



Chapter 9

Men and women in the informal sector

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Rural-to-Urban migration



The relationship between migration and development

- The country has a higher level of economic development.
- Being urbanized (or urbanized too rapidly) caused an urban bias → **Migration from rural to urban areas**

* **Urban bias** – The development strategies of developing countries focus on urban areas
-> The gap between rural and urban development has widened.

Migration – The movement of people from rural areas to large cities (or urban areas).



In the early stage, rural-to-urban migration has a positive effect.

However, when it's beyond a city's ability to create jobs, social welfare → negative consequences.

Todaro Migration Model - Michael Todaro

- Migration is a rational decision -> Expected income in cities is higher than that in rural areas.
 - Decision making is based on expectations of wage differences rather than actual wage differences.
 - The probability of obtaining a job in a city is inversely related to the unemployment rate in that city.

High migration rates results from imbalances in urban and rural development.

Todaro Migration Model

Describes conflicting relationship of rural-to-urban migration -> increases urban unemployment.

Harris-Todaro model - Equilibrium version of the Todaro Migration Model

At equilibrium - Expected incomes in rural and urban areas are equal
(when informal activities and unemployment are considered)

Harris-Todaro Model of Migration and Urban Unemployment

(Harris-Todaro, 1970)



- A minimum wage policy increases workers' welfare.
 - It increases the cost of employment in the formal sector of the economy
 - Lowers the level of employment in this sector
- Increases the number of workers (labor supply) in the informal sector in urban areas.
 - This is due to the difference in labor wages in these two sectors.

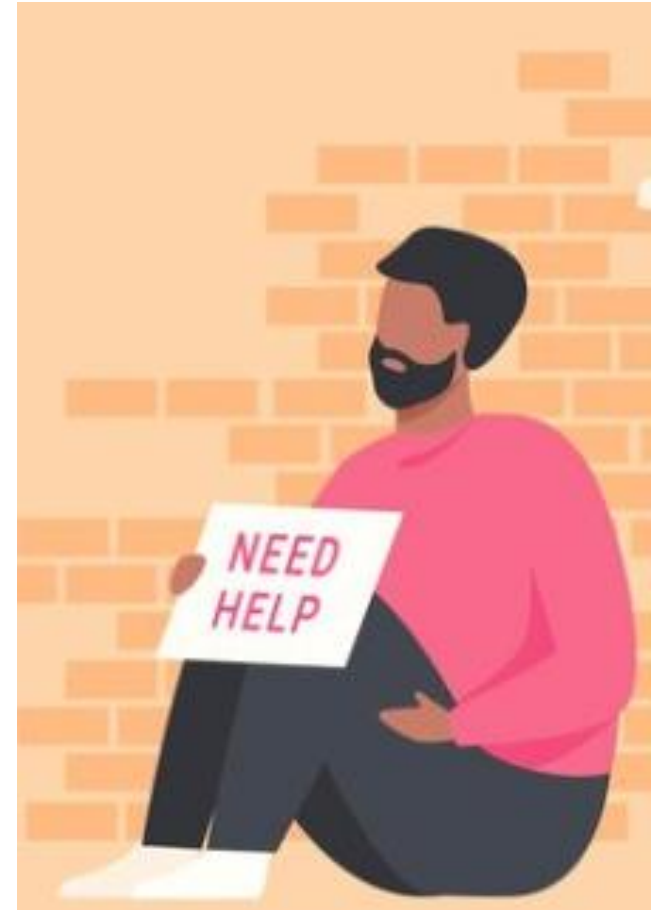
Harris-Todaro Model of Migration and Urban Unemployment (Harris-Todaro, 1970)



Theory of labor movement between two economic sectors

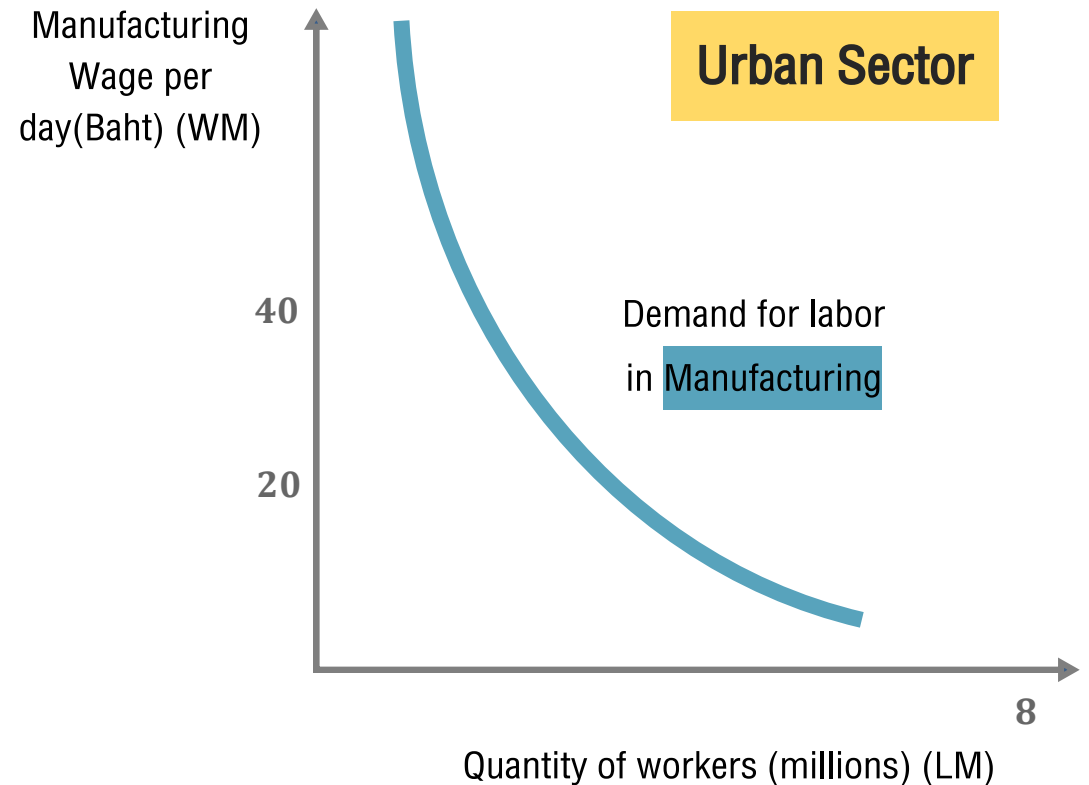
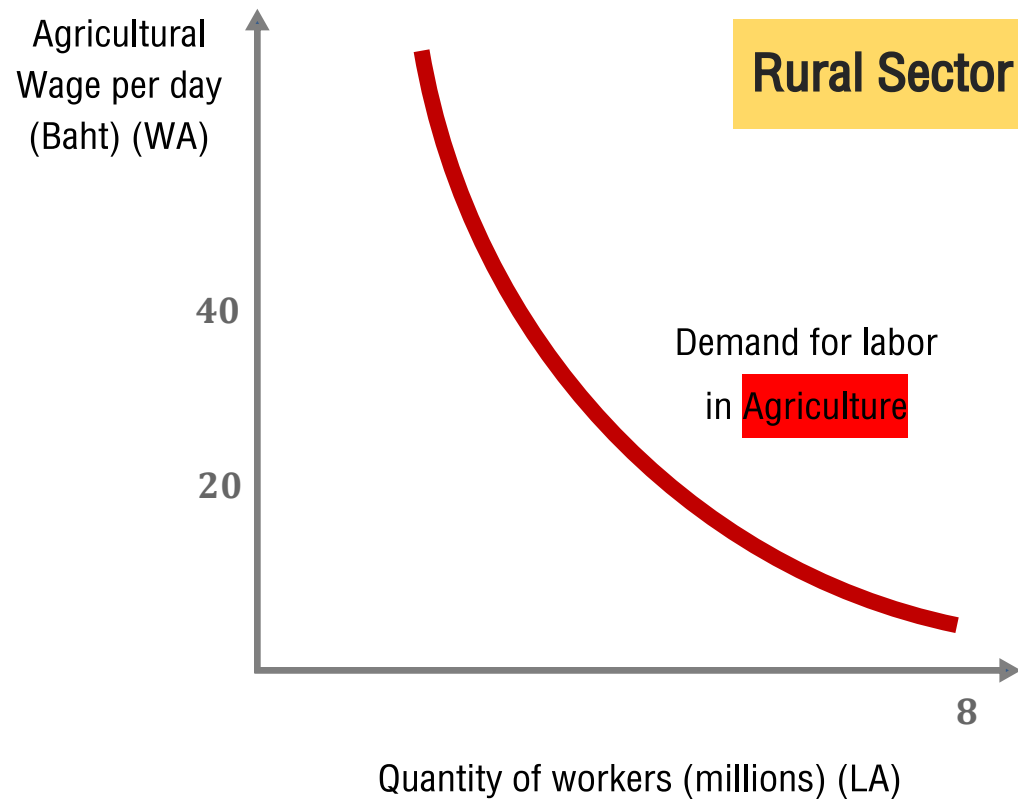
- Raising the minimum wage in urban areas attracts rural migrants to seek work in the city.
- Immigration persists when there is a discrepancy between the wage rates in the urban (manufacturing) and rural (agriculture) areas -> migrant workers enter the urban areas

Consequently, they will be unable to find work -> become unemployed and informal workers in urban areas.



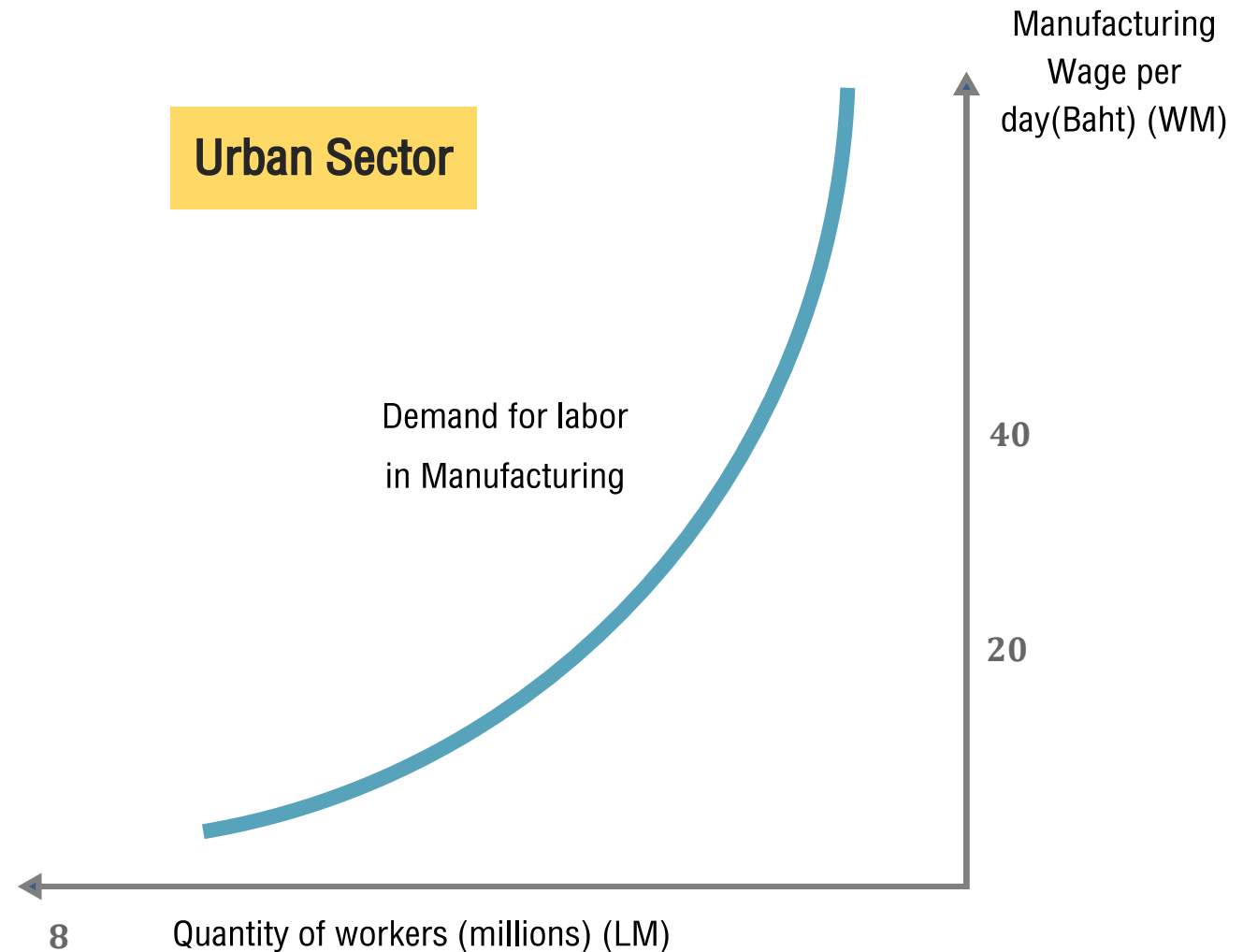
Harris-Todaro (1970) :

