⁸

For the first question, the majority (63.5%) agreed that it is never justifiable to cheat on taxes. Only 1.2% answered that it is always justifiable.¹³⁹

The respondents in the second question had even stronger opinion than in the previous question. 71.4% answered that it is never justifiable for someone to accept a bribe, and only 0.7% answered that it is always justifiable.¹⁴⁰

From those results we can see that the US citizens value more uncorrupted workers and institutional representatives than cheating on taxes.¹⁴¹

Another method to determine the trust in institutions is the Edelman Trust Barometer that reflects trust in media, governance, and business. The study is conducted globally, and additional study is focused on California (with emphasis on the Bay Area).

The Edelman trust study divides the respondents into two groups - “mass population” and “informed population” (“Ages 25-64 College-educated In top 25% of household income per age group in each market Report significant media consumption and engagement in business news and public policy”¹⁴²). The report shares insights into how high is the trust level for the government, for NGOs, for business, and for the media. For the purpose of this paper, trust in the government, in NGOs, in business will be presented.

¹³⁶ Franziska Ohnsorge, Shu Yu, “The Long Shadow The Long Shadow of Informality: Challenges and Policies.” World Bank Group, (2021): p. 56, https://www.un.org/esa/desa/papers/2007/wp46_2007.pdf.

¹³⁷ “World Values Survey Wave 7 (2017-2020), United States.” Study # WVS-2017. World Values Survey, (2020): p. 60, <https://www.worldvaluessurvey.org/WVSDocumentationWV7.jsp>.

¹³⁸ “World Values Survey Wave 7 (2017-2020), United States,” 60.

¹³⁹ “World Values Survey Wave 7 (2017-2020), United States,” 60.

¹⁴⁰ “World Values Survey Wave 7 (2017-2020), United States,” 60.

¹⁴¹ “World Values Survey Wave 7 (2017-2020), United States,” 60.

¹⁴² “2019 Edelman Trust Barometer. Executive Summary.” Annual Global Study, (2019): p. 2, https://www.edelman.com/sites/g/files/aatuss191/files/2019-02/2019_Edelman_Trust_Barometer_Executive_Summary.pdf.

In the US, the trust in government has increased by 7% between 2019 and 2018. In 2019 it reached 40% of index trust. Although its rise, it is still considered as distrust¹⁴³. The study closely examined differences by gender - men had a trust index of 44% and women 35%¹⁴⁴.

NGOs had a slight rise of trust between 2018 and 2019, only 3%, making it 52% of index trust. Globally that is considered neutral¹⁴⁵. Comparing the trust index between genders, men had a higher index of 59% then women with 45%¹⁴⁶.

Lastly, the trust in business has been the highest in the year of 2019. Though still globally considered “neutral”, it rose to 54% by an increase of 6% from the previous year¹⁴⁷. Once again men proved to be more trusted with 62% then women with 47%¹⁴⁸.

The additional study was conducted with the focus on CA in 2019¹⁴⁹. The trust index in institutions was presented in the comparison to national level.

Considering the trust in government CA was lower by 8% than the US nationally. The state scored 32%. The difference in trust in NGOs was more noticeable as the gap was equal to 11%, making the trust index for NGOs in CA 41%. Nationally trust in business was the highest among the institutions, and it prevailed to be the highest in CA with 45%. The difference between the US and CA was 9%.¹⁵⁰

Based on available data, it seems that CA is less trusting towards its institutions compared to the rest of the country. Due to the lack of specific data for SDC we might assume it does not rapidly differentiate from the state average.

4.3. Low quality of public services

Schneider and Enste describe correlation between low quality of public services and the IE as follows: “An increase of the shadow economy can lead to reduced state revenues which in turn reduce the quality and quantity of publicly provided goods and

¹⁴³ “2019 Edelman Trust Barometer. Executive Summary,” 41.

¹⁴⁴ “2019 Edelman Trust Barometer. Executive Summary,” 41.

¹⁴⁵ “2019 Edelman Trust Barometer. Executive Summary,” 39.

¹⁴⁶ “2019 Edelman Trust Barometer. Executive Summary,” 45.

¹⁴⁷ “2019 Edelman Trust Barometer. Executive Summary,” 40.

¹⁴⁸ “2019 Edelman Trust Barometer. Executive Summary,” 45.

¹⁴⁹ “2019 Edelman Trust Barometer, Special Report: California,” 1.

¹⁵⁰ “2019 Edelman Trust Barometer, Special Report: California,” 3.

services.”¹⁵¹ As many other authors commented on the IE, the causation and correlation is easily misinterpreted, and often interchangeably used. There is visible evidence that lesser tax revenues can affect quality of public service that are sponsored by taxes, therefore the services are not available to everyone, or does not provide adequate helping hand to workers, or businesses that are consequently staying/joining the IE.

Estimating, measuring and/or determining the quality of public services is difficult, as the term is vague enough to cover almost anything that the government does for its people. In study form Nigeria, most of the key shortcomings of the public services were connected with the condition of the public servants (low salary, prone to bribery, racism in form of favoritism over-staffing, undertrained, burdensome bureaucracy etc.)¹⁵². It is impossible to compare a first world country with a third one. Although there is a difference of payment between public position and similar position in private sector¹⁵³, it does not reflect poor quality of public services.

In definition, the public services are supposed to serve the community and provide people with necessities. The most important part of that are infrastructure, social protection, and public health and education.

4.3.1. Infrastructure

Infrastructure plays an important role in the economic development of a region. It supplies the community with water, electricity, and other necessary commodities, and it allows for exchange of goods and services¹⁵⁴. It affects the IE in a negative way as a good infrastructure provides workers with easier access to their jobs (commute to workplace, energy and internet supply for freelancers etc.) and the community is provided with necessities (running water, sewage system, education for children, accessibility to health

¹⁵¹ Friedrich Schneider and Dominik Enste, “Shadow Economies around the World: Size, Causes, and Consequences,” *IMF Working Papers* 00, no. 26 (2000): p. 56, [https://doi.org/10.5089/9781451844375.001, 28](https://doi.org/10.5089/9781451844375.001.28).

¹⁵² Post author By StopLearn Team 2, “Short Comings in the Public Service Civic Education,” StOP!Learn, September 2, 2020, <https://stoplearn.com/short-comings-in-the-public-service/>.

¹⁵³ Lee Ohanian, “At \$140,000 per Year, Why Are Government Workers in California Paid Twice as Much as Private Sector Workers?,” Hoover Institution, April 30, 2019, <https://www.hoover.org/research/140000-year-why-are-government-workers-california-paid-twice-much-private-sector-workers>.

¹⁵⁴ Robert Puentes, “Why Infrastructure Matters: Rotten Roads, Bum Economy,” Brookings (Brookings, July 28, 2016), <https://www.brookings.edu/opinions/why-infrastructure-matters-rotten-roads-bum-economy/>.

care etc.). Also, infrastructure is one of the visible techniques for taxpayers to see how tax money is used. Improving infrastructure is a motivating factor to stay/join the FE¹⁵⁵.

In the 2019 cities report to measure SDG, goal no.9 “Industry, Innovation and Infrastructure” was estimated as “strong” for SD¹⁵⁶.

In 2016, the city of SD published a study that claims the improvement of transport infrastructure and its economic benefits¹⁵⁷. In their report they claim that SD has “the lowest average commute times and annual hours of delay per commuter” in comparison to the same size areas in the US. The report shows that more residents are using the different means of commute than by car - commuting by bike, or walk has immensely improved¹⁵⁸. This is one of the ways San Diego wants to attract more businesses¹⁵⁹.

In 2018 a National Transportation Research Non-profit (TRIP) published their report on mobility in SD. They measure the safety and conditions of those roads.¹⁶⁰ Part of the report comments purely on the road conditions:

(...) 64 % of all major roads and highways in the San Diego area are in poor or mediocre condition. Thirty-four % of the area’s major urban roads are in poor condition and 30 % are in mediocre condition. Nineteen % of San Diego area roads are in fair condition and 17 % are in good condition. Driving on rough roads costs the average driver in the San Diego area \$694 annually in extra vehicle operating costs, including accelerated vehicle depreciation, additional vehicle repair costs, increased fuel consumption and increased tire wear (...)¹⁶¹

The state of roads can reflect the distribution of provided funding as well. For example the local roads had the best score in the report. It seems that highways are supposed to be funded by local and state funding as well with some support from the

¹⁵⁵ Schneider, Enste, “Shadow Economies around the World,” 27.

