

**UCLA**

**Volume IV. 1988-89 - Conference on Comparative Ethnicity: The  
Conference Papers, June 1988**

**Title**

New York City's Informal Economy

**Permalink**

<https://escholarship.org/uc/item/8927m6mp>

**Author**

Sassen, Saskia

**Publication Date**

1988-06-01

## Notice:

This working paper was printed by the Institute as a means for disseminating the research findings of Institute and University-related scholars. The text is provided in order to facilitate academic discourse and is free to use for personal academic purposes utilizing proper citation. Copyright of the information contained within lies with the authors, and requests for use other than personal research purposes must be directed to the authors.

## NEW YORK CITY'S INFORMAL ECONOMY

SASKIA SASSEN

Columbia University, New York

## ABOUT THE AUTHOR...

Saskia Sassen, is a Professor and Director of the Urban Planning Program at Columbia University. Professor Sassen holds a doctorate in Sociology and Economics from Notre Dame University. Over the last few years she has been engaged in research on international migration, specifically the incorporation of immigrants in the economies of large advanced industrial cities, and on the economic conditions in countries with large outmigration. In addition to a large number of scholarly articles, Professor Sassen has published two books: *The Mobility of Labor and Capital* (Cambridge University Press, 1988); and *Global Cities* (Princeton University Press, 1988).

A version of this paper was prepared for the UCLA CONFERENCE ON COMPARATIVE ETHNICITY, June 1988. The Conference was coordinated by Institute for Social Science Research and sponsored by The President's Office, Chancellor's Office, College of Letters and Science, Institute of American Cultures, Center for Afro-American Studies, and Department of Geography and Sociology, UCLA; and by the Division of Social Sciences and Communication, the Los Angeles Project and Department of Geography and Political Science, USC.

A small but growing body of evidence points to the expansion of informal sectors in major cities of the U.S. over the last decade (Fernandez Kelly 1984; Stepick 1984; Sassen-Koob 1981a; 1984; 1986). These studies focus on the production and sale of goods and services that are licit, but produced and/or sold outside the regulatory apparatus covering zoning, tax, health and safety, minimum wage laws, and other types of standards. The evidence these studies are presenting runs counter to prevailing conceptions of the

informal sector as well as of the nature of highly industrialized economies.

While criminal activities and underreporting of income are generally recognized to be present in advanced industrialized economies, informal sectors are not. The literature on the informal sector has mostly focused on Third World countries and has, wittingly or not, assumed that as a social type such sectors are not to be expected in advanced industrialized countries. And the literature on industrialization has assumed that as development progresses, so will the standardization of production and generalization of the formal organization of work. Because the informal sector in the U.S. is perhaps most evident in immigrant communities, there has been a tendency to explain its expansion as a consequence of the large influx of Third World immigrants and their propensities to replicate survival strategies typical of home countries. Not unrelated is the notion that the availability of a large supply of cheap immigrant workers facilitates the survival of backward sectors of the economy. Informalization contributes to lower the costs of social reproduction and production. Both of these views posit or imply that if there is an informal sector in advanced industrialized countries, the sources are to be found in Third World immigration and in backward sectors of the economy. Explaining the expansion of informal sector as a Third World import or a remnant from an earlier phase of industrialization resolves the tension between this fact and prevailing conceptions of advanced industrialized economies.

A central question for theory and policy is whether the formation and expansion of informal sectors in advanced industrialized countries is the result of conditions created by advanced capitalism. Rather than assume that Third World immigration is causing informalization, we need a critical examination of the role it may or may not play in this process. Immigrants, in so far as they tend to form communities, may be in a favorable position to seize the opportunities represented by informalization. But the opportunities are not necessarily created by immigrants. They may well be a structured outcome of current trends in the advanced industrialized economies. Similarly, what are perceived as backward sectors of the economy may or may not be remnants from an earlier phase of industrialization; they may well represent a downgrading of work involving growing sectors of the economy.

This type of inquiry requires an analytical differentiation of immigration, informalization and characteristics of the current phase of advanced industrialized economies. That should allow us to establish the differential impact of (a) immigration and (b) conditions in the economy at large on the formation and expansion of informal sectors.

The research on the informal sector in New York City seeks to contribute information on these various questions. The working hypothesis is that the current phase of the advanced industrialization contains conditions that induce the formation of an informal sector in large cities. There are two distinct methodological components to the study. One is concerned with identifying conditions in the major growth sectors that may induce informalization. This analysis has been completed (Sassen-Koob 1981; 1984a). The other is concerned with identifying the characteristics of the informal sector itself. This paper reports on this part of the study and the findings for New York. The next section describes the study and the second, the findings. The third section discusses the implications for theory and policy associated with the identification of a diversity of sources in the expansion of informal sectors.