1. The economy has a workforce of 8 million and consists of two sectors: rural and urban.
The demand curve for labor -



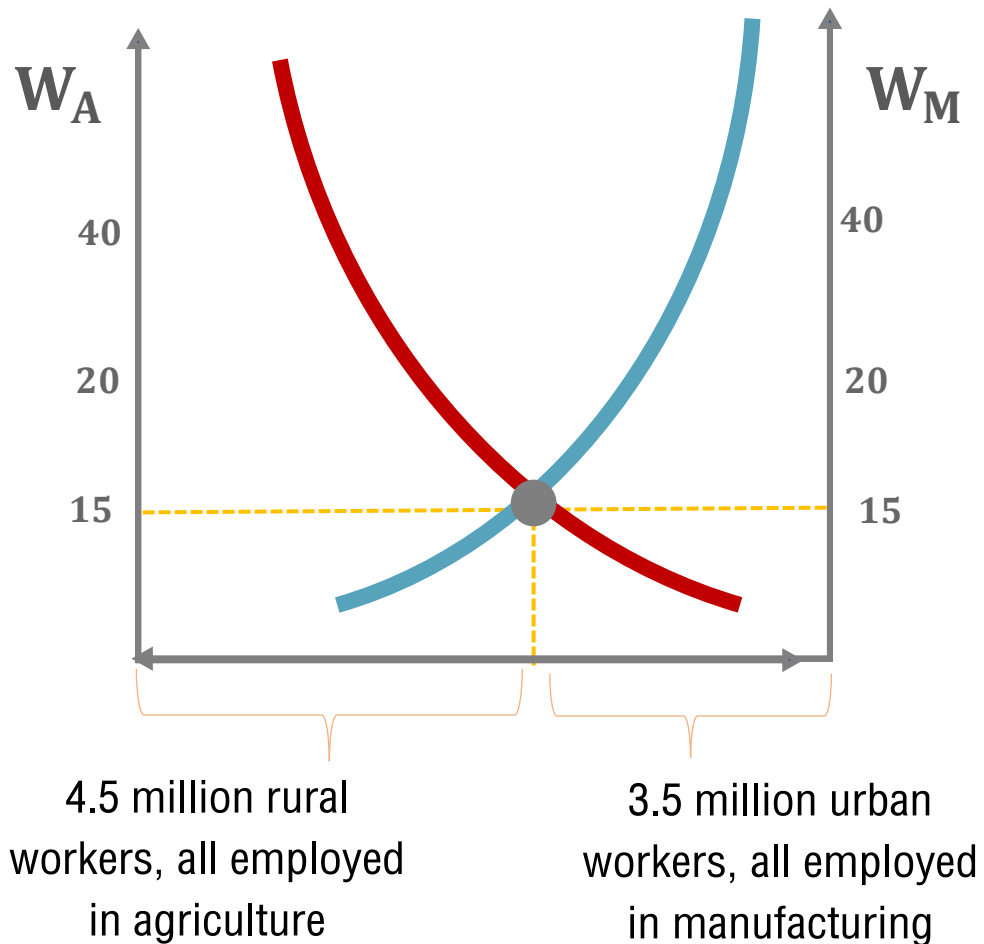
2. Workers can move freely between cities and rural areas.

- Under flexible wage conditions, labor is always looking for the highest wage
- Equilibrium occurs when wages between two sectors are equal and a total of 8 million workers are employed ($8 = LM + LA$)
- For clarity - Bring two graphs into the same graph.
 - This can be demonstrated by flipping the urban demand curve (horizontal - total labor in the economy)



then taking into account the same graph as rural demand to consider the total workforce in the country is 8 million horizontally.

Equilibrium with flexible wages

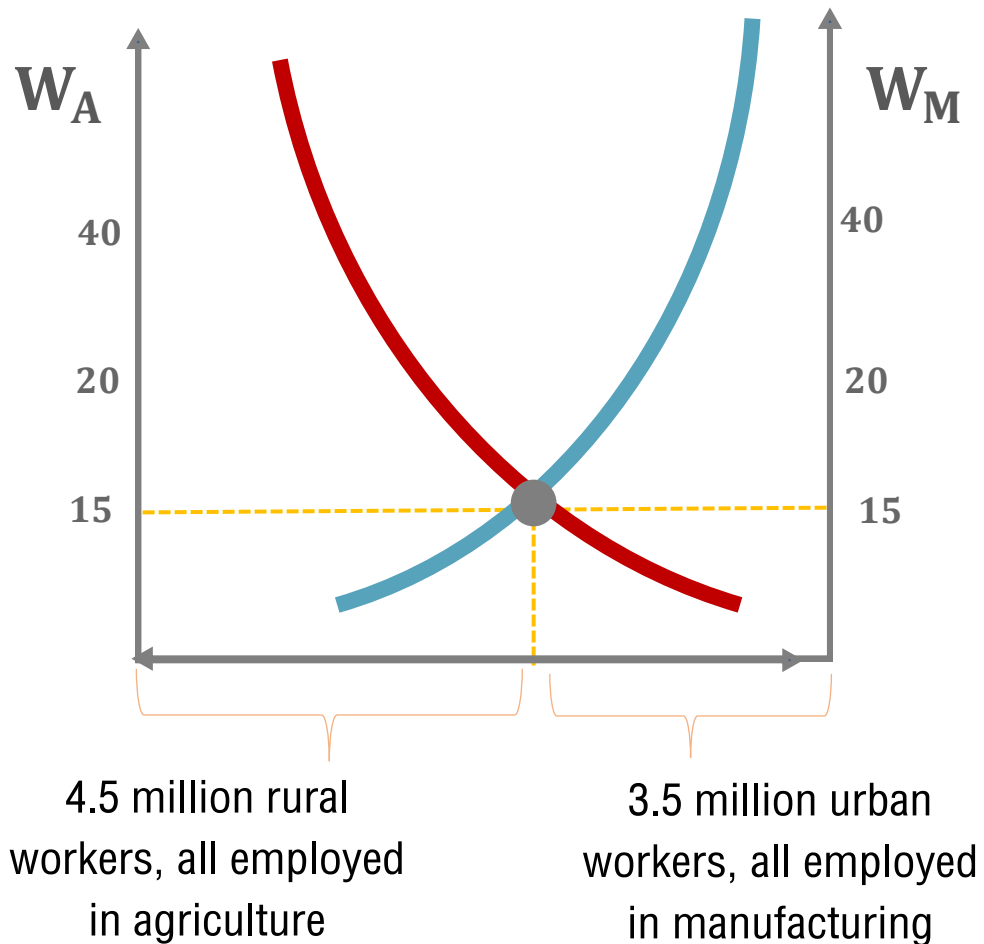


● For agricultural/rural workers

- Start on the left-hand side of the graph. .
- It focuses on the curve showing the demand for labor in agriculture (red line) and
- moving to the right shows the wage position and the number of workers employed in agriculture (in rural areas).

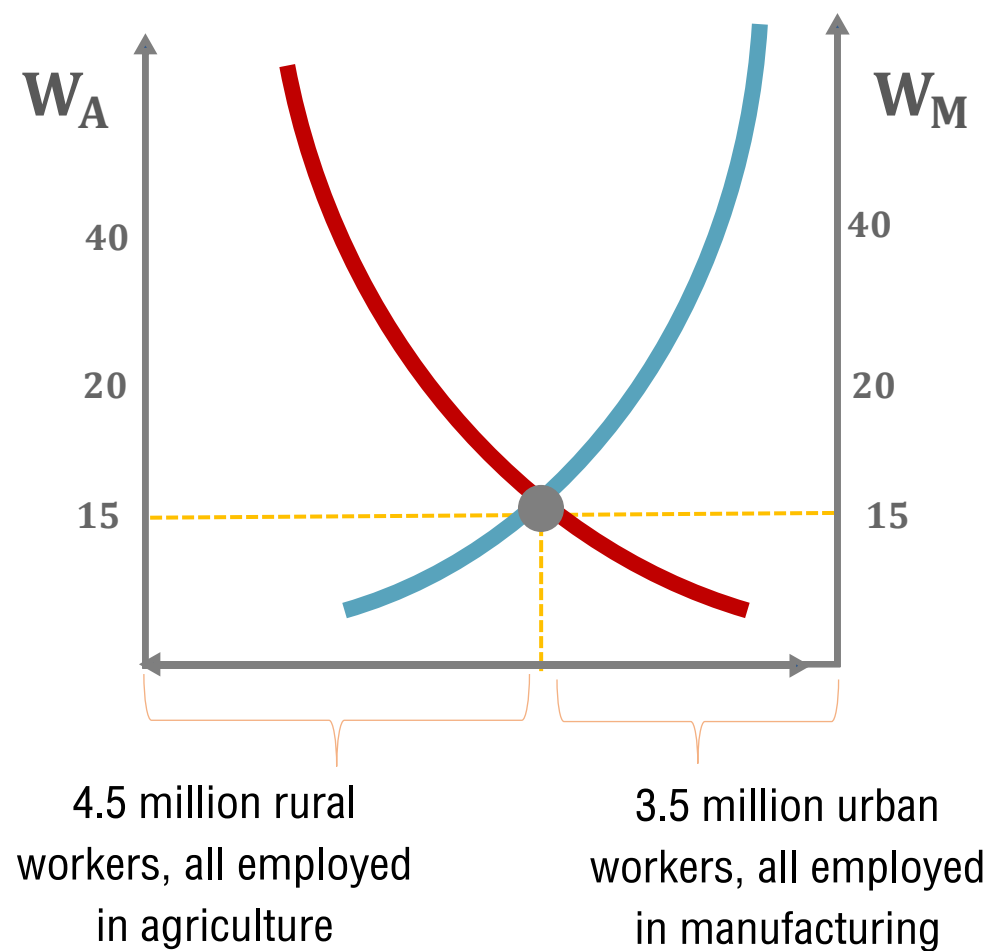
Then, taken into account on the same graph as rural demand to consider the total workforce in the country is 8 million horizontally.

Equilibrium with flexible wages



- For workers in manufacturing/urban sectors
 - Start at the right edge.
 - Labor demand in the manufacturing sector (blue line)
 - Move left to where wages and the number of workers are in the manufacturing sector (urban).