¹⁵⁶ Lynch, et al, “The 2019 US Cities Sustainable Development Report,” 12.

¹⁵⁷ “Transportation Infrastructure, Evaluating the Economic Impact of Transnet on San Diego's Economy.” San Diego Regional, EDC, (May 2016): p. 5, <https://www.sandiegobusiness.org/sites/default/files/EDC-TRANSNET-STUDY-WEB.pdf>.

¹⁵⁸ “Transportation Infrastructure,” 3.

¹⁵⁹ “Why San Diego?,” The City of San Diego, accessed December 2, 2021, <https://www.sandiego.gov/economic-development/sandiego>.

¹⁶⁰ “San Diego Transportation by the Numbers.” TRIP, a national transportation research group, (August, 2018): p. 1-2, https://tripnet.org/wp-content/uploads/2018/08/CA_San_Diego_Transportation_by_the_Numbers_TRIP_Report_Aug_2018.pdf.

¹⁶¹ “San Diego Transportation by the Numbers,” 1.

federal government¹⁶². The condition of the highway can be explained by the higher usage (transportation of goods and services outside the SDC and across the state) and combined budgeting that sometimes might not be enough.

For the purposes of our paper, as it is more focused on the SDC area we can conclude that infrastructure in the chosen area is on a good level and therefore should not be a major factor in the prevalence of the IE.

4.3.2. Social protection

According to Mike Rogers's article "The World Bank and IMF are using flawed logic in their quest to do away with the informal sector", the social protection is one of the most important factors regarding the informal sector¹⁶³. Good social protection for both employed and unemployed is one of the most motivating factors to stay/join the formal sector. Socially protected workers are less prone to join the IE, along with a well working system for unemployed helping them with finding jobs, up skilling etc.

Social protection is defined by one of the organizations under the UN as "a set of interventions whose objective is to reduce social and economic risk and vulnerability, and to alleviate extreme poverty and deprivation."¹⁶⁴ The US has its own tools on how to fulfill that objective.

The US offers to workers, categorized as "employees" major "benefits and protections under certain federal, state, and local laws"¹⁶⁵. The basic protections contain:

- "The right to minimum wage, overtime pay"
- "The right to unpaid, job-protected family and medical leave"
- "Certain anti-discrimination and anti-retaliation protections"
- "The availability of workers' compensation if you are injured on the job"
- "The availability of unemployment insurance (UI)"

¹⁶² TCS Fuel, "The Highway Trust Fund: Who Pays for Highways?," TCS Fuel, June 16, 2021, <https://www.tcsfuel.com/blog/the-highway-trust-fund/>.

¹⁶³ Max Gallien, "The World Bank and IMF Are Using Flawed Logic in Their Quest to Do Away with the Informal Sector," November 12, 2021, <https://www.pressreader.com/article/281762747498043>.

¹⁶⁴ "Fao.org," What is social protection? | Social Protection | Food and Agriculture Organization of the United Nations | Social Protection | Food and Agriculture Organization of the United Nations, accessed December 2, 2021, <https://www.fao.org/social-protection/overview/whatispp/en/>.

¹⁶⁵ "Myths about Misclassification," United States Department of Labor, accessed January 2, 2022, <https://www.dol.gov/agencies/whd/flsa/misclassification/myths/detail#3>.

→ “Employer payment of half of the Social Security and Medicare Taxes”¹⁶⁶

For 2019 the minimum wage in the state of CA was \$11.00/hour for employers with 25 employees or less, and \$12.00/hour for employers with 26 employees or more¹⁶⁷. The issue with minimum wage is that it does not reflect the standard of living. Therefore there is a term “living wage” which should indicate a monetarily value of compensation “to provide a decent standard of living”¹⁶⁸. The Living Wage Calculator provided a comparison between the minimum wage and living wage for the year 2019. It takes into account living situations - how many working adults and children are part of the household¹⁶⁹.

	1 Adult				2 Adults (1 Working)				2 Adults (Both Working)			
No of Children	0	1	2	3	0	1	2	3	0	1	2	3
Living Wage	\$21.26	\$42.97	\$52.44	\$69.51	\$32.45	\$39.67	\$43.64	\$50.54	\$16.23	\$23.07	\$28.30	\$34.99
Minimum Wage	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00	\$12.00

Table 04 – Living Wage Calculator for SDC¹⁷⁰

As it is shown in Table 04, the minimum wage does not provide enough income for a childless adult living alone. In addition to that, CA has housing issues with high prices for rents and over costly prices for houses¹⁷¹. The cost of living in SDC was one of the highest in the US in 2019¹⁷².

The Fair Labor Standards Act (FLSA) overlooks the social protection of the workers. Apart from establishing the minimum wage on federal level (\$7.25 per day),

¹⁶⁶ “Myths about Misclassification.”

¹⁶⁷ Division of Labor Standards Enforcement, “Minimum Wage,” Minimum wage, accessed December 2, 2021, https://www.dir.ca.gov/dlse/faq_minimumwage.htm.

¹⁶⁸ Kimberly Amadeo, “Living Wage: How Much Do You Need to Live in America?,” The Balance (The Balance, August 30, 2020), <https://www.thebalance.com/living-wage-3305771>.

¹⁶⁹ “Living Wage Calculator,” Living Wage Calculator - Living Wage Calculation for San Diego County, California, accessed January 2, 2022, <https://livingwage.mit.edu/counties/06073>.

¹⁷⁰ Data extracted from: “Living Wage Calculator,” Living Wage Calculator - Living Wage Calculation for San Diego County, California, accessed January 2, 2022, <https://livingwage.mit.edu/counties/06073>.

¹⁷¹ “2019 Edelman Trust Barometer, Special Report: California,” 7.

¹⁷² Joe Roberts, “US Cities with the Lowest Cost of Living in 2021,” Move.org, September 30, 2021, <https://www.move.org/lowest-cost-of-living-by-us-city/>.

overtime payment as well as it sets no limit on the number of hours for overtime in the workweek, it deals with child labor laws and recordkeeping¹⁷³.

One of the issues considering avoiding social protection is misclassification of the employers as independent contractors. This leads to “denying [employees] the protection of workplace laws, robbing unemployment insurance and workers’ compensation funds of billions of much-needed dollars, and reducing federal, state and local tax withholding and revenues, while saving as much as 30 % of payroll and related taxes”¹⁷⁴. As it was mentioned in the previous chapter 4.1, many businesses are burdened with regulation considering the social protection of their employees. It is not surprising that employers would want to avoid paying such high costs, and chose to classify their employees as independent contractors, harming not only the worker in the process, but consequently the whole community.

In addition to the higher cost of social protection that businesses have to pay, similar trends can be seen in public welfare. In 2018, “California’s largest spending areas per capita were public welfare (\$3,336) and elementary and secondary education (\$2,297)”¹⁷⁵ as can be seen in their expenditures. Also, it appears that CA is one of the states with the highest welfare recipients. In 2019 CA had 10 200 welfare recipients per 100K, which is about 10.2% of the state population¹⁷⁶.

The city of SD has published their budget for fiscal year of 2019, where the monetarily value of benefits is transparently presented. The subtotal of the fixed benefits was valued for \$308 253 615¹⁷⁷.

¹⁷³ “Wages and the Fair Labor Standards Act,” United States Department of Labor, accessed December 2, 2021, <https://www.dol.gov/agencies/whd/flsa>.

¹⁷⁴ “Independent Contractor Misclassification Imposes Huge Costs on Workers and Federal and State Treasuries,” National Employment Law Project, October 26, 2020, <https://www.nelp.org/publication/independent-contractor-misclassification-imposes-huge-costs-workers-federal-state-treasuries-update-october-2020/>.

¹⁷⁵ “State and Local Expenditures,” Urban Institute, July 8, 2021, <https://www.urban.org/policy-centers/cross-center-initiatives/state-and-local-finance-initiative/state-and-local-backgrounders/state-and-local-expenditures>.

¹⁷⁶ “Welfare Recipients by State 2021,” World Population Review, accessed December 2, 2021, <https://worldpopulationreview.com/state-rankings/welfare-recipients-by-state>.

¹⁷⁷ Kevin L. Faulconer, “Adopted Budget.” Fiscal Year 2019, Volume 1. Budget Overview and Schedules. TheCity of San Diego (2019): p. 94, https://www.sandiego.gov/sites/default/files/fy19ab_full.pdf.