## THE STUDY

Here I will briefly describe the analysis of trends in the larger economy and then discuss the research on New York City's informal sector.

### Economic Restructuring and Informalization

In order to identify systemic links between informalization and structural conditions in advanced capitalism I examined the effects of major growth trends in shaping a vast array of types of jobs, types of firms and subcontracting patterns that might promote informalization. The argument and evidence have already been presented. Recapitulating briefly, the argument is that certain forms of economic growth promote informalization in major cities. Changes in the sectoral composition of the city's economy and in the organization of work generally over the last decade have brought about (a) an expansion of low wage and of high-income jobs; and (b) a proliferation of small units of production. Both trends contrast with what was typical in the post-World War II era, when growth was characterized by vast expansion of a middle class and even larger scales of production. The historical forms assumed by this expansion, notably capital intensity, standardization, and suburbanization, deter informalization. And so did the cultural forms accompanying this process, particularly as they shaped the structures of everyday life. A major inference that can be drawn from this is that a large middle class contributes to patterns of consumption that promote standardization in production and hence, under certain conditions, are conducive to greater levels of unionization or their forms of workers' empowerment that can be derived from large plants -- an empowerment which is, in turn, conducive to middle-income jobs. The patterns of economic polarization evident today work in the opposite direction, promoting small scales and non-standardized production.

The growing economic polarization has consequences for the organization of the labor process and for the structures of social reproduction. The evidence suggests that the increase in economic polarization and the emergence of new technical constraints have led to (a) a proliferation of small firms engaged in the production and retail of both highly priced customized and very cheap products and services for firms and for final consumers; and (b) a spatial concentration of such small firms in major cities due to (1) their critical mass of high- and low-income residents and commuters and (2) the need for small firms to be close to suppliers and buyers. These growth trends contain inducements towards the informalization of a whole range of activities. The intervening processes are the expansion of both a market for extremely low-cost goods and services. An additional intervening process is the downgrading of manufacturing resulting partly from these changes in consumption, but more generally from technical and politico-economic pressures.

### The Informal Sector

The objectives of the larger and ongoing research project are the following: (1) assess the extent to which informal economic activities are growing in New York City and in which kinds of communities and industrial sectors; (2) identify the linkages between these informal activities and formal sector activities (in the communities, in the industries, and in the wider city economy); (3) identify whether there is, and if so, compare, the weight of demand that is internal to the communities in which informal goods are produced versus that which is external to the communities; (4) identify the role that informal production plays in the spatial organization of particular industries in New York City; (5) examine the importance of New York City as a location to informal producers; and (6)

identify existing government policies towards informal producers and those which may play a role in the formation of informal sectors.

The research involves a combination of (a) secondary data analysis; (b) ethnographic research in select communities and various kinds of workplaces; and (c) interviews with informed individuals, including local planning officials, community members, etc. We used data on occupational safety and health administration violators, along with overtime minimum wage legislation violators to identify trends in informal production in New York City. On the basis of these data we targeted certain industries for more in-depth study of the informal component of their total production chain. We did fieldwork in communities identified by knowledgeable people as having a large informal sector or having a high immigrant population as an indicator for probability of informal activity. We used interviews with community boards and local development corporation representatives to target specific sites with violations. (Complaints of businesses in violation of legally defined uses of building or zoning ordinances are normally registered with local development corporations and community boards before being referred to the Department of Buildings.) Zoning maps and data from the Department of Buildings were used to obtain more detailed information on informal producers. Our site visits and interviews helped us to identify the extent and kinds of informal activities in these communities. They also helped us to assess how existing regulations influence informal producers and to determine if new modes of regulation are needed.

#### INFORMALIZATION TRENDS IN NEW YORK CITY

We have examined several industries and communities and completed interviews with 55 informants, thirty homeworkers, and thirty shop owners. At the local and industry level, we interviewed: Community Planning Boards, "industry specialists" in various government agencies both at the city and local level, union officials, departments of Finance and Taxation at the local (borough), city and state level. (For a complete listing see Sassen-Koob and Grover 1986.) The industries covered were: (1) construction; (2) garments; (3) footwear; (4) furniture; (5) retail activity; and (6) electronics. We did field visits in four of the five New York City boroughs. We also used information from a separate research project on the garment and electronics industries in the New York metropolitan area (Sassen-Koob and Benamou 1985).