Equilibrium with flexible wages



At this equilibrium point –

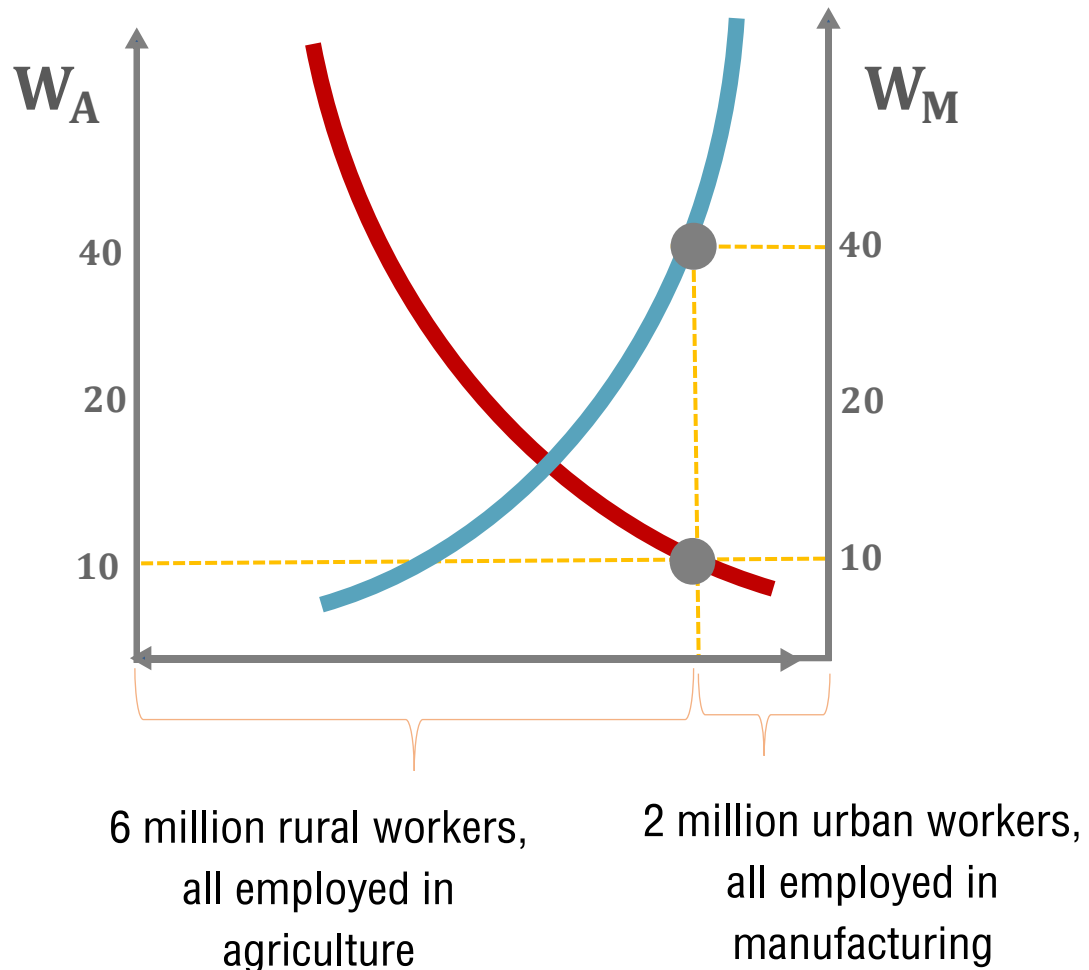
Rural and urban employment will be paid 15 baht per day

- 4.5 million jobs in agriculture
- 3.5 million working in manufacturing

The equilibrium point will be

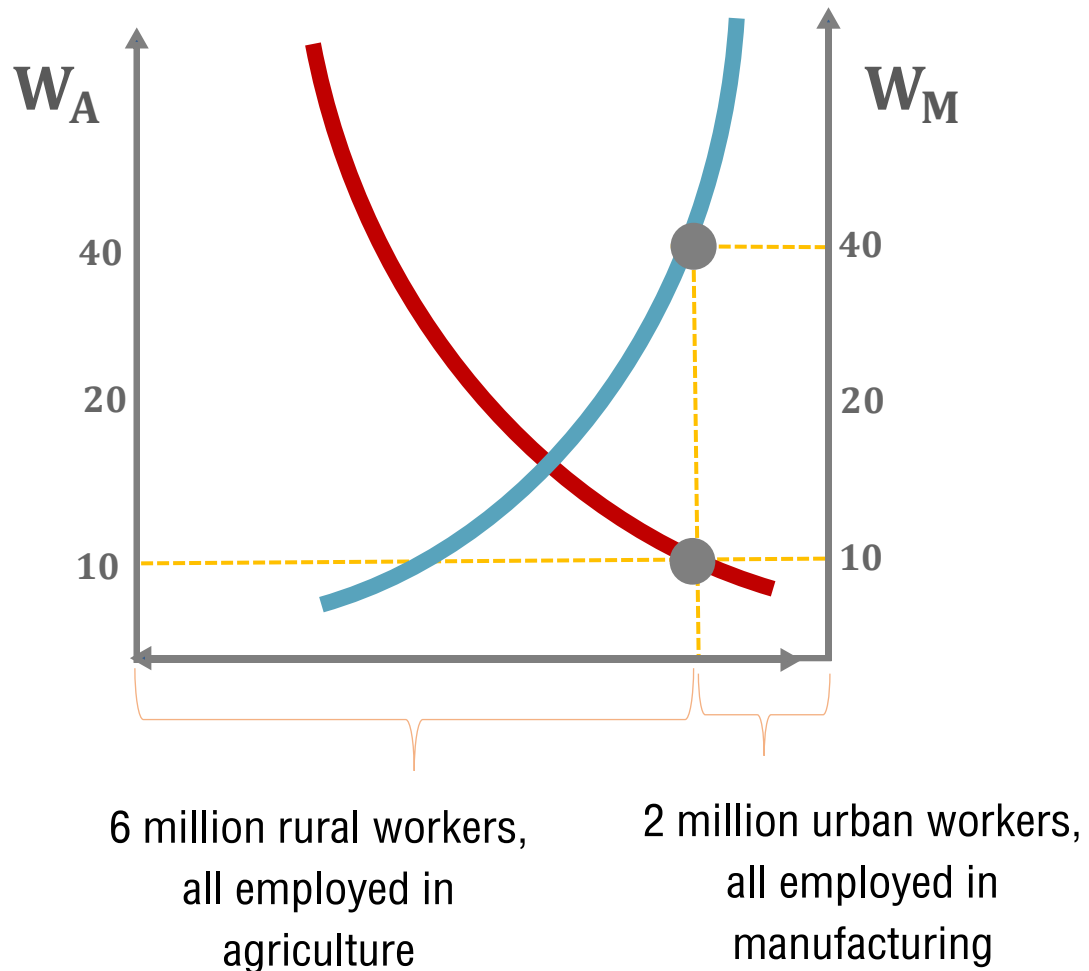
$$W_A = W_M$$

Full-employment equilibrium with inflexible urban wage



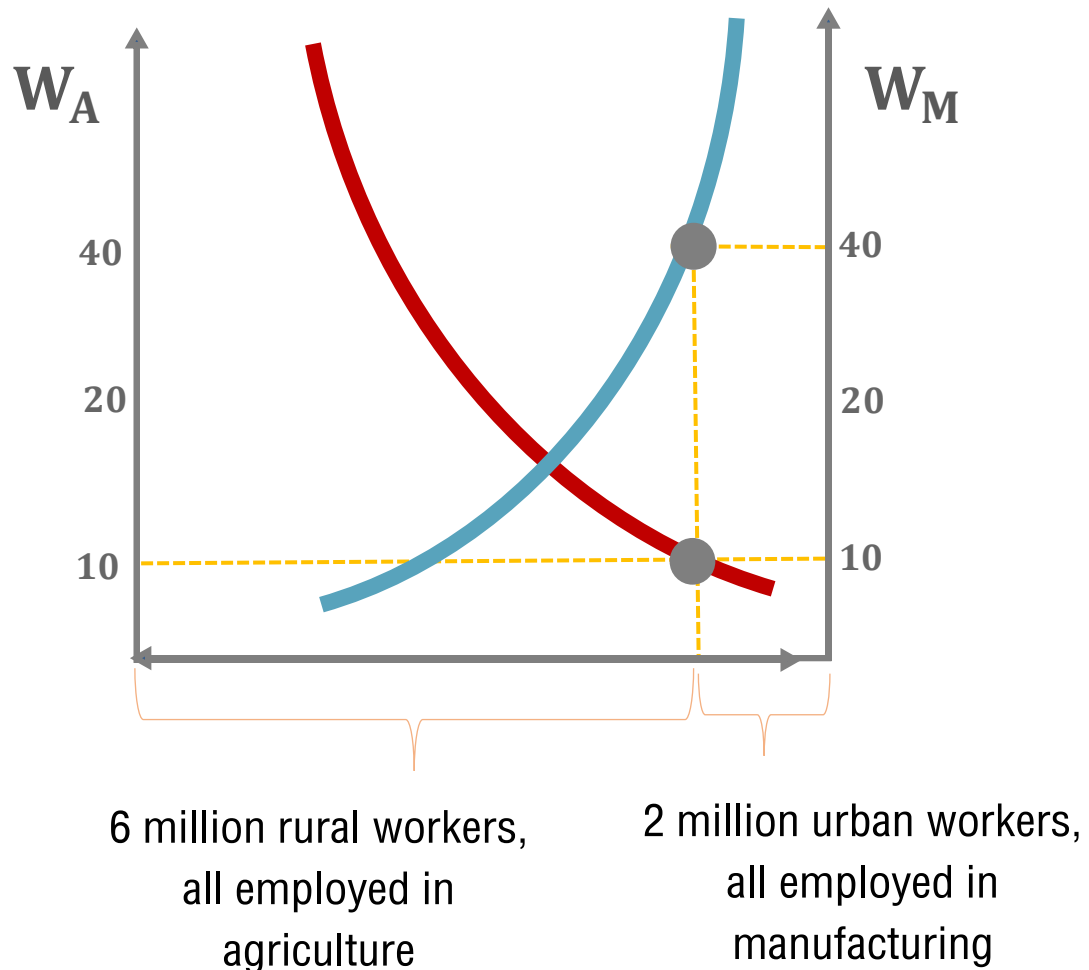
- 3. Assume that the urban wage (W_M) is set at 40 baht per day (determined by institutional factors)
 - Government may set a minimum wage - Wages in the urban are no longer flexible, but rural wages remain flexible
- Based on the demand curve for urban employment
 - At 40 baht per day, only 2 million workers will be employed in the manufacturing sector and received this wage

Full-employment equilibrium with inflexible urban wage



- The question is, what will happen to the other 6 million workers in the economy?
- They work in agriculture (rural areas)
- These 6 million workers work in agriculture and receive a wage of 10 baht per day

Full-employment equilibrium with inflexible urban wage



- However, under these conditions
 - 40 baht per day wage would seem very high for a worker making only 10 baht a day.
- Such workers may be willing to deal with the unemployment opportunity in order to have the opportunity to find a job for 40 baht.