4.3.3. Help for Immigrants

Non-citizen workers need to qualify for their Supplemental Security Income (SSI). There are two requirements - to be “qualified alien”¹⁷⁸ and to meet one of five conditions (resident from August 1996; active duty in US Armed Forces; refugee or asylee; lawfully admitted for permanent residence with 40 qualifying quarters of work; ...) ¹⁷⁹. Social security program is applicable for any worker in formal sector with security number¹⁸⁰, as it is based on the credit score (in 2019 the worker had to make \$1,360 to earn one credit¹⁸¹). The US government has “U.S. International Social Security Agreements”¹⁸² with overseas countries that give the immigrant worker the option to apply their previous work for an increase of their social credit. Although the program exists it might be complex and difficult to navigate in it for non-citizens. Therefore government offers an option for free interpreter services that help with setting up social security¹⁸³.

In case that the immigrants are not eligible for SSI, CA state has the “Cash Assistance Program for Immigrants (CAPI)”¹⁸⁴ that provides financial help to immigrants. The CAPI is a state-funded program that has some conditions as well; noticeably it is for elder, disabled and/or blind people.

Another form help on a state level is the “California Immigrant Policy Centre (CIPC)” that “promotes and protects safety, health and public benefits and integration programs for immigrants”¹⁸⁵. In the past, one of their campaign was “Health for all”, or as it was published on Twitter “#Health4All”, that was trying to include immigrants into the Affordable Care Act (ACA)¹⁸⁶. The CIPC also advocates for economic justice, protecting

¹⁷⁸ Oisp Ordp, “Understanding SSI,” SSI Spotlight on SSI Benefits for Aliens, accessed December 2, 2021, <https://www.ssa.gov/ssi/spotlights/spot-non-citizens.htm>.

¹⁷⁹ “Social Security Numbers for Noncitizens.” Publication No. 05-10096. Social Security Administration, (September, 2021): p. 1-2, <https://www.ssa.gov/pubs/EN-05-10096.pdf>.

¹⁸⁰ For more information, see:

“Work Credits.” Publication No. 05-10016. Educator Toolkit, Social Security Administration, (March, 2019): p. 1, https://www.ssa.gov/thirdparty/materials/pdfs/educators/Work%20CreditsTP_2019.pdf.

¹⁸¹ “Work Credits.”

¹⁸² “Social Security,” International Programs - U.S. International Social Security Agreements, accessed December 2, 2021, https://www.ssa.gov/international/agreements_overview.html.

¹⁸³ “Social Security - If You Need An Interpreter,” SSA, accessed December 3, 2021, <https://www.ssa.gov/multilanguage/langlist1.htm>.

¹⁸⁴ “CDSS Programs,” Cash Assistance for Immigrants, accessed December 3, 2021, <https://www.cdss.ca.gov/inforesources/cash-assistance-for-immigrants>.

¹⁸⁵ “About Us,” California Immigrant Policy Center, November 19, 2019, <https://caimmigrant.org/about/>.

¹⁸⁶ “Health for All,” California Immigrant Policy Center, June 30, 2021, <https://caimmigrant.org/what-we-do/health-for-all/>.

workers rights as well as fights against discrimination in workplace¹⁸⁷. The CIPC is located in several cities in all regions in CA, namely SD¹⁸⁸.

Similarly on the local level there is the San Diego Workforce Partnership¹⁸⁹, a region-based organization that helps with up skilling, and with searching for a job. Their demographic focus is on youth, immigrants, and disabled people.

In addition, “The San Diego Immigrant Rights Consortium”¹⁹⁰ (SDIRC) is a project by SDC that brings together 50 organizations in the county. The aim is to help immigrants and refugees in matters of “defending the[ir] civil and human rights”, “educating and empowering [them] on their rights and the resources available to them, and countering the myths and untruths made about [them]”¹⁹¹. As there are many charities, NGOs, and organizations that provide help and services to immigrants and refugees, there are few of them that focus on economic help and work-related issues:

- APALA - Asian Pacific American Labor Alliance¹⁹²;
- Border Angels (specifically their program to help day laborers)¹⁹³;
- Labor Council of San Diego & Imperial Counties¹⁹⁴;
- Legal Aid At Work^{195,196};
- SEIU - United Service Workers West - San Diego¹⁹⁷;
- UDW - United Domestic Workers¹⁹⁸;
- United Taxi Workers of San Diego¹⁹⁹;
- Unite Here Local 30²⁰⁰.

¹⁸⁷ “Economic Justice,” California Immigrant Policy Center, August 23, 2021, <https://caimmigrant.org/what-we-do/economic-justice/>.

¹⁸⁸ “About Us,” California Immigrant Policy Center.

¹⁸⁹ “What We Do - San Diego Workforce Partnership,” San Diego Workforce Partnership, October 4, 2021, <https://workforce.org/whatwedo/>.

¹⁹⁰ “San Diego Immigrant Rights Consortium,” San Diego Immigrant Rights Consortium, accessed December 3, 2021, <https://www.immigrantsandiego.org/>.

¹⁹¹ “About,” San Diego Immigrant Rights Consortium, accessed December 3, 2021, <https://www.immigrantsandiego.org/about>.

¹⁹² “APALA,” APALA, accessed December 3, 2021, <https://www.apalanet.org/>.

¹⁹³ “Day Laborer Outreach,” Border Angels, accessed December 3, 2021, <https://www.borderangels.org/day-laborer-outreach.html>.

¹⁹⁴ “San Diego & Imperial Counties Labor Council,” San Diego & Imperial Counties Labor Council, accessed December 3, 2021, <https://unionyes.org/>.

¹⁹⁵ “Helping Workers in Low-Wage Industries Combatting Wage Theft,” Legal Aid at Work, October 7, 2021, <http://legallaidatwork.org/our-programs/combattling-wage-theft/>.

¹⁹⁶ “Helping to Secure Unemployment Insurance for Low-Wage Workers,” Legal Aid at Work, July 27, 2021, <https://legallaidatwork.org/our-programs/securing-unemployment-insurance/>.

¹⁹⁷ Seiu Usww, “USWW,” SEIU (SEIU-USWW, September 18, 2021), <https://www.seiu-usww.org/>.

¹⁹⁸ “The Homecare Providers Union - AFSCME Local 3930 / AFL-CIO,” UDW, accessed December 3, 2021, <http://www.udwa.org/>.

¹⁹⁹ UTWSD, accessed December 3, 2021, <https://utwisd.org/>.

To conclude the quality of public services, based on gathered data, we can safely assume that CA and SDC are getting invested in providing necessary services and help to their citizens and non-citizen as well. SDC has a lot of projects aimed to help integrate non US citizens into the community, and provide them with necessities. The social benefits based on the credit system are a strong motivation to join/stay in the formal sector. In conclusion, the quality of public service in general does not appear to be a strong factor for the prevalence of the IE, as its effect is the opposite.

4.4. Low monitoring and enforcement

As it is difficult to measure monitoring and/or enforcement, we have decided to use a different approach to estimate this factor's effect on the prevalence of the IE. We decided to look at the major groups of informal workers and analyze how well that group of workers is monitored, or enforced to join the FE. In addition, there is more focus on the federal level organizations that could have an influence over informal workers.

As a major part of the informal workers are connected to either street vendors or home-based workers (in any economic sector)²⁰¹, the only enforcement that the local government can provide is through regulations and later with the presence of police and finds. On the federal level there are organizations like the Internal Revenue Service (IRS) that are investigating taxation frauds or avoidance, and Immigration and Customs Enforcement (ICE) that deals with illegal immigrants and police any violation of their visas.

4.4.1. Street Vendors

Although there were mentioned two groups of workers, more focus will be directed on the street vendors. The home-based workers are harder to distinguish, depending mostly on the line of their profession. Sometimes, they can be found by the energy consumption, or inconsistency of their costs compared to admitted income²⁰². Those are examples in

²⁰⁰ "UNITE HERE Local 30," Unite Here Local 30, accessed December 3, 2021, <https://local30sandiego.org/>.

²⁰¹ Christy Braham et al., "Occupational Groups in the Informal Economy," WIEGO, accessed December 3, 2021, <https://www.wiego.org/informal-economy/occupational-groups>.