Among our main secondary sources were the following. The most comprehensive investigations on (1) numbers of unregistered commercial and manufacturing operations and (2) industrial sectors where such operations are most common are those by the New York State Department of Labor (1982a, 1982b) and by the New Jersey State Department of Labor (1982). Besides these there are several other completed studies (New York State Department of Taxation and Finance 1982; Leichter 1982; Assembly Committee on Oversight, Analysis and Investigation 1982; New York City Buildings Department 1981). In addition we know of at least two ongoing research projects focusing on the underground economy generally in the State of New York and the City of New York (New York State Department of Taxation and Finance 1985). Finally, other sources of ongoing information are the New York State Department of Labor, Division of Labor Standards records on Violations, the Occupational Safety and Health Administration's records on violations (particularly significant for the construction industry which is subjected to continuous inspection due to the high rate of serious work accidents); and the New York State Industrial Board of Appeals, where many of the cases about unregistered work are handled.

On the basis of our secondary data analysis, fieldwork, and interviews, we found the following profile of the informal sector in the New York City area (Sassen-Koob and Grover 1986): (a) a rapid proliferation of such operations (including industrial homework); (b) a rather wide range of industrial sectors with such operations: apparel (SIC 23), general construction contractors and operative builders (SIC 15); heavy construction contractors (SIC 16); special trade contractors (SIC 17) (particularly in SIC 174, masonry, stonework and plastering); footwear (SIC 314); toys and sporting goods (SIC 394); electronic components and accessories (SIC 367); (c) such operations were also found in lesser measure in particular kinds of activities like packaging notions, making lampshades, making artificial flowers, jewelry, distribution activities, photo engraving, manufacturing of explosives, and others: in all, 47 industrial sectors were examined. And most were found to have unlicensed or unregistered work situations; (d) a strong tendency for such operations to be located in densely populated areas with very high shares of immigrants, mostly Hispanic; Chinese were also prominent; South Koreans increasingly so and also certain European nationalities; finally, one area (Brighton Beach) with an almost exclusively Russian emigre population has extremely developed informal economy; (e) an emergent tendency for "traditional" sweatshop activity (notably garments) to be forced out of areas undergoing residential and commercial gentrification and to be replaced by new forms of unregistered work catering to the new clientele (e.g., high quality wood-cabinet making has replaced garment manufacture in Jackson Heights, Queens; unregistered "sweater mills" have replaced garment manufacture in Ridgewood, Queens); and (f) there is strong evidence of a growing spatial dispersion of unlicensed and unregistered work to more outlying areas (certain counties in New Jersey have seen a massive development of such operations, most of it geared to demand by firms in New York City) Furthermore, in the case of the garment industry, there has been a massive displacement to more peripheral areas: e.g., out of the Chinatown area in Manhattan and into Northern Manhattan, Brooklyn, Queens and New Jersey.

There follows a more detailed description of several of the industries we examined: construction, apparel, electronics, and furniture and fixtures. There is a heavy incidence of small firms in these industries and they have a relatively disadvantaged position in the tax structure. While the unemployment tax rate is 3.13 percent for all manufacturing, it is around 4 percent for most of the industries examined. A similar disadvantage can be seen in the incidence of taxes as a percentage of total payroll: the average for all manufacturing was .7 percent compared to 1 or 1.2 percent for these industries. Small size and a relatively disadvantaged tax situation may be factors that contribute to informalization. The description of our findings concludes with a discussion on the spatial organization of the informal sector which is a way to organize the community studies in the project.

## Construction

In 1982 there were over 10,700 registered construction firms in the New York metropolitan area. Most of these were Special Trade Contractors (SIC 17). These firms employed a total of 120,340 workers and had an average of 11 workers per firm; almost 80 percent of all firms employed from 1 to 9 workers. Major changes in the construction industry in this area are the growing polarization in the income structure of workers, with a loss of a wide range of middle-income construction jobs, and the rapid growth in subcontracting. The number of Hispanics in the industry overall has increased significantly over the last decade and much of it is accounted

for by subcontracting work (Balmori 1983). The share of unionized work in the industry has declined to 67 percent of all registered jobs. Unregistered work has grown over the last decade.