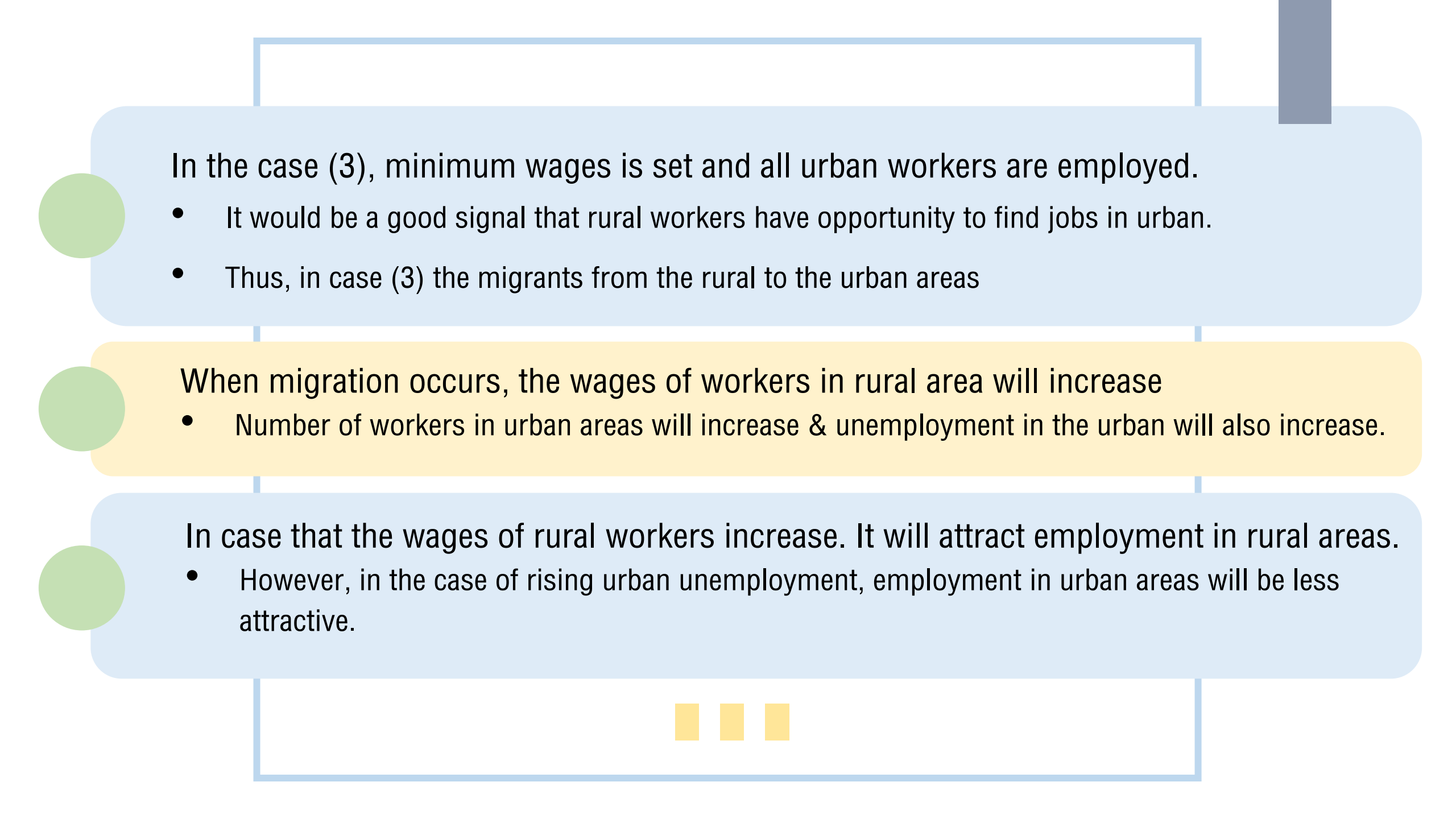
Migration occurs



4. Todaro argues that

- Workers who decide to migrate will compare rural wages with urban wages and then adjust the likelihood or probability of obtaining the job
- The easiest way to calculate the probability of getting a job is the number of manufacturing employment (LM) divided by the total urban workforce (LU).
- Equilibrium conditions occur when labor does not feel different (Indifferent) between living in the urban and in the rural

$$W_A = \frac{LM}{LU} \times W_M$$



In the case (3), minimum wages is set and all urban workers are employed.

- It would be a good signal that rural workers have opportunity to find jobs in urban.
- Thus, in case (3) the migrants from the rural to the urban areas

When migration occurs, the wages of workers in rural area will increase

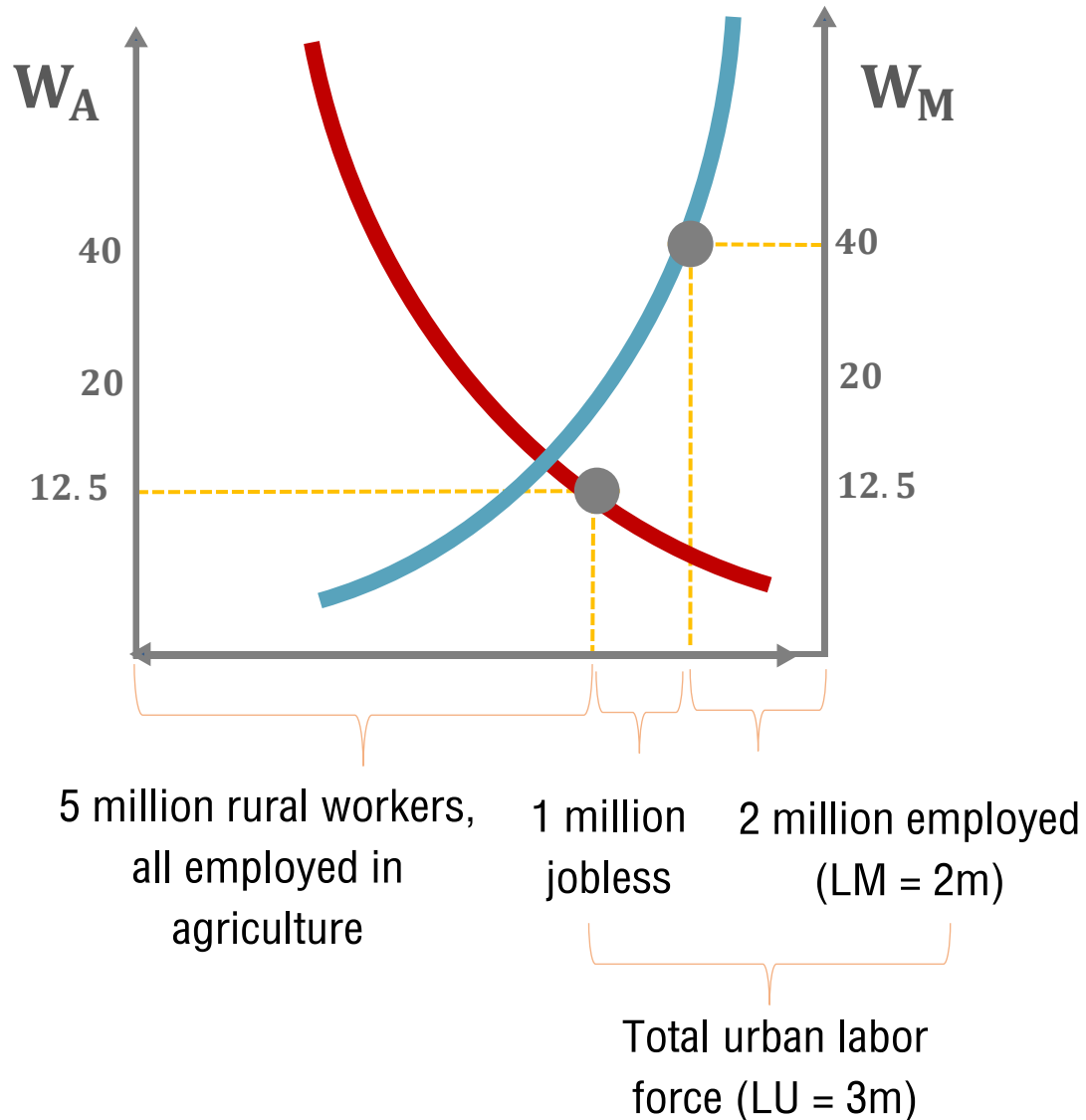
- Number of workers in urban areas will increase & unemployment in the urban will also increase.

In case that the wages of rural workers increase. It will attract employment in rural areas.

- However, in the case of rising urban unemployment, employment in urban areas will be less attractive.