²⁰² Schneider, Enste, "Shadow Economies around the World," 37.

developing countries, where home-based workers are compensating for almost the whole factory of production. For SDC there is suspicion that home-based workers will have more of freelancer's characteristics, or smaller scale of production of goods sold in the streets, or online. Therefore, we will analyze the monitoring and enforcement of street vendors in SDC.

Firstly, it is necessary to mention that in 2017 state of CA “decriminalized street vendors, leaving it up to local governments to regulate them.”²⁰³ The responsibility falls to SDC to draft any regulations that street vendors should follow. SDC still did not provide any regulations, although there are few rules that should be followed: “Anyone doing business in San Diego is required to get a business tax certificate so they can pay sales taxes; Vendors selling food or any tangible goods have to obtain a seller's permit from the state; And if you sell food, you need a permit and inspection from the county health department.”²⁰⁴

Needless to say, there is no monitoring of upholding those advised set of rules. In Addition to the three rules mentioned above, the city of SD states in their “Municipal Code Section 31.0121” that “no person shall engage in any business, trade calling, or occupation until a certificate of payment is obtained. Self-employed persons and independent contractors are also required to pay the Business Tax.”²⁰⁵ Breaking those regulations is in the nature of the informal sector, as those engaged in the IE are trying to avoid taxation.

The unregulated street vendors in the SDC have a negative impact on their community, mostly because they are driving away customers from local stores and restaurants that have to pay not only for rent of their commercial spaces but also regulatory payments, employees' payments and benefits, all from what the unregulated street vendors are omitted^{206,207}.

²⁰³ Alexis Rivas, “San Diego Small Businesses Pushing for Street Vendor Regulations,” *NBC San Diego*, September 25, 2021, <https://www.nbcsandiego.com/news/investigations/san-diego-small-businesses-pushing-for-street-vendor-regulations/2727810/>.

²⁰⁴ Alexis Rivas, “San Diego Small Businesses Pushing for Street Vendor Regulations.”

²⁰⁵ “Business Tax Frequently Asked Questions,” The City of San Diego, accessed December 3, 2021, <https://www.sandiego.gov/treasurer/taxesfees/btax/btaxfaq>.

²⁰⁶ Dan Plante, “Unregulated Street Vendors Take over San Diego with No Local Laws to Regulate,” *KUSI Newsroom*, August 31, 2021, <https://www.kusi.com/unregulated-street-vendors-take-over-san-diego-with-no-local-laws-to-regulate/>.

²⁰⁷ “San Diego Prepares for Street Vendor Crackdown as Merchant Complaints Intensify,” *California News Times*, August 31, 2021, <https://californianewstimes.com/san-diego-prepares-for-street-vendor-crackdown-as-merchant-complaints-intensify/505910/>.

4.4.2. Day Laborers

The day laborers are workers around who there are many myths and misconceptions. Due to that fact, several studies have been conducted to shed more light on this profession. One of them was National Day Labor Survey (NDLS) that in 2008 conducted a survey where they interviewed about 2 600 workers. To the contrary of common misconception about the illegality of the workers, the survey found through series of questions that in the South almost half of the workers are documented.²⁰⁸ It was also estimated that in the US there are about 120 000 day laborers. Non-US workers were estimated to be mostly of Latino ethnicity. According to the study more than a half of them are from Mexico (59%), and Central America (28%), and about 7% is US citizen.²⁰⁹

From the legal point of view, day laborers are “treated as independent contractors, often with no paperwork and no withholding for taxes or benefits, although they should be classified as employees.”²¹⁰ Therefore it seems to be tempting to get a job for day, get paid in cash and not admit to such income to the state.

Considering the SDC, Sean M. Crotty has conducted a field research about the day laborers in the SDC and policies that are supposed to managed and reduce the day laborers.²¹¹ It is important to mention that day laborers are hired for manual labor in agriculture, or in construction, and they are usually hired from public and easily accessible place like huge stores that sells equipment and materials for landscaping, or/and construction (like the Home Depot). Although the day laborers are perceived as illegal immigrants, some of those workers are US citizen who lost their jobs in construction industry between 2008 and 2012.²¹²

In SDC, several cities have issued their own policies how to manage day laborers. According to Crotty, there are usually two strategies that local governments can implement. One of them is annihilation of space, and the other is formalization.²¹³

²⁰⁸ Abel Valenzuela Jr., “Immigrant Day Laborers: Myths and Realities,” *Nacla*, April 10, 2008, <https://nacla.org/article/immigrant-day-laborers-myths-and-realities>.

²⁰⁹ Valenzuela Jr., “Immigrant Day Laborers: Myths and Realities.”

²¹⁰ Paul M.J. Suchecki, “Day Labor Law,” *Chron*, accessed December 3, 2021, <https://smallbusiness.chron.com/day-labor-law-67348.html>.

²¹¹ Sean M. Crotty, “Can the Informal Economy Be ‘Managed’?: Comparing Approaches and Effectiveness of Day-Labor Management Policies in the San Diego Metropolitan Area,” *Growth and Change* 48, no. 4 (2016): pp. 909-941, <https://doi.org/10.1111/grow.12180>, 909-910.

²¹² Crotty, “Can the Informal Economy Be ‘Managed’?,” 912.

²¹³ Crotty, “Can the Informal Economy Be ‘Managed’?,” 913-915.

Annihilation of space entails that local authorities attempt to “alter space in ways that make it more difficult for laborers to engage in the behaviors required to seek work in particular area.” In different words, it means that through legislative means or by force the local government tries to discourage the day laborers and drive them away. Sometimes it is achieved by mere presence of police, and ticketing for petty crimes such as “jaywalking, loitering, obstructing traffic, public urination, etc.”²¹⁴ It can also be achieved by removing benches, trees and altering the architecture of the space by adding barriers that restrict path and access to certain areas. Example of successful annihilation of space by force is El Cajon that reduced the number of day laborers by the police presence and ticketing. In the city of Vista, local government attempted to annihilate the space by law. They tried to regulate the day laborers which in the end failed as there was no enforcement from the law (not enough man power to control the hiring process of the day laborers).²¹⁵

Formalization sets its primary goal to create a formal center that would provide day laborers with opportunities to get hired, with access to bathrooms, and in some cases with food. If successful, the result would draw the workers from location where they were considered problematic (as communities were afraid of potential higher criminality). The examples of formalization in SDC are Carlsbad, Escondido, and Fallbrook. The formalization in Carlsbad failed due to several factors; one being the distant location for workers to travel to get to the center, and its proximity to the police department, other reason being the Centre’s requirement for workers to register, thus rendering the center useless for undocumented workers. In Escondido, the center had no government funding thus could provide for undocumented workers as well, and proved to be somewhat a success, as most of the workers seek protection from Border Patrol’s raids and harassment of the anti-immigrant residents. Although the center was rather small and the formal structure did not suite everyone. Last example is Fallbrook where the center is run by Christian charity. This center was acknowledged as a success due to several aspects - location, logistics, administrative, and economic demand. It provided a good location (easily found by both workers and employers), meal, spiritual support. The center also had enough space, and well thought administrative strategy how to distribute work.²¹⁶

Another influential actor beside the local government and police forces is anti-immigrant political groups that tend to focus on the popular areas of day laborers and

²¹⁴ Crotty, “Can the Informal Economy Be ‘Managed’?,” 914.

²¹⁵ Crotty, “Can the Informal Economy Be ‘Managed’?,” 917-925.

²¹⁶ Crotty, “Can the Informal Economy Be ‘Managed’?,” 927-934.

organize protests there. “Taking justice into their own hands” approach of most of the anti-immigrant protesters leads to reported assaults of the day laborers. Many of the day laborers have experienced harassment even from police.²¹⁷

Although there has been presented examples of how some cities in the SDC are managing the issue of day laborers, most of the local governments choose to do nothing and leave the day laborers formally unmanaged.²¹⁸

4.4.3. Internal Revenue Service - IRS

The IRS has its own division for criminal investigation (IRS-CI) that looks into different kinds of fraud, embezzling, money laundering, tax evasion and other²¹⁹.

Although “the IE is not easily visible and currently is generally unmeasured in the United States”²²⁰, it might fit into several categories listed below. The IRS-CI investigates cases of “Employment Tax Enforcement”, and “General Fraud Investigations”²²¹ which both might the scheme where informal workers could potentially fall into as “the types of tax not reported (...) are likely primarily individual income tax, particularly from business income, and self-employment tax.”²²²

Employment Tax Enforcement covers businesses trying to avoid employment taxes and benefits. Among those practices there is paying in cash, or misclassifying employees (mentioned in chapter 4.3), and others²²³. In the table below there is an excerpt of a report of Employment Tax investigation over the last 3 years.