The sources of information for this sector were the following. (1) The Department of Buildings, the Department of Finance and Taxation, and OSHA provided information on violations labor, health, tax and other codes, including "stop-work" orders and penalties. (2) Union officials and representatives from trade associations (general Trade Association for Union Contractors, Building Contractors Association) provided information on industry patterns and the incidence of informalization in particular branches. (3) Several surveys of construction work and renovations done without the requisite building permits and in violation of the codes of by various government agencies. (4) Our own fieldwork in several areas of the city included visits to unregistered construction sites, interviews with workers, builders and subcontractors, interviews with neighborhoods people and with local community board members, and access to information in local development corporations.

The available evidence indicates that the incidence of informal work varies considerably according to sector. Most of the work in commercial and residential alterations and renovations, as well as in small store construction is done without the required permits and is likely to be in violation of various codes. Based on a 1981 four block survey in Manhattan conducted by the Department of Buildings 90 percent of all interior work in that borough is done without a building permit (1982). This findings has been confirmed by other surveys of city-wide "illegal" work in construction. On the other hand, there is little informal work in large public works projects. This was the case until recently with large private sector private projects as well; these tended to use exclusively union workers. Now such projects are increasingly resorting to subcontractors, including a rising use of unlicensed operators and revealing a rising incidence of various violations according to records from the Department of Buildings and from OSHA. The Union of Construction Contractors estimates that 33 percent of the \$4 billion private construction industry is now non-union and that a rapidly growing share of the latter consists of unregisters work. Informal work is rising in new construction work, particularly in foundations excavations and trenching, mostly in outlying areas. In the words of one respondent, most of these are "fly-by-night operations," a term that has become increasingly common in the construction industry. Finally, there is an extremely high incidence of informal work in highly specialized crafts work particularly stone cutting, masonry and plastering (SIC 174). These branches have experienced severe labor shortages and employ largely skilled immigrants.

A recent accident in a major construction site in mid-town Manhattan, illustrates some of these trends. One of the operators of a massive crane used in high rise construction, was found to be unlicensed. The accident led to a city wide inspection of major construction sites, that is to say high-rise construction, using mostly unionized workers, with frequent inspections and high general visibility. The investigation revealed a widespread use of subcontractors for jobs that used to be done through direct hiring of unionized workers, and an unexpectedly high incidence of subcontractors without the requisite permits or in violation of one or more codes. It also found a growing presence of Hispanics among the subcontractors in an industry where Hispanics were excluded not long ago (See also Balmori 1982; Gallo 1982).

Apparel

In 1982 there were about 5,300 registered firms in the apparel industry (SIC 23) in the New York metropolitan area. These firms employed a total of 145,770 workers and had an average size of 28 workers per firm. Forty percent of all registered firms had between 1 and 9 workers, and half had between 10 and 49 workers. A detailed occupational analysis of these employment figures for the area shows that over half of all the workers in registered firms were office workers (Sassen-Koob and Benamou 1985). It is well documented that a majority of production workers are in unregistered work situations, notably sweatshops and industrial homework. major changes in the apparel industry over the last decade are declining share of production work done by the manufacturing firms and their growing use of subcontractors. Secondly, there has been a pronounced spatial dispersion of the production units, with growing numbers of firms moving into the outer boroughs, especially Queens and Brooklyn, and the metropolitan counties of New Jersey (Sassen-Koob and Benamou 1985). Thirdly, a growing presence of highly specialized and high-fashion work among industrial homeworkers, including a rapid growth in highly priced knitwear (Sassen-Koob and Benamou 1985).

There is a vast body of information on this industry in New York City. Among the sources documenting recent trends in the industry are studies by the New York and New Jersey State Department of Labor (1982a,b; 1982), Abeles, Schwartz, Hackel and Silverblatt (1983), Waldinger (1985), Leichter (1982, 1985), the recent study by the Office of Economic Development on the Garment Center (City of New York, 1987), and research in progress on the apparel and electronics industries by the author.

The available evidence indicates that the incidence of informal work has risen immensely since the early 1970s. According to the International Ladies Garment Workers Union there were fewer than 200 sweatshops in New York City in the early 1970s; by 1981 there were estimated to be 3,000 such shops, including growing numbers in areas of the city that previously had any garment shops. It is estimated that there are 50,000 workers in sweatshops in New York City and 10,000 homeworkers. Separate studies (Leichter 1979; 1982; Abeles et al. 1983) tend to confirm these figures, particularly the estimate of number of sweatshops. These figures increasingly represent an underestimate of the weight of the industry in the area because they disregard the spatial dispersion of production facilities into neighboring counties in New Jersey as well as New York state localities adjacent but not part of the city (Sassen-Koob and Benamou 1985; New Jersey State Department of Labor 1982). The use of homeworkers in New Jersey has risen rapidly over the last few years. Production in this neighboring state is basically geared towards New York City firms.