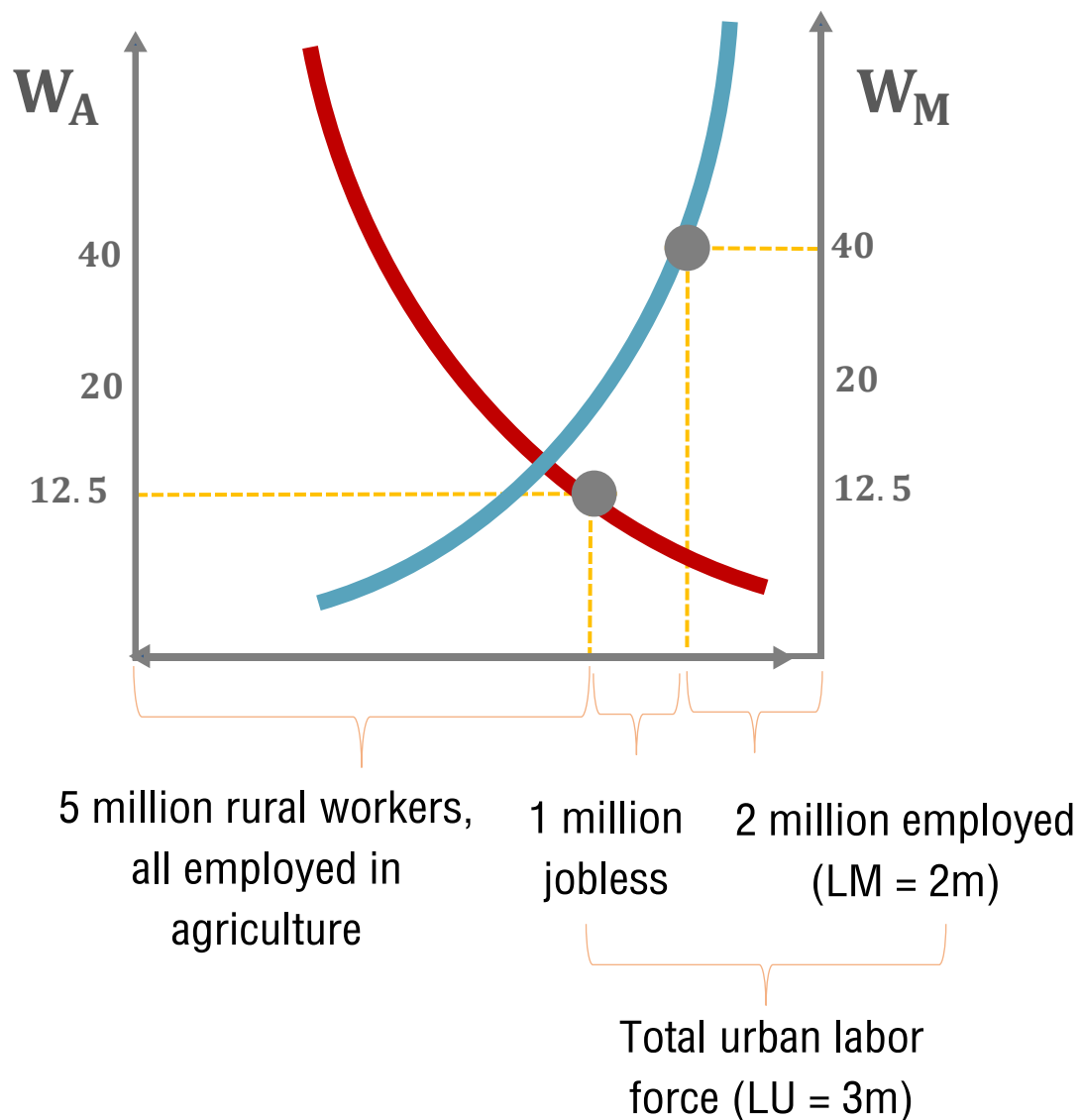


Transitional; still not in equilibrium



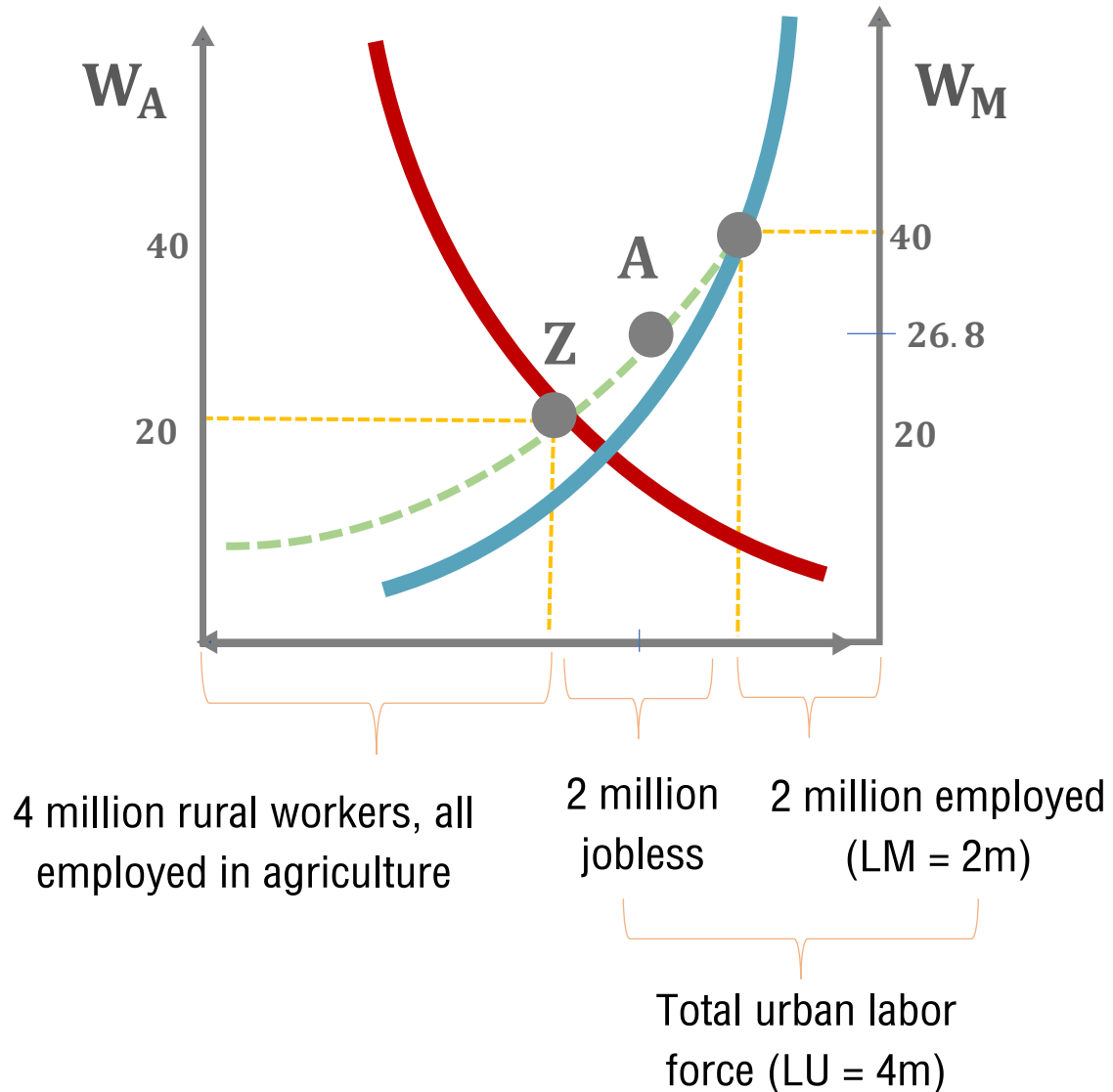
- **Mechanism of the model** - when we start from the case (3)
 - 1 million workers leave the rural and migrate to the urban areas
- Rural wages will increase to 12.5 baht per day
- Two-thirds of urban workers will be employed (2 million out of 3 million).
 - Number of workers employed in urban will not change as wages are fixed

Transitional; still not in equilibrium



- In this case, when $W_A = \underline{12.5}$ baht and $W_M = 40$ baht
 - According to the model, we are not at equilibrium.
- If $W_M = 40$ baht and considering the probability (chance) that rural workers will get a job in the urban is $(LM/LU) = 2/3$.
- We can calculate the expected benefit of living in the city = $(2/3) * 40 = \underline{26.8}$ (or, expected wage of living in the city).
There is still migration from rural to urban.

Final equilibrium



5. The equilibrium point will be reached
When

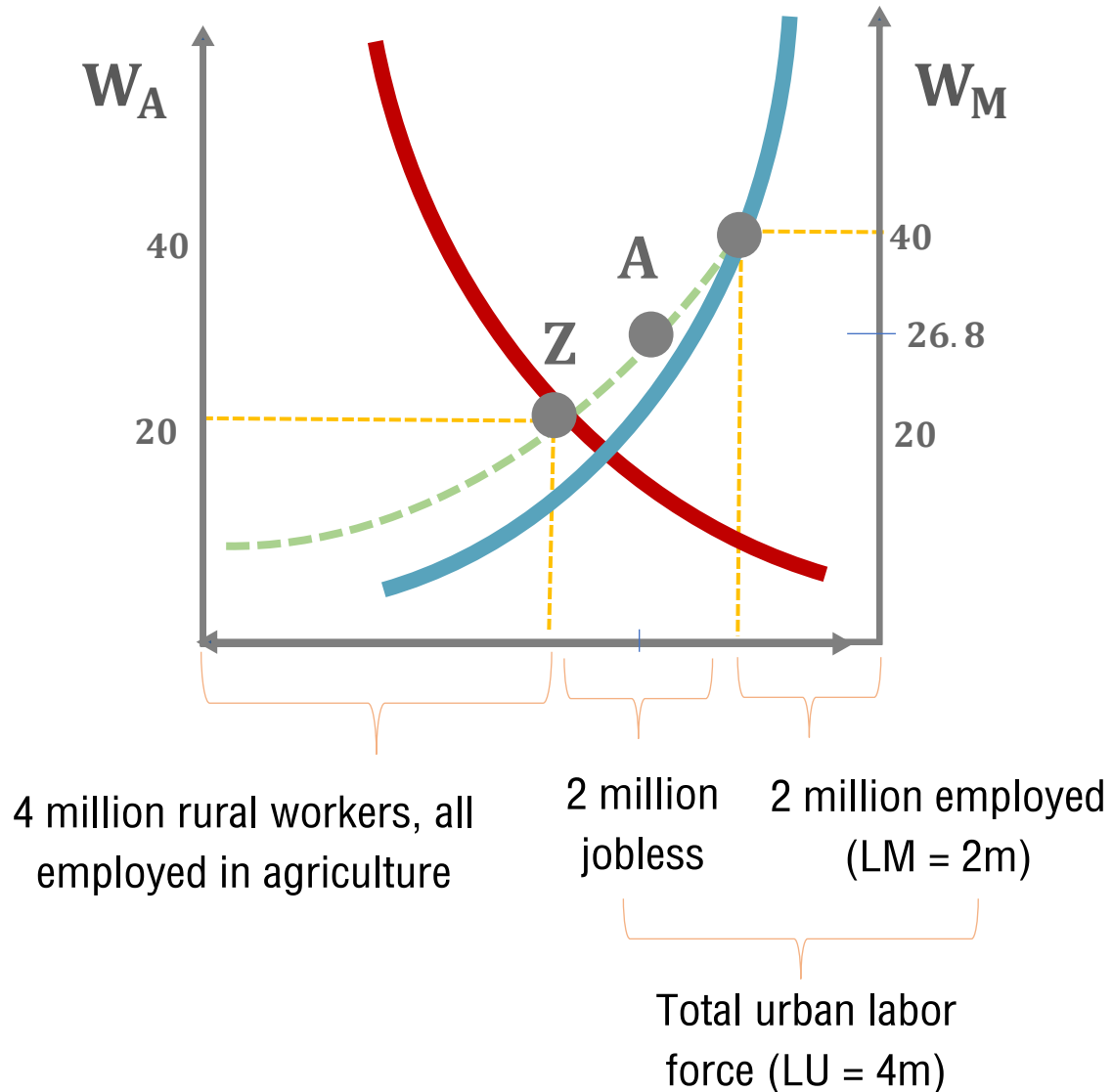
$$W_A = \frac{LM}{LU} \times W_M$$

Rural wages and employment patterns in urban and rural areas has no difference (green dotted line).

Each equilibrium point is indicated by a green dotted line –

$W_A = 26.8$ = expected wages in the urban

Final equilibrium



- If wages in rural areas = 26.8 baht, the equilibrium point will be at point A.
 - However, rural areas cannot employ 5 million people, paying 26.8 baht per day.
 - Equilibrium will not occur.
- However, the equilibrium point is Z, where the rural labor demand curve at 20 baht per day wages and the urban employment rate is 50%, which makes

$$20 = (2 \text{ million} / 4 \text{ million}) \times 40$$

there will be no more migration

However, if there is no adjustment to reach to an equilibrium. This made these 2 million workers, some of them are unemployed.

And, some of them became informal workers in the urban area.

Equilibrium is occurred when

Agricultural Wages (WA) = Expected wage in formal sector (Urban) + Expected wage in informal sector (Urban)

$$WA = \left(\frac{LM}{LU} \times WM \right) + \left(\frac{LU-LM}{LU} \times WI \right)$$

wages in informal sector (= WI) tend to be less than WA and WM.



The role of the informal sector in Thailand (Warunsiri, 2011)



- The informal sector plays an important role in the economy, especially in developing countries.
- This sector comprises informal economic activity and absorbs approximately 60% of the labor force in urban areas.

- Activities depend on the socioeconomic environment in each country.
 - Workers create activities that interest them & appropriate in economic situation & generate expected income.
Sometimes, these activities are not legally registered.

The role of the informal sector in Thailand

- Government plays an essential role in developing countries
- An economic development plan is used to formulate policy guidelines and resource allocation in the country.
- By the end of 1996, Thailand had the highest economic growth rate worldwide.

Inequality remains a problem in the country



The role of the informal sector in Thailand



Differences in the level of development in rural and urban areas lead to population migration (to Bangkok or the regional center),

- Migration of workers from agriculture to manufacturing and services
- Expanding employment without increasing real wages.

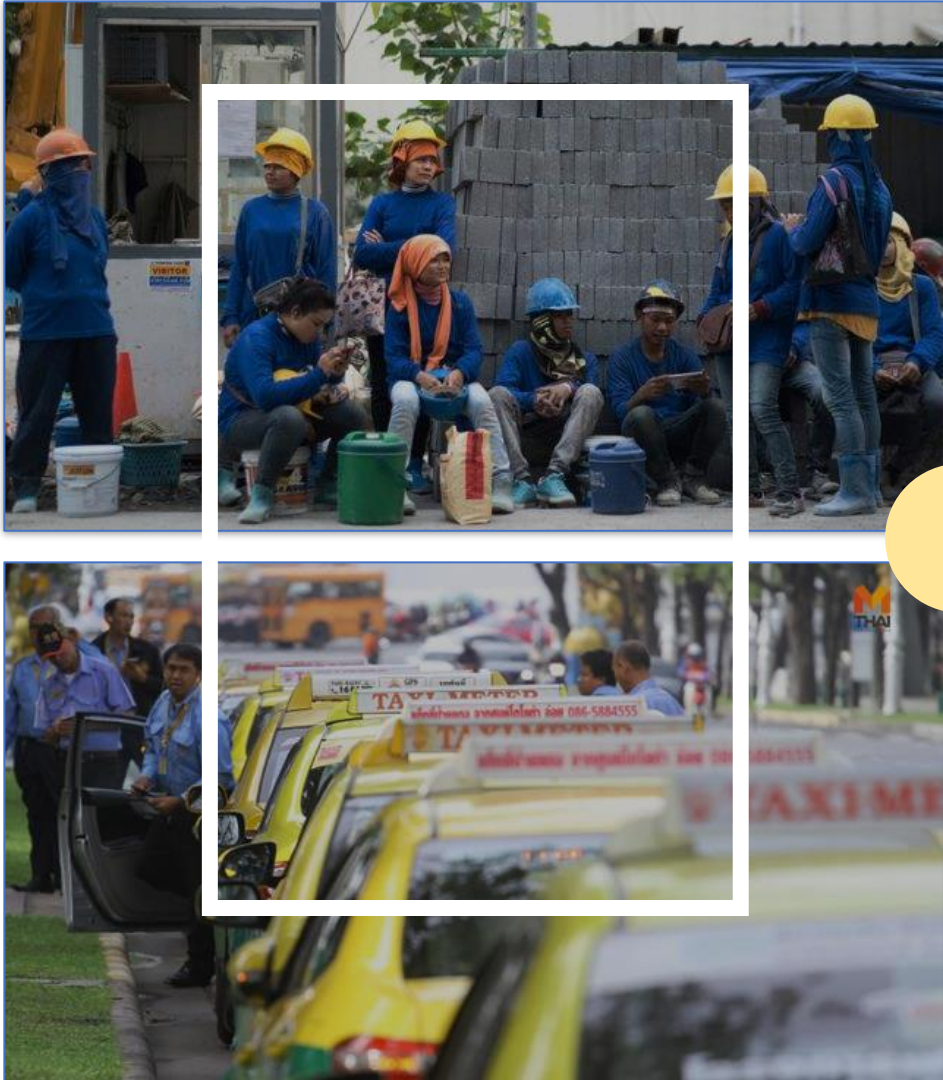


Todaro (2000) explains that formal sectors in developing countries have little base in terms of productivity and employment.