²¹⁷ Valenzuela Jr., “Immigrant Day Laborers: Myths and Realities.”

²¹⁸ Crotty, “Can the Informal Economy Be ‘Managed’?,” 915.

²¹⁹ “Program and Emphasis Areas for IRS Criminal Investigation,” Internal Revenue Service, accessed December 3, 2021, <https://www.irs.gov/compliance/criminal-investigation/program-and-emphasis-areas-for-irs-criminal-investigation>.

²²⁰ “Overview of the Tax Gap.” Scheduled for a Public Hearing Before the House Committee on Ways and Means. Joint Committee on Taxation, (May 9, 2009): p.7, <https://www.jct.gov/CMSPages/GetFile.aspx?guid=113e9844-5e1e-4873-a472-4cce124d19bf>.

²²¹ “Program and Emphasis Areas for IRS Criminal Investigation.”

²²² “Overview of the Tax Gap,” 7.

²²³ “Program and Emphasis Areas for IRS Criminal Investigation.”

	2019	2018	2017
Investigations Initiated	250	207	162
Prosecution Recommendations	104	81	59
Informations/ Indictments	73	64	60
Sentenced	50	48	77
Incarceration Rate	84%	77%	78%
Average Months to Serve	23	21	21

Table 05 – Employment Tax Investigation²²⁴

General Fraud Investigations are investigations focused on “violations of the tax laws and related financial crimes. Taxpayers who chose to willfully and intentionally not comply with their legal responsibility to file required tax returns and/or pay taxes pose a serious threat to tax administration and the American economy.”²²⁵ All the workers of the IE falls into this category, as all of them chose to not pay taxes.

The practice that the IRS might recognize unreported income is through their matching system. “It is required that third parties report taxpayer income to the IRS, such as employers, banks, and brokerage firms. If the IRS notices that a third party reported that they paid you income but you don’t have that income reported on your return this immediately lifts a red flag.”²²⁶ The described procedure is considered evasion of taxation, and although the informal sector is avoiding taxation, there is usually no trail, therefore making it almost impossible to trace it.

²²⁴ “IRS: Criminal Investigation Annual Report 2019.” Publication 3583 (Rev. 11-2018), Catalog Number 29201R. Department of the Treasury, Internal Revenue Service, (2019): p. 73, https://www.irs.gov/pub/irs-utl/2019_irs_criminal_investigation_annual_report.pdf.

²²⁵ “Program and Emphasis Areas for IRS Criminal Investigation.”

²²⁶ “IRS Audit Red Flags: Understand Who & When the IRS Audits,” IRS Audit Red Flags: Understand Who & When the IRS Audits Tax Returns, accessed December 3, 2021, <https://taxcure.com/tax-problems/tax-audit/audit-flags>.

4.4.4. Immigration and Customs Enforcement - ICE

As immigrants are a group of interest for the purpose of this thesis, the fear of deportation and federal organization representing such power must be taken into account. The fear of being deported is a strong motivation to leave the IE, but in many cases it is difficult to obtain a permit to stay and/or work (as was discussed in chapter 4.3). There are many examples of the extent to which many workers will go to avoid being deported.

MICIC published an article about a personal experience from a CA agricultural area that was hit by wildfire in 2007. Many immigrants refused to evacuate as they feared they'd be deported²²⁷. "Police presence near and inside shelters can also intimidate migrants, who fear police cooperation with immigration services."²²⁸

Another example is described in a different paper by Diego Avalos and published by Socius. Due to the fear of being deported many workers (drywallers) refused to cross checkpoints around SDC. Drywall companies were driven to limit their business into SD metropolitan areas, or create separate workforces on the other side of checkpoints.²²⁹

A different thesis by Philipp Dembicki dealt with effects on the mental health of the immigrants due to the constant fear of being deported. Dembicki mentioned that "many felt that they were targeted by authorities for minor violations and were only then identified as undocumented, who potentially could cause arrests and other consequences."²³⁰

Although the fear of being deported is visible, it is difficult to estimate how that reflects on the IE. Many law abiding non-citizen might participate in the IE without being noticed or detected by ICE, as they attentions seems to be more focused on individuals with criminal record²³¹. Yet it is reported that in 2016 ICE was conducting unprovoked raids on day-laborers in suspicion that any of them were looking for job opportunities

²²⁷ Konane M. Martínez, "Hidden in the Ashes: Migrant Farmworkers Are Invisible during California Wildfires," Hidden in the Ashes: Migrant Farmworkers Are Invisible During California Wildfires | Migrants in Countries in Crisis Initiative, December 29, 2017, <https://micicinitiative.iom.int/blog/hidden-ashes-migrant-farmworkers-are-invisible-during-california-wildfires>.

²²⁸ Martínez, "Hidden in the Ashes."

²²⁹ Diego Avalos, "Mutual Aid Networks: Informal Shop Floor Organizing among Mexican Migrant Construction Workers in San Diego," *Socius: Sociological Research for a Dynamic World* 5 (2019): p. 8, 237802311982854, <https://doi.org/10.1177/2378023119828549>.

²³⁰ Philipp Dembicki (2017), 10.

²³¹ "Ice's Mission," ICE, May 13, 2021, <https://www.ice.gov/mission>.

illegally²³². Additionally in 2017, ICE stated that it “has deported 16,599 from San Diego and Imperial counties”²³³.

To conclude this chapter it appears that although there are forces that could be a significant factor for reducing the number of the informal workers, there is also lack of direction where they can operate. Also, lack of regulations for street vendors significantly implies that low monitoring and enforcement is one of the factors that are conducive to the prevalence of the IE.

4.5. Individual preference for independent work

Individual preference is the least defined factor presented in this paper. In a research paper by the OECD factors like “autonomy, flexibility, working hours, distance to work and opportunities offered in the informal sector also determine job satisfaction”²³⁴ are listed as a motivation for workers to shift to the IE. The individual preference will be looked at from different angles and will be critically analyzed on a different basis. Some of the examined aspects include job satisfaction, preference for freelancing jobs; others are more focused on the aspect of tax avoidance.

Job satisfaction plays an important role in the worker’s life. The higher the employee's satisfaction the lesser is chance they would leave their position for a different job or the same job in the informal sector. In 2016 Pew Research Centre published a survey for the whole US to see how working Americans are satisfied with their current job. 49% of all the respondents said that they are “very satisfied with their current job”²³⁵. Higher monetarily evaluation has undeniable effect as “about six-in-ten (59%) of those with an annual family income of \$75,000 or more say they’re very satisfied with their current job, compared with 45% of those making \$30,000 to \$74,999 and 39% of those

²³² Ariel Cheung, “‘This Is Wrong,’ Latino Day Laborer Declares Of ICE Raids At Job Sites,” *Dna Info*, August 11, 2016, <https://www.dnainfo.com/chicago/20160811/avondale/this-is-wrong-latino-day-laborer-declares-of-ice-raids-at-job-sites/>.

²³³ Greg Moran, “ICE in San Diego on Pace to Deport Fewer People than Last Year, Most without a Criminal Record,” *The San Diego Union-Tribune*, August 9, 2017, <https://www.sandiegouniontribune.com/news/immigration/sd-me-ice-deport-20170808-story.html>.

²³⁴ Johannes Jütting, Jante Parlevliet, Theodora Xenogiani, “Informal Employment Re-loaded.” Working Paper No.266.OECD Development Centre, (January, 2008): p. 21, <https://www.oecd.org/dev/39900874.pdf>.