The incidence of informal work varies according to branch. It is most prevalent in women's and children's wear and probably least common in men's wear. New branches in which sweatshops and homework are growing rapidly are knitwear, furs, embroidery, stuffed toys and clothing for toys. In all of these branches the use of homeworkers has grown dramatically. Interviews with homeworkers confirmed what is generally accepted, that hourly or piece rate wages are extremely low. However, we also found a new trend towards an upgraded version of homework. One pattern was for designers (typically free-lance or independent designers) to have immigrant workers come into their homes (typically large converted lofts in lower Manhattan) and work off-the-books. The other pattern was for middle class women to take in very expensive cloth and clothes to do finishing work at home or do highly specialized knitting on special machines purchased by the workers themselves; the cases we studied all involved Chinese or Korean households in middle class residential neighborhoods in the city. The overall evidence from our ongoing research points to the existence of a very dynamic and



growing high-price market where production has been organized so as to incorporate sweatshops and the home (of poor and middle class immigrants and of designers) as a key work-place. Finally, a distinct pattern of ethnic ownership characterizes the informal sector in this industry. The new Hispanic immigrants, especially Dominicans and Columbians, have replaced Puerto Ricans as the leading group of owners in the Latino population; the Chinese have increased their number of shops immensely over the last ten years; and the Koreans are emerging as the fastest new ethnic group setting up sweatshops and homework arrangements.

## Electronics

There were 680 registered firms in the New York metropolitan area in 1982 in electric and electronic equipment manufacturing (SIC 36). These employed a total of 37,900 workers, with an average firm size of 56 workers. Forty three percent of the firms employed between 1 and 9 workers and 36 percent, between 10 and 49 workers. The characteristics and trends in electronics manufacturing, or even the broader category covered by SIC 36, have not received much study over the last decade in the New York area. The available evidence points to considerable declines in the number of firms and in the levels of employment.

The main source of evidence for this industry is the research in progress by the author (Sassen-Koob and Benamou 1985; Sassen-Koob et al. 1986). The concern in that project is to identify general patterns, subcontracting arrangements, and use of homeworkers in the electronics industry narrowly defined. Thus that project focuses on a more specific set of branches than the overall SIC 36 group: the focus is on eight four-digit level branches in the SIC 35, 36 and 38 groups. Besides secondary data, the project involves a survey of a random sample of 100 electronics manufacturing firms in the New York metropolitan area and a study of homework. Interviews with owners and managers of firms lasted from 1 to 2 hours; a central focus was on subcontracting arrangements and on labor supply patterns.

On the basis of the evidence available at this time, it is possible to identify several patterns of interest to a study on the informal sector. First, the aggregate figures on decline of the broad category veil the fact of a segmentation in this industry. The older branches, largely electrical or very traditional electronics characterized by fairly largely sized firms and unionized labor, are indeed declining. These branches have lost many firms and many jobs. But alongside this decline we identified what could almost be described as a new subsector of the industry, characterized by small firms, mostly privately owned, with almost no unionized labor, which rely on a rather vast network of subcontractors for a wide range of tasks. A central reason for such heavy reliance on subcontracting is the greater efficiency, quality and speed with which such tasks can be accomplished given the small size of the contracting firm. Among the subcontractors described in interviews there were what are referred to as "garage-fronts," "basement shops," and "neighbors." There was explicit mention of homework, but frequently this involved work taken home by technical personnel, or owners, often engineers. We did find a few instances of illegal homework done by immigrant workers at very low wage rates. Evidence on violations of various codes provided by New York State Department of Labor and New Jersey Department of Labor, as well as OSHA and the Industrial Board of Appeals, confirmed the existence of illegal homework in electronics in the broader New York City metropolitan area.

Third, several of the firms in our sample had started as garage fronts or basements shops, informal operations located mostly in residential,

middle class neighborhoods. This locational pattern contrasts with that of the garment industry where most homework and sweatshops are located in low-income neighborhoods. Another contrast with the garment industry is that homework in electronics tends to be carried out as "extra work" by workers already employed by the firm. The finding that several of the firms in our sample had started as garage fronts points to the possibility that shops involved in the subcontracting network may include quite a few small, informal operations which may eventually become formalized.