- Therefore, there are restrictions on accepting these workers when labor demand is lower than labor supply.

The informal sector has a role in helping these workers survive poverty.

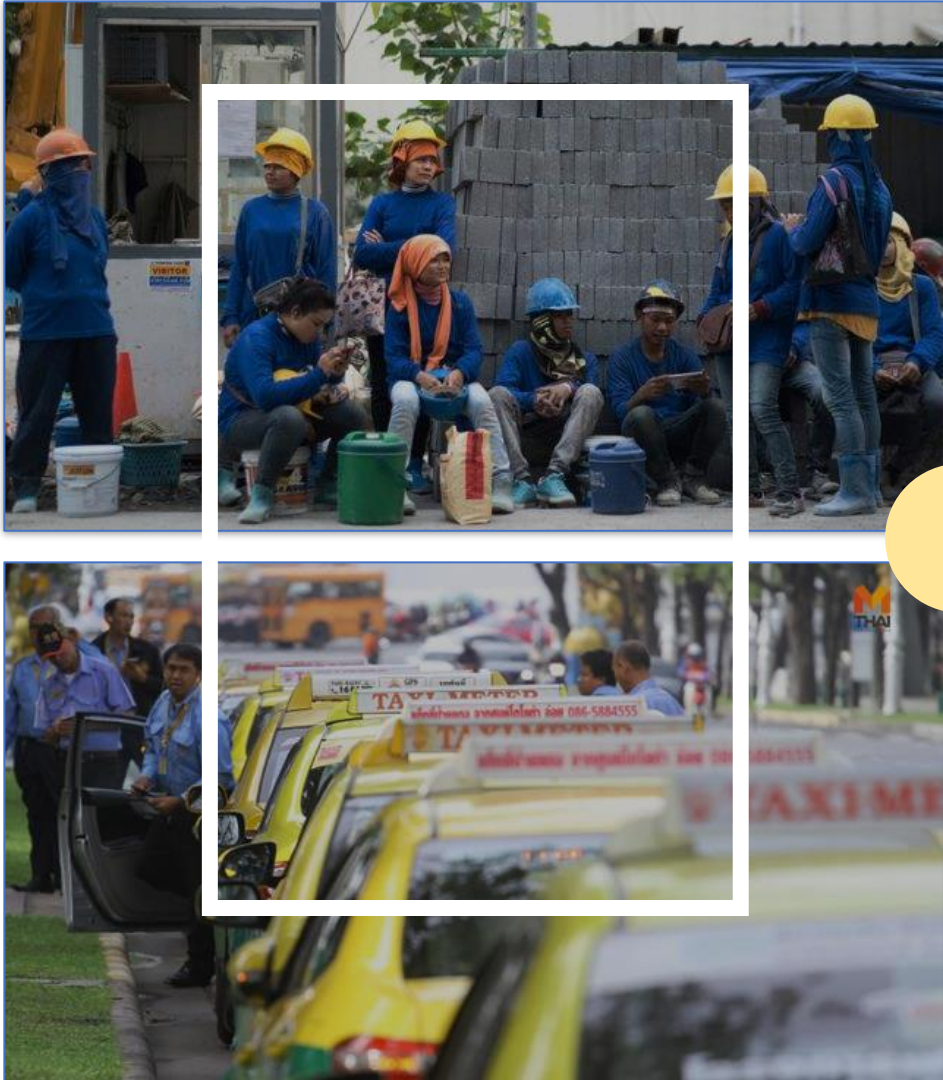
The role of the informal sector in Thailand



Types of migrant workers can be categorized according to the duration of their stay:

- 1) Temporary immigrants
(residing for two years or less)
- 2) Seasonal migration: The informal sector in the city is the “greatest annual cash income source” during the non-planting season
 - Example - construction workers.

The role of the informal sector in Thailand



- 3) Long-term migrants (residence for more than two years)
 - Income is the main motivation for migration.
 - Example –
taxi drivers in Bangkok earn 10,000 baht per month, which is 3 times the income from agricultural work in the rural areas (Rigg, 2001).

The role of the informal sector in Thailand



- The number of informal sector workers has continued to increase because of factors such as family networks
 - Construction work - Team members including carpenters, electricians, painters, and other craftsmen, are relatives.
- Most workers in this sector are uneducated, unskilled, and demonstrate low productivity.
- The likelihood of getting a job in the official sector is very low.
 - Thus, they tend to stick to the informal sector and earn a very low income.

The informal sector became more pronounced in the post-crisis period of 1997.

The role of the informal sector in Thailand



After the country faced a huge economic crisis in 1997, it became a debtor of the International Monetary Fund (IMF).



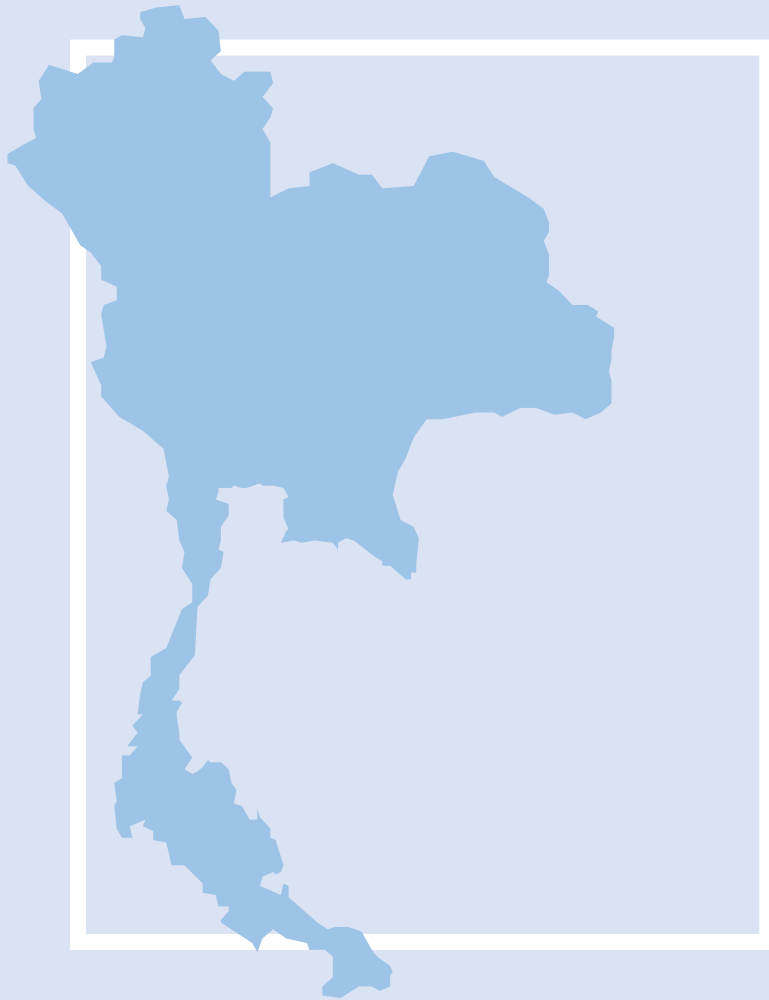
This situation represents the worst employment situation in Thailand.



The informal sector has a role here.

- During the crisis, the agricultural sector could not absorb unemployed people because the Thai economy changed from agriculture to manufacturing.

The role of the informal sector in Thailand



- Thus, workers must find ways to support themselves and their families on their own.
- Working in the informal sector has several interesting aspects:

Small-scale, labor-intensive, easy to enter and leave, not too difficult, self-employed.

The main disadvantages are the lack of a social security system for the unemployed and government assistance.

Current situation of informal workers in Thailand

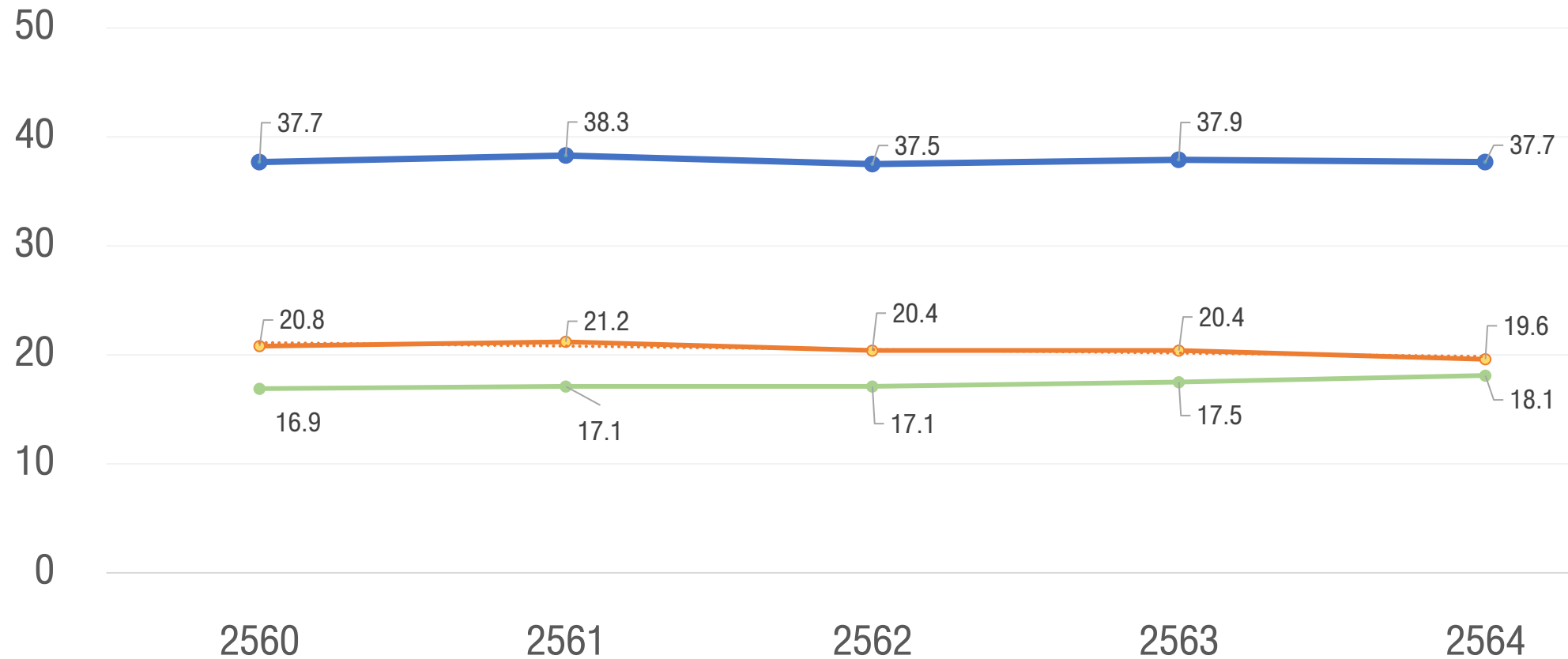
National Statistical Office's definition –

- “a person who has an unprotected job. or no social security from work”
- “People who work privately with or without employees or employees without social security or welfare of state employees.”

informal employment survey (NSO, 2021)

- 🏠 Collecting information on informal workers in the 3rd quarter of July – September 2021.
- 🏠 Thailand's informal sector tends to decline continuously.