²³⁵ “How Americans View Their Jobs,” Pew Research Center's Social & Demographic Trends Project (Pew Research Center, September 28, 2021), <https://www.pewresearch.org/social-trends/2016/10/06/3-how-americans-view-their-jobs/>.

making less than \$30,000.”²³⁶ In addition, the survey compared satisfaction in different worker’s positions. The most satisfied were people working in management, and the least satisfied were people working in retail, service or manual workers.²³⁷

A similar survey was conducted in SD in 2018 to see the job satisfaction of its residents. The San Diego Union-Tribune collaborated with Energage employee survey firm and their sample composed of more than 13 000 employees. SD results were on average higher than the national average²³⁸. The questionnaire probed about different aspects of their jobs, as well as they own personal feeling of appreciation - “more than 84 percent of San Diego workers felt genuinely appreciated at their companies”²³⁹. Employees' feeling of appreciation rose compared to previous year by 1.7%, on the other hand the feeling of having flexibility to attend to both professional and personal life decreased by 0.8% to 82.9%.²⁴⁰

In comparison, misconduct and/or workplace harassment might have the opposite effect and drive workers away. The Department of Fair Employment and Housing (DFEH) of CA published an annual report in 2019 where there is statistical data about complaints filed on different bases. For the purposes of this paper we will look at “Employment Bases”, “Employment Right-to-Sue Bases”²⁴¹. SDC placed itself in third position in numbers of filed cases.²⁴² In a more detailed report, it shows that in SDC there were 244 filed cases on the bases of employment, and about 829 Right-to-Sue complaints filed as well²⁴³.

Also, another data set from the DFEH shows that between years 2015 and 2020, most of the workers complaints were filed against city employees, and the most common reason appears to be disability with 20,3%.²⁴⁴

²³⁶ “How Americans View Their Jobs.”

²³⁷ “How Americans View Their Jobs.”

²³⁸ Brady MacDonald, “Survey: San Diego Employees Are Happier with Their Jobs, but Want a Better Work-Life Balance,” *The San Diego Union-Tribune*, November 11, 2018, <https://www.sandiegouniontribune.com/business/sd-fi-top2018-trends-20181111-story.html>.

²³⁹ MacDonald, “Survey: San Diego Employees Are Happier with Their Jobs.”

²⁴⁰ MacDonald, “Survey: San Diego Employees Are Happier with Their Jobs.”

²⁴¹ For more information about Right-to-Sue, see:

Kevin Kish, “2019 Annual Report.” Department of Fair Employment and Housing, (2019): p. 7, https://www.dfeh.ca.gov/wp-content/uploads/sites/32/2020/10/DFEH_2019AnnualReport.pdf.

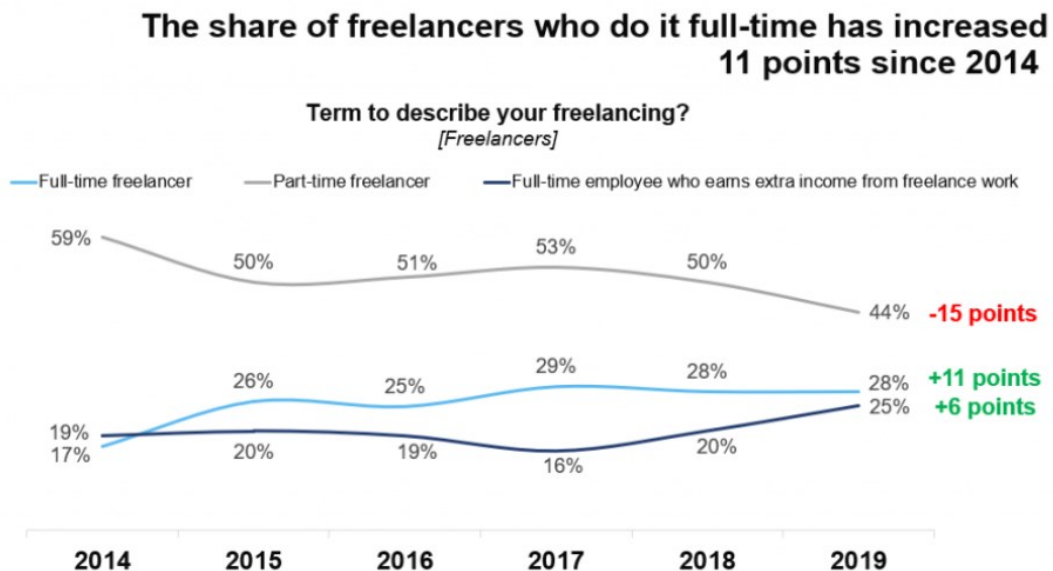
²⁴² Kish, “2019 Annual Report,” 12.

²⁴³ Kish, “2019 Annual Report,” 28.

²⁴⁴ Lyndsay Winkley, Lauryn Schroeder, “Unsafe at Work: A Look at Harassment, Discrimination inside San Diego County’s Largest Employers,” *The San Diego Union-Tribune*, June 13, 2021, <https://www.sandiegouniontribune.com/news/watchdog/story/2021-06-13/unsafe-at-work-a-look-at-harassment-discrimination-inside-san-diego-countys-largest-employers>.

Although they have been seemingly many cases of filed complaints and lawsuits against discriminatory conduct on workplace, the overall satisfaction seems to be more prevalent.

Apart from the job satisfaction, flexibility, autonomy, working hours, and commute were listed earlier as other aspects that could be motivating for workers. Those attributes are similar to freelancing jobs that have been more popularized in recent years.²⁴⁵ Since 2014 10 million people in the US chose to become freelancers as a long-term employment plan. In the graph below, it is visible the share of part-time, and full-time freelancers as well as employees who have freelancing as an extra income.



Graph 01 – The Share of Freelancers²⁴⁶

Another important fact is that the freelancing jobs make up about \$1 trillion, which is nearly 5% of the US GDP in 2019. All of that data proves that freelancing was a popular option for change of career. There are multiple reasons for American to do so. For many it might be the lack of colleagues, or unpleasant management, for others it might be the

²⁴⁵ Adam Ozimek, “Report: Freelancing and the Economy in 2019: Upwork,” RSS, accessed December 3, 2021, <https://www.upwork.com/press/releases/freelancing-and-the-economy-in-2019>.

²⁴⁶ Ozimek, “Report: Freelancing and the Economy in 2019. ”

flexible working hours, as well as vacation time. Remote working which reduces commute time might have a huge impact on the decision of American workers as well.²⁴⁷

SD has been ranked as 3rd largest city in the CA considering the number of self-employed workers. About 14.1% workers are freelancers, and 5.4% in SD admitted to the income from self-employment²⁴⁸. In comparison CA on the national level has the highest number of self-employed people - with 14.2%²⁴⁹.

Avoidance of tax has been the subject of debates in previous chapters. The insight shed on it in this chapter will be short, as there might be a reason for avoidance of tax simply due to the fact that the tax system in the US is confusing for many citizens²⁵⁰. In 2019, Pew Research Center found²⁵¹ that about 73% of Americans “said that they were bothered at least “somewhat” by the complexity of the tax code”²⁵². Part of the complexity is due to the fact there are many deductions and exclusions for Americans in order to engage in economic activities in the private market (such as buying houses, saving for retirement etc.)²⁵³, which itself entices to be fully part of the formal sector.

Aside from the complexity, the research surveyed what people think about fairness of the progressive taxation. Although many see it as fair, most of their trust was shaken after accusations directed at Trump alleged tax evasion and manipulation²⁵⁴.

To conclude the factor of individual preferences is difficult due to the lack of data. Also it appears to be the most logical factor, as the previous chapters rather showed that SDC has strong governance that upholds the laws, socially secures the community and

²⁴⁷ Dan Marzullo, “7 Types of Flexible Work Arrangements,” *Workest by Zefits*, July 3, 2018, <https://www.zenefits.com/workest/7-types-flexible-work-arrangements>.

²⁴⁸ “San Diego California Economy Data,” Towncharts Economy data, accessed December 3, 2021, <https://www.towncharts.com/California/Economy/San-Diego-city-CA-Economy-data.html>.

²⁴⁹ “California Economy Data,” Towncharts Economy data, accessed December 3, 2021, <https://www.towncharts.com/California/California-state-Economy-data.html>.

²⁵⁰ Christopher Ellis and Christopher Faricy, “America’s Messy Tax Code Is Actually Quite Popular,” *Fortune*, May 20, 2021, <https://fortune.com/2021/05/20/tax-deductions-file-government-spending-income/>.

²⁵¹ “Growing Partisan Divide over Fairness of the Nation’s Tax System,” Pew Research Center - U.S. Politics & Policy (Pew Research Center, December 18, 2020), <https://www.pewresearch.org/politics/2019/04/04/growing-partisan-divide-over-fairness-of-the-nations-tax-system/>.

²⁵² Ellis, Faricy, “America’s Messy Tax Code Is Actually Quite Popular.”

²⁵³ Ellis, Faricy, “America’s Messy Tax Code Is Actually Quite Popular.”