Total number of workers (employed persons) formal and informal workers 2017-2021




Total number of workers (employed persons)


Informal

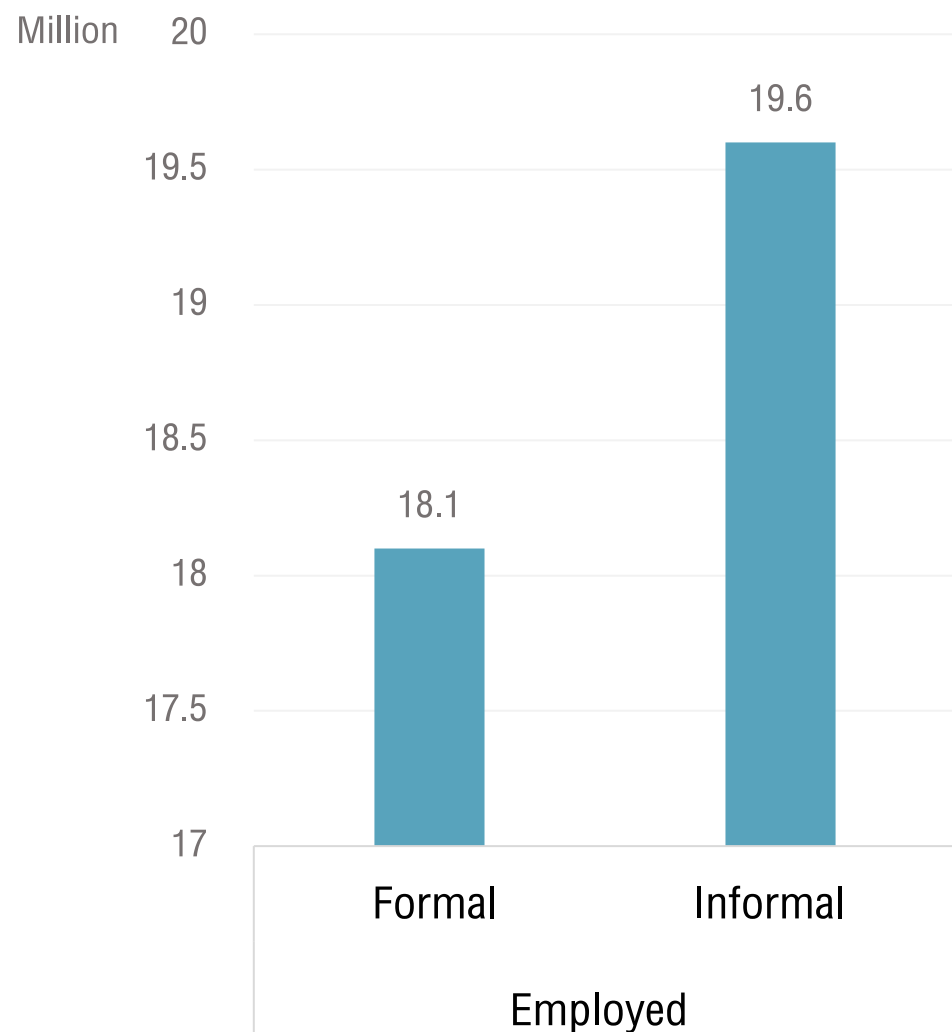

Formal

Number of formal and informal workers classified by gender 2021

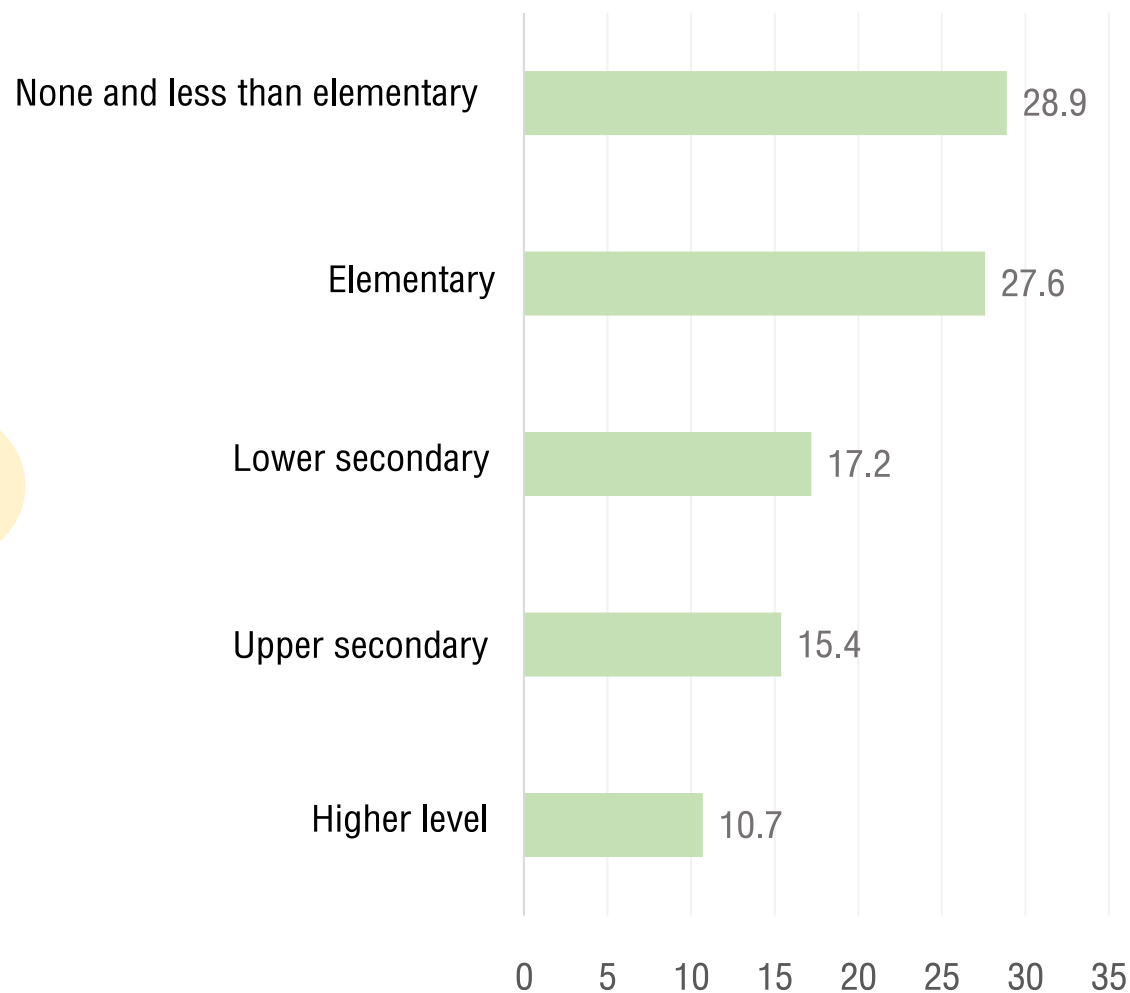
Employed	2017	2018	2019	2020	2021
Total	37.7	38.3	37.5	37.9	37.7
Male	20.5	20.9	20.5	20.5	20.5
Female	17.2	17.4	17	17.3	17.2
Formal workers	16.9	17.1	17.1	17.5	18.1
Male	9	9.2	9.1	9.3	9.7
Female	7.9	7.9	8	8.2	8.4
Informal workers	20.8	21.2	20.4	20.4	19.6
Male	11.5	11.7	11.4	11.2	10.8
Female	9.3	9.5	9	9.2	8.8
Informal workers rate of male	56.1	56	55.6	54.6	52.7
Informal workers rate of female	54.1	54.6	52.9	53.2	51.2

$$\text{Informal workers rate (male/female)} = \frac{\text{Number of informal workers (male/female)}}{\text{Number of employed (male/female)}} \times 100$$

Number and percentage of formal and informal workers 2021



Percentage of informal workers classified according to the level of education achieved 2021



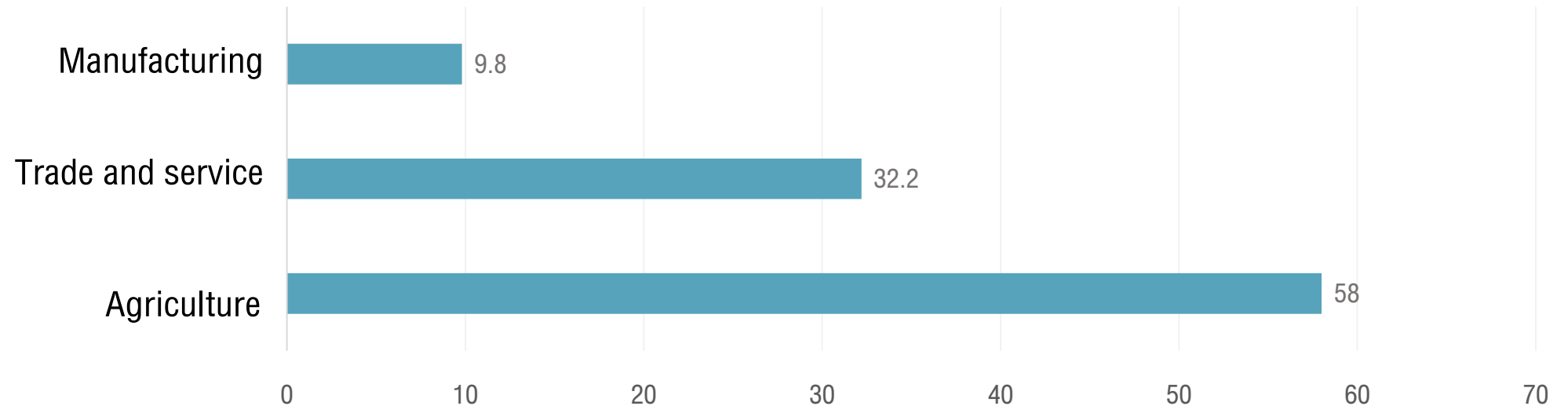
Note : other education are not included and unknown education

Percentage of informal workers by industry 2021



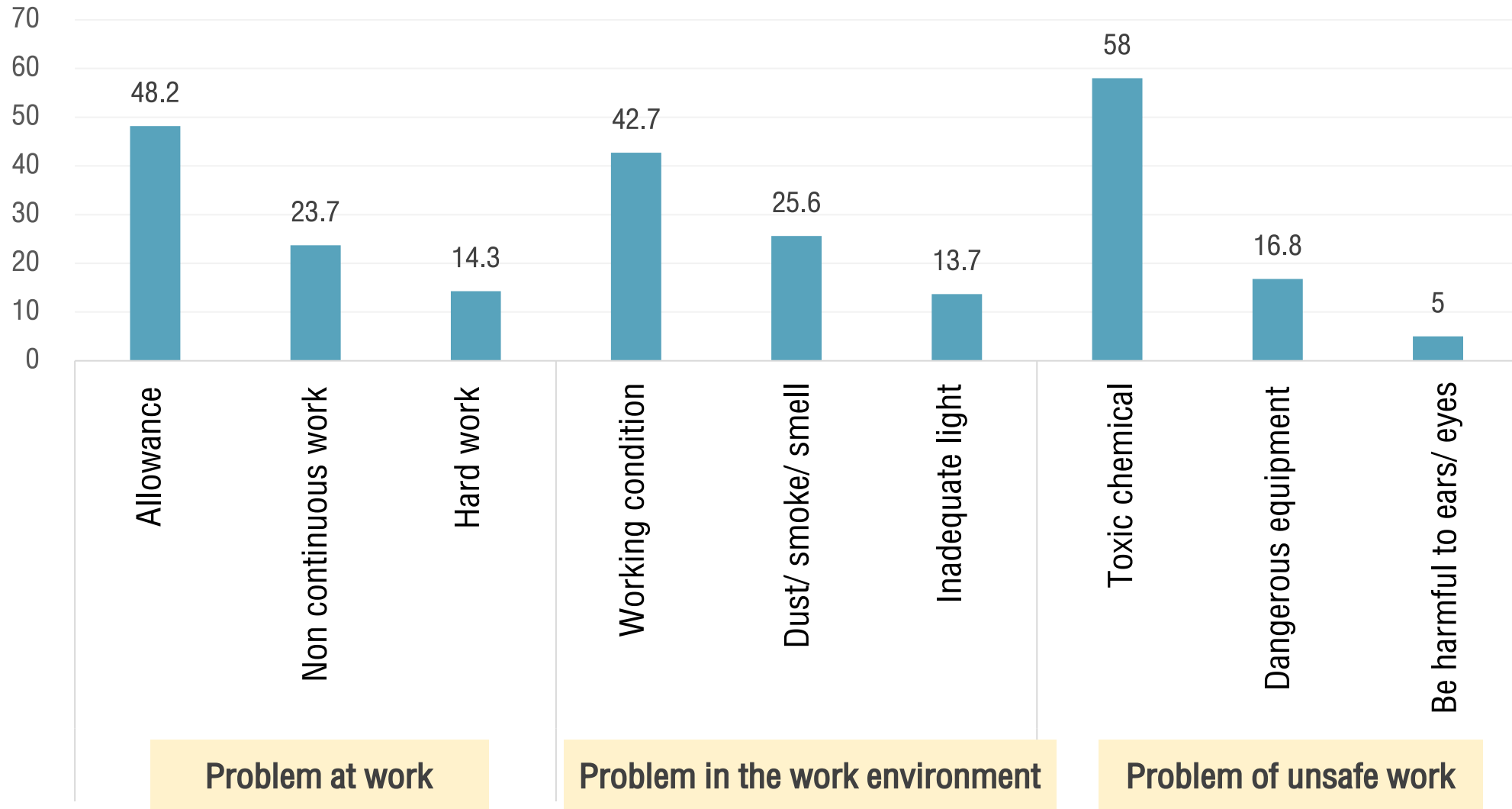
Source - <http://www.nso.go.th/>

Percentage of informal workers by economic group 2021



The problem of informal workers

Percentage of informal workers by problem at work, problem of unsafe work, and problem in the work environment 2021



Why does Thailand still have a high number of informal workers?

thansettakij.com/columnist/416461

ทำไมประเทศไทยยังมี แรงงานนอกระบบค่อนข้างสูง?



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<https://www.thansettakij.com/columnist/416461>

Vechbanyongratana, Yoon, and
Paweenawat (2019)

Thansettakij Newspaper

Why does Thailand still have a high number of informal workers?

 Informal workers are those who work but are not protected or covered by social security act, like those in the formal labor market.

Currently, informal workers comprise the largest group of workers in Thailand (around 55%)

 Despite government policies requiring business units with one or more employees register employers and employees for insurance under the social security system, the number of informal workers remains high.

The International Labor Organization's Recommendation Resolution No.204 on Transition from the Informal to Formal Economy is the first international labor standard to address the protection of informal workers.

Why does Thailand still have a high number of informal workers?

-  Thailand adopted this recommendation and implemented it through various measures that have continued to expand the coverage of the social security system to informal workers.
 -  Government legislative measures are in place to incentivize informal workers to enter the social security system under Article 40, which provides benefits similar to those for formal workers insured under Section 39.
-  If informal workers change their status to formal workers, both the government and the workers themselves would be positively benefited.
 -  An increase in the number of workers in the formal sector increases the tax base in terms of income taxes. Contributions to the Social Security Fund are increasing & Government can organize a social security system, social welfare, and public services for citizens.

Why does Thailand still have a high number of informal workers?

 The main benefit comes from being protected under various labor laws, which cover working conditions, working hours, holidays, and overtime, and include legal and minimum wages.

 Currently, formal workers employed in private companies can receive benefits under Section 33 of the Social Security Act, which specifies the benefit that insurers will provide cover for up to seven cases

Sickness, maternity, disability, death, child allowance, old age, and unemployment.

Why does Thailand still have a high number of informal workers?

Although formal labor provides numerous benefits, the number of informal workers in Thailand remains high.

Why do some employees want to be informal workers?

What are the benefits and costs of being outside the system?

What are the characteristics thereof?



Thai female workers in the informal textile and cleaning services market.

(1) Although the formal sector offers higher wages than that earned by informal workers, the wage gap between formal and informal workers is not that high.

(2) The social protection system in the country provides 30 baht, treatment for all diseases, social security, the provisions in Section 40, and a pension for the elderly.

- As such, there is little difference in the benefits formal and informal workers receive.

(3) Informal employment provides workers with more flexibility in terms of work than the formal sector.



Working in a textile factory receive higher wages and other benefits than those working in the informal sector

- Some female workers prefer to work from home because of flexible working hours
- They are can allocate time to care for the family and are more relaxed.



Workers engaged in cleaning services prefer to work as informal employees in households than in a cleaning company.

- They want to live in the household with their employer to reduce travel expenses.
- Although the number of hours is higher than that of formal workers, they are more flexible and have access to informal credit from their employers.

Informal Workers Act

Currently, informal workers, which comprise a large portion of Thailand's labor force, cannot access basic rights at work or in their occupation.

The Promotion of Quality-of-Life Development and Protection of Informal Workers Act, B.E. is needed to enable informal workers to receive a promotion, develop a better quality of life, and be secure under the protection of the law.

Informal Workers Act



The Promotion of Quality-of-Life Development and Protection of Informal Workers Act, B.E.

Informal workers should be enabled to unite and form professional groups

- establish an informal labor organization to create bargaining power to ensure fairness at work,
- have the opportunity to borrow money from the Fund to improve their quality of life.

Informal Workers Act



Promoting and supporting these occupations will protect informal workers by ensuring social security, safety, occupational health, and a good working environment.

This Act establishes a fund to improve the quality of life of and protect informal workers.



ร่างพระราชบัญญัติส่งเสริมการพัฒนาคุณภาพชีวิตและคุ้มครองแรงงานนอกระบบ พ.ศ.

ประโยชน์ที่แรงงานนอกระบบจะได้รับจาก

พ.ร.บ. ส่งเสริมการพัฒนาคุณภาพชีวิตและคุ้มครองแรงงานนอกระบบ พ.ศ.

ด้านส่งเสริม

- มีงานทำ มีอาชีพ มีรายได้
- เข้าถึงแหล่งเงินทุน
- สวัสดิการทางสังคม
- ประกันภัยกลุ่ม
- ขึ้นทะเบียน/รวมกลุ่ม/จัดตั้งองค์กร
- ร่วมเป็นกรรมการ/อนุฯ
- จัดตั้งกองทุนฯ ฯลฯ

ด้านพัฒนา

- พัฒนาทักษะฝีมือ
- พัฒนาความรู้ความสามารถในการเปลี่ยนอาชีพ
- พัฒนาทักษะอาชีพตามความต้องการของตลาด
- พัฒนาให้เป็นแรงงานคุณภาพของประเทศ ฯลฯ

ด้านคุ้มครอง

- กำหนดให้มีพนักงานตรวจแรงงานนอกระบบ
- กำหนดมาตรฐานรายได้ขั้นต่ำเวลาการทำงาน วันหยุด วันลา สภาพการทำงาน
- กำหนดมาตรฐานความปลอดภัย
- กำหนดช่องทางร้องทุกข์
- ตรวจ/ดำเนินคดีผู้กระทำความผิด ฯลฯ

บทกำหนดโทษ

- ผู้ใดขัดขวาง/ไม่ปฏิบัติตามคำสั่งพนักงานตรวจแรงงานนอกระบบ (ม.45) ตรวจสภาพการทำงาน ความปลอดภัย ปรับไม่เกิน 20,000 บาท
- ผู้จ้างทำงานผู้ใดฝ่าฝืน/ไม่ปฏิบัติตาม (ม.11) กฎกระทรวงกำหนดสภาพการทำงาน ค่าตอบแทนฯ จำคุกไม่เกิน 6 เดือน ปรับไม่เกิน 100,000 บาท หรือทั้งจำทั้งปรับ
- ผู้ใดไม่ปฏิบัติตามคำสั่งพนักงานตรวจแรงงานนอกระบบที่สั่ง (ม.42) ยื่นคำร้อง จำคุกไม่เกิน 6 เดือน ปรับไม่เกิน 100,000 บาท หรือทั้งจำทั้งปรับ

นิยาม : แรงงานนอกระบบ

- คนทำงานสัญชาติไทยอายุ 15 ปีขึ้นไป
- ไม่เป็นลูกจ้างตามกฎหมายคุ้มครองแรงงาน
- ไม่เป็นผู้ประกันตน ม.33 ตามกฎหมายประกันสังคม
- ไม่เป็นเจ้าหน้าที่รัฐ/รัฐวิสาหกิจ

กลไกการขับเคลื่อน

- คณะกรรมการส่งเสริมการพัฒนาคุณภาพชีวิตและคุ้มครองแรงงานนอกระบบแห่งชาติ (คนช.) (นย./รอง นย.-ปธ.)
- คณะกรรมการระดับจังหวัด (ผวจ.-ปธ.) ขับเคลื่อนโดย รง.จว.
- ศูนย์ส่งเสริมการพัฒนาคุณภาพชีวิตและคุ้มครองแรงงานนอกระบบจังหวัด
- พนักงานตรวจแรงงานนอกระบบ (สป. รง./กสร./กกจ./กพร./สปส.)
- อาสาสมัครแรงงาน (อสร.)

วัตถุประสงค์

- ส่งเสริม คุ้มครอง และพัฒนาคุณภาพชีวิตแรงงานนอกระบบ
- ส่งเสริมการเข้าถึงสิทธิพื้นฐานในการประกอบอาชีพ
- สร้างการมีส่วนร่วม/ส่งเสริมการรวมกลุ่ม/สร้างความเข้มแข็งเครือข่าย

กองทุนส่งเสริมการพัฒนาคุณภาพชีวิตและคุ้มครองแรงงานนอกระบบ

ที่มาของเงินกองทุน

- โอนกองทุนผู้รับงานไปทำที่บ้าน
- ทุนประเดิม 100 ล้านบาท
- เงินค่าสมาชิก
- เงินค่าปรับ
- เงินดอก/ผล
- เงินจากกฎหมายอื่น

สิทธิประโยชน์

- เงินกู้ยืม
- ประกันกลุ่ม
- อุดหนุนหน่วยงาน
- จ้างสมาคม/มูลนิธิ

Exercise

- 1) Discuss the Harris-Todaro Model and the government policies involved in reducing inequality in urban and rural areas to attract more workers to rural employment, reduce the number of informal workers in urban areas, and balance the level of development between urban and rural regions.
- 2) Discuss the mechanism of the Harris-Todaro Model of Migration and Urban Unemployment when the government starts to set up minimum wage in the urban areas. What will happen to the wage in rural areas, rural-urban migration, and employment in urban areas?
- 3) Warunsiri (2011) states that after Thailand faced a tremendous economic crisis in 1997, the informal sector expanded and became significant. Discuss the role of the informal sector before, during, and after the crisis.
- 4) Discuss the strengths and weaknesses of working in the informal sector. Why are many workers still employed in the country's informal sector? Discuss by providing examples from developing countries and outlining these informal workers' job characteristics and occupations. What policies should the government implement to improve the wages of these workers? Also, discuss their welfare and the environment.

Exercise

- 5) Discuss the advantages and disadvantages when government legislative measures are in place to incentivize informal workers to enter the social security system. Also, provide a country example, a policy implemented, and the outcomes.
- 6) According to the Global Entrepreneurship Monitor, in 2016, about 163 million women started or started a new business in 74 economic zones worldwide. The increasing number of women entrepreneurs contributes to economic growth. Give examples of countries with a policy of integrating gender dimensions and promoting female entrepreneurs. Then, discuss how the policy has successfully helped promote female entrepreneurs in that country.
- 7) From the study of the impact of the COVID-19 epidemic on the global workforce. It is expected that women will be the most negatively impacted. Discuss the impact of COVID-19 on the employment of female workers in the formal and informal sectors. Give examples of negative impacts from abroad in your discussion.