²⁵⁴ Michelle P. Scott, “What’s Wrong with the American Tax System,” Investopedia (Investopedia, December 30, 2021), <https://www.investopedia.com/articles/personal-finance/082415/whats-wrong-american-tax-system.asp>.

enforce progressive taxation. Individual preference to have higher/extra income seems to be a natural motivation why at least partially join the IE.

4.6. High economic inequality, Low Human Capital, and Lack of access to resources

High economic inequality, low human capital, and lack of access to resources were put together into a common chapter as they have the same theme. Especially high economic inequality and low human capital both deal with SD prominent economic issues such inequality and wealth gap. Another prominent economic problem in CA - the non-affordable houses seem to be a significant aspect of the discussed factor.

4.6.1. High economic inequality

As it was mentioned in the previous section of this thesis (in chapter 3.3), economic inequality is the disparate distribution of income and opportunity in the society that can lead to trapping people in the poverty and make it difficult for vertical economic mobility²⁵⁵. The Gini coefficient that measures economic inequality is higher for CA (0.49) in comparison to the whole US (0.48).²⁵⁶ As it stated “San Diego County’s Gini index increased to 0.47 from 2011 to 2016 — a jump of 2.5 percent.”²⁵⁷ With the value of 0.47 SDC is still lower than the state average and the federal average score. Income inequality in San Diego is not as bad as in other places in CA. For example, Los Angeles was 4th with 0.50, San Francisco was 2nd with 0.52 and 1st was Marin with 0.53.²⁵⁸

Since 2016 Gini Index has steadily decreased, as seen in the following graph:

²⁵⁵ “What Is Economic Inequality?,” IZA World of Labor - Home, accessed December 3, 2021, <https://wol.iza.org/key-topics/economic-inequality>.

²⁵⁶ “Gap between Rich and Poor, by State in the U.S. 2019,” Statista, September 20, 2021, <https://www.statista.com/statistics/227249/greatest-gap-between-rich-and-poor-by-us-state/>.

²⁵⁷ Castañeda, “San Diego County’s Income Inequality Increases.”

²⁵⁸ Castañeda, “San Diego County’s Income Inequality Increases”



Graph 02 – Income Inequality in SDC; more precise numbers are: for 2016 is 15.58; for 2017 is 15.37; for 2018 is 14.91; for 2019 is 14.81.²⁵⁹

As there is 1% difference between the national and local average of Gini coefficients, it can be generalized. As the index is almost in the middle of the scale, it confirms that there is a wealth gap that is a consequence of the income gap and it is connected to the inequality of the resource. As it is usually hard to economically improve in a country with higher inequality²⁶⁰ (based on the Great Gatsby Curve²⁶¹), it is safe to assume that many participants would take advantage of the informal sector to improve their situation by an extra income.

4.6.2. Low Human Capital

Human capital can be understood as “the economic value of a worker's experience and skills.”²⁶² Skills, education, health and even loyalty and punctuality are price values, as the human capital is used to improve productivity leading to increase of profitability.²⁶³

The World Bank Group (WBG) conducted a study that measures the index of human capital (HCI). According to the study, the index calculates the human capital of the next generation, meaning that it is measured “as the amount of human capital that a child

²⁵⁹ “Income Inequality in San Diego County, CA,” FRED, December 10, 2020, <https://fred.stlouisfed.org/series/2020RATIO006073>.

²⁶⁰ Madison Hoff, “Here’s Where the US Falls on the ‘Great Gatsby Curve,’ a Damning Chart Economists Use to Track Inequality in Every Country,” *Business Insider*, February 23, 2020, <https://www.businessinsider.nl/great-gatsby-curve-relationship-between-income-inequality-and-mobility-2020-2/>.

²⁶¹ Daniel Kurt, “What Is ‘The Great Gatsby’ Curve?,” Investopedia (Investopedia, October 18, 2021), <https://www.investopedia.com/the-great-gatsby-curve-5205821>.

²⁶² Will Kenton, “Reading into Human Capital,” Investopedia (Investopedia, September 20, 2021), <https://www.investopedia.com/terms/h/humancapital.asp>.

²⁶³ Kenton, “Reading into Human Capital.”

born today can expect to achieve in view of the risks of poor health and poor education currently prevailing in the country where that child lives.”²⁶⁴ The index therefore measures the conditions for the gain of human capital. The results of the study show how the country is reaching its full potential. In 2017 the WB measured for the US an index of value of 0.762, and in 2018 it was 0.714²⁶⁵. Data from 2019 are missing.

The Milken Institute conducts a similar study of the HCI biyearly for each of the states in the US. Since 2014 the position of CA has been steadily improving, as seen in the table below:

Year	Rank	Score
2014	17	60.76
2016	11	62.48
2018	10	65.24
2020	8	68.3

Table 06 – The HCI of California²⁶⁶

In 2012 the UCLA Anderson Forecast created a study in which they measured the City Human Capital Index (CHCI). According to the study, “the index is calculated based on residents’ education attainment and school enrolment data.”²⁶⁷ So it mostly measures the education level and skill level. The study measured counties as well as cities. SDC ranked 9th position in CA with an index value of 132.7. San Diego-Carlsbad-San Marcos area scored 132.7 value of the CHCI.²⁶⁸

Slightly different method was used by the Economic Innovation Group (EIG) that conducted a study in 2016 called “The Distressed Communities Index”²⁶⁹ (DCI). Its

²⁶⁴ “The Human Capital Project.” World Bank Group, (2018): p. 3, <https://openknowledge.worldbank.org/bitstream/handle/10986/30498/33252.pdf?sequence=5&isAllowed=y>.

²⁶⁵ “Human Capital Index (HCI) (Scale 0-1) - United States,” Data, accessed December 3, 2021, <https://data.worldbank.org/indicator/HD.HCI.OVRL?end=2020&locations=US&start=2010&view=chart>.

²⁶⁶ “2020 State Technology and Science Index: Rankings by Category,” Milken Institute | State Tech and Science Index | Rankings by Category, accessed December 3, 2021, <http://statetechandscience.org/statetech.taf?page=overall-ranking&composite=hcic>.

²⁶⁷ William Yu, “City Human Capital Index: 2011 Update.” UCLA Anderson Forecast, (December, 2012): p. 69, http://www.uclaforecast.com/CHCI/2012/CHCI_ReportDec2012.pdf.

²⁶⁸ Yu, “City Human Capital Index: 2011 Update,” 72.

²⁶⁹ “The 2016 Distressed Communities Index.” An Analysis of Community Well-Being Across the United States. Economic Innovation Group, (2016): p. 1-38, <https://eig.org/wp-content/uploads/2016/02/2016-Distressed-Communities-Index-Report.pdf>.

mission is to estimate and understand “the dimensions of basic community well-being across the United States”²⁷⁰. In the study there are used different scales, as the results change depending on demographic proportions. There are differences between states and counties but even more noticeable dissimilarities within cities on the neighborhood level. The goal should be identifying communities and neighborhoods that are “at risk of being left behind by the country’s continued growth and development”²⁷¹. Results are presented in scores graduating from 0 to 100 signifying the higher chance of risks. SD in this study was considered to be “Prosperous and Unequal”²⁷². It was stated that “small proportions of their [San Diego and similar cities] populations reside in distressed communities.”²⁷³ SD’s prosperous aspect is due to its economic character having considerable shares of the knowledge economy (“innovation-intensive, technology-based, and high end services industries”²⁷⁴).²⁷⁵

Based on the gathered data we can conclude that SDC does not have low human capital quite the contrary. SDC is progressive driven county whose economy is composed of a higher share of the knowledge economy (as mentioned in chapter 4.4) therefore there is more demand for higher human capital as well.

4.6.3. Lack of access to resources

Lack of resources is connected to poverty and it can be understood from different views. ATD Fourth World and Oxford University conducted research that studied poverty and lack of resources was concluded to be the most visible dimension²⁷⁶. They found three main deprivations: “Lack of Decent Work”, “Insufficient and Insecure Income”, and “Material and Social Deprivation”²⁷⁷. The last category refers to the lack of resources. According to the study “sufficient nutritious food; adequate clothing; affordable, quality housing with good sanitation, clean water and reliable energy supply providing security

²⁷⁰ “The 2016 Distressed Communities Index,” 4.

²⁷¹ “The 2016 Distressed Communities Index,” 4.

²⁷² “The 2016 Distressed Communities Index,” 30.

²⁷³ “The 2016 Distressed Communities Index,” 25.

²⁷⁴ “The 2016 Distressed Communities Index,” 26.

²⁷⁵ “The 2016 Distressed Communities Index,” 26.

²⁷⁶ “Most Visible Dimension of Poverty: Lack of Resources,” ATD Fourth World, August 19, 2021, <https://www.atd-fourthworld.org/lack-of-resources-prevents-people-from-living-with-dignity/>.

²⁷⁷ “Most Visible Dimension of Poverty: Lack of Resources.”

and privacy; non-discriminatory education in well-equipped schools; affordable, accessible and effective health and dental care; serviceable public transport; and non-hazardous environments”²⁷⁸ are considered to be necessary resources.

As described in chapter 4.3, SD had decent quality of services and both US born as well non-US citizens have equal access to necessary resources. In the previous section, it was also mentioned that SDC is progressive county that has higher shares of economy in management and usually well-educated positions therefore it is safe to assume that SDC has no problem with access to resources.

²⁷⁸ “Most Visible Dimension of Poverty: Lack of Resources.”

5. Discussion

In the previous chapter there have been several factors listed, described and their role in the informal sector was critically analyzed. The chosen factors have been selected from a critical literature source, and although all of them play a major role in prevailing the IE in developing countries, only some of them could be applied to the case of the US. Although it is not the purpose of this thesis, the estimate of the size of the IE still needs to be determined. In the following part, we will determine the size of the IE and will summarize the individual factors and discuss their relevance to the IE in SDC.

In comparison to the rest of the world, the US has had one of the lowest shares of the IE in the GDP. Despite being one of the smallest IEs in the world relative to the GDP, its monetary value per year in the last decade is estimated to be 1.1 trillion USD on average. As visible in Table 07 (below), during the period of the Great Recession, including the years that it took to stabilize the economy, the IE was responsible for a larger percentage share of the GDP. Since 2012 the share of the IE has slowly declined. 2019 is the last listed year in the table with the lowest share of the IE. As the Covid-19 pandemic started in December of 2019, the number does not reflect the pandemic situation.

Year	GDP (trillion USD)*	Share of informal economy in GDP**	Monetary value of informal economy (trillion USD)
2007	14.45	7.20%	1.0404
2008	14.71	7%	1.0297
2009	14.45	7.60%	1.0982
2010	14.99	7.20%	1.07928
2011	15.54	7%	1.0878
2012	16.2	7%	1.134
2013	16.78	6.60%	1.10748
2014	17.53	6.30%	1.10439
2015	18.24	5.90%	1.07616
2016	18.75	5.60%	1.05
2017	19.54	5.40%	1.05516
2018	20.61	5.10%	1.05111
2019	21.43	4.80%	1.02864

Table 07 – Size of the IE in the US; (* data retrieve from World Bank²⁷⁹); (** data retrieved from Schneider, 2021²⁸⁰)

In Table 07, it is visible that the share of IE has been declining over the years, although the monetary value appears to be staying unchanged. Quantitative insight into the IE in SDC would be valuable. Unfortunately, the IE is difficult to measure. As mentioned in Methodology, many researchers use specific methods to estimate the scale of the IE and sadly most of the data used for said calculations were not accessible during the period of time of writing this thesis. Though the purpose of the thesis was not aimed to measure the IE, it would be an enlightening addition.

The chosen nine factors were divided into six chapters. Out of nine given factors, four of them were considered less instrumental in the prevalence of the IE than others. Two of them were proven to be the most conducive. The remaining three factors have to some degree an impact on the prevalence of the IE in SDC.

Based on the analysis in the previous section, the most dominant factors are “Burdensome Regulations” and “Individual preference”. As it is stated above, CA is one of the most regulated states in the US, and it has been proven hard for entrepreneurs to start a small business. The “Individual preference” seems to be the most dominant one, although there is lack of hard evidence.

Other important factors are “Low monitoring and enforcement”, and “High economic inequality”. Although there is a rule of law in CA and in the SDC, some activities lack regulation and are sometimes purposely left unregulated (street vendors, day laborers). As it was mentioned above, there is a theory that the people in countries with high economic inequality are often not able to improve their economic position. The IE would provide a great opportunity to overcome such obstacles.

Mediocre role could play a factor of “Low trust in institutions”. As it was stated above CA on average is less trusting than the rest of the US. Not admitting to an extra income could be connected to the lack of trust in the government. This factor is not

²⁷⁹ “United States of America,” United States of America - Place Explorer - Data Commons, accessed December 3, 2021, https://datacommons.org/place/country/USA?utm_medium=explore&mprop=amount&popt=EconomicActivity&cpv=activitySource%2CGrossDomesticProduction&hl=en.

²⁸⁰ Schneider, (2021), 3.

considered important due to the fact that the local government is constantly trying to improve living conditions, therefore local residents can see the result of their taxes.

“Low institutional quality”, “Low quality of public services”, “Low human capital”, and “Lack of access to resources” were determined to be of low importance to the prevalence of the IE. The high taxes in CA and regulations that are burdensome for many have created a locality where public service provides for the whole community. Therefore people are not forced into informality to simply meet basic human needs.

Conclusion

The goal set for the thesis was to determine the most conducive factors to the prevalence of the IE. As seen in Discussion the goal was met, as it was determined that the most dominant factors were the “Burdensome regulations”, “Individual preference for independent work”, “Low monitoring and enforcement”, and “High economic inequality”. The less important factors that do not affect the IE in the SDC are “Low institutional quality”, “Low quality of public services”, “Low human capital” and “Lack of access to resources”. As it is mentioned above the factor “Low trust in institutions” has certain effects but it is not dominant.

Furthermore, the numbers provided in the Discussion section represent the scale of the IE. Though it has been proven that the IE is stable in terms of monetary value, the share of the IE in the GDP suggests that it is systematically decreasing in size.

The hypothesis suggested in the beginning has been proven wrong. Not only do undocumented immigrants not represent the largest share of informal workers, the research also shows that the non-US citizens are receiving aid from the state and from NGOs, which helps them greatly to integrate in the community and thus the formal sector.

This thesis has presented several insightful data. Not only has the stereotype of immigrants taking American jobs been disproven (similar to other academic papers cited in this thesis), it also shows how the IE functions and how it is affecting the community of SDC.

The thesis unfortunately lacks some data. It would be advisable to conduct field research directly in the communities of SDC. Such insight would’ve offered more reliable data that might have shed more light on the “Individual preference for independent work” factor. Unfortunately, due to the Covid-19 it has been impossible to conduct said field research.

Additionally, further data would be required for more concrete statistics. Regrettably the desired method for calculation requires confidential data from the Census Bureau that were not obtainable at the time of writing. With aforementioned data it would be possible to quantify the demographics of the workers in the IE, which would allow us to derive the most common sector of industry, ethnicity, and education.

Nevertheless, more research could surely be conducted to attain more insight into the inner workings of the IE. It is certainly important to estimate the extent of the IE, not

only in SDC or CA, but also on a national scale. Most of the research considering the IE is focused on the developing countries, and little is known how the IE can affect the developed countries such as the US, or European countries. Besides estimating the major factors, determining the effects on the economy itself is another pertinent question in need of answering in the academic field, as well as finding the most effective policies to reduce the IE.

Summary

The thesis presented the most conducive factors to the prevalence of the IE. The thesis presented several potential factors, and through a descriptive and quantitative analysis it drew its conclusions. It was estimated that the most conducive factors are “burdensome regulations”, as the state of CA is one of the heaviest regulated states. Due to such regulations, it is difficult to start small business, which could lead business owners to take part in the IE. Another dominant factor was “individual preference”. As it was difficult to measure this factor, several different approaches were used; mainly the freelancing trend was examined due to its resemblance to the informal entrepreneur. The popularity of the freelancing trend and consideration of other factors led to the conclusion that this factor might be the most dominant in the thesis. Other prevalent factors are “low monitoring and enforcement” and “high economic inequality”. “Low monitoring and enforcement” has been proven to be an important factor due to the example of street vendors in SDC, as they are not regulated, and their unregulated activities hurt local communities. “High economic inequality” is believed to be connected to the incapability to improve individual economic status; therefore it could be one of the motivational factors to take part in the IE. The rest of potential factors were deemed to have a small or no influence toward the prevalence of the IE.

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