In general the pattern that emerges is one of a large number of small firms that are part of a dense network of subcontractors and contractors, where homework covers a rather broad range of tasks, and the line between formal and informal tends to be less clearly drawn than in the garment or construction industries. The incidence of homework is much smaller than in those two industries. And, finally, the role of informal work is less clearly linked to lowering wage costs than is typical of the garment industry; it may represent a way of lowering the costs of entry into the industry by allowing entrepreneurs to explore production and market conditions. It would seem, at this point, that this role of informal work is linked to the fact of a predominance of small, independently owned firms. The evidence we have on large firms, mostly in upstate New York, suggests that homework represents a mechanism to lower wage costs.

#### Furniture and Fixtures

There were 528 registered firms in this industry (SIC 25) in 1982 in the New York metropolitan area. These firms employed a total of 12,300 workers, with an average size of 23 workers per firms. Almost half of all firms employed between 1 and 9 workers, and 42 percent, from 10 to 49 workers. major changes in this industry over the last decade are a massive decline in larger, standardized firms, many of which left for the southern states, and an increase in more highly crafted furniture making and woodwork. A precise count is not possible because many of the latter firms are unregistered and located largely in residential areas.

The main sources of information on this industry are industry specialists and our own fieldwork. The emergence of an informal sector in this industry is a rather recent event. Formal sector production accounted for almost all production in the earlier decades, including both mass production and very highly priced customized work. Both from industry specialists and our fieldwork it seems that informal work is occurring in an intervening stratum: customized products demanded by commercial and residential gentrification. Thus, while the industry lost 9 percent of its registered labor in five years, we are finding a number of new furniture making shops over that same period of time. We found such shops in several areas in Queens (Ridgewood, Astoria, Jackson Heights) and in Brooklyn (Sunset Park and Williamsburg). Most of these shops employ almost exclusively highly skilled immigrants in the production of high-cost, crafted woodwork. With some exceptions, the shops we identified were meeting the demand for specialized and customized woodwork from new higher income residents and the associated commercial gentrification taking place in these areas. Most of these areas are not zoned for manufacturing, and many of the furniture making shops are located on the second floor, since rents on the main floor are becoming too expensive and areas are zoned for residential and commercial uses. We had heard of the existence of low-cost furniture manufacturing shops catering to low income communities, mostly immigrant communities. We finally identified two of these shops, in basements in Manhattan. Both are informal operations, mostly to the local immigrant community, though increasingly non-immigrants are also going

there to buy. These shops make very simple, basic furniture: tables, chairs, shelves, cabinets. A third pattern we found in this industry's informal sector was a clustering of shops making unfinished goods sent for finishing to other intermediate shops rather than final consumers. It was not possible to establish how far the informal sector went up the chain and where the formal sector took over.

#### Other Sectors

Other sectors we have gathered information on are footwear, transportation, retail activity and several types of what I will refer to as industrial services, notably auto-repair and packaging.

The footwear industry has experienced massive losses in its registered workforce; it lost 21 percent of its workers in the last five years alone. But from industry specialists, information at various city agencies, and our own fieldwork it has become evident that unregistered production both of standardized and highly crafted footwear (e.g., sandals and moccasins) has been increasing. The estimate is that 10 percent of all footwear production is informal. Furthermore, subcontracting and use of homeworkers have been increasing in unionized shops as well according to the union that represents most footwear workers (Amalgamated Clothing and Textile Workers Union, or ACTWU). The director of the union's shoe division, who has been actively involved in this industry for fifteen years, sees the expansion of unregistered work as a growing trend that began over the last five to ten years. There are many temporary manufacturing shops that operate for six to nine months and then close up. There is also growing evidence of unregistered work in the manufacture of handbags and other leather goods. Evidence from the Department of Finance and Taxation shows an increase in violations of various sorts in footwear manufacturing; some of this evidence confirms the trends we are identifying.

The most notable development of an informal sector in the transportation industry is the massive increase in the number of so-called "Gypsy cabs" and unregistered vans operating in the city. There are now twice as many Gypsy cabs as there are licensed taxi cabs. The evidence gathered by the Commissioner of Transportation cites 21,000 cars not licensed as cabs that are operating as cabs. In addition there is an as yet unidentified number of vans that function as an informal "mass transportation" system. Two major trends seem to be at work in this development. One is the proliferation of cabs and vans to service areas not well served by the formal transportation system nor by the licensed cabs. These are often low-income immigrant or minority communities. A second trend is the provision of services between areas which, while served by the formal transportation system, entail transfers or two and even three fares, thereby making a single-fare one-ride informal van rather attractive to commuters; a variant of this trend is vans following established public transportation routes picking up people before or after the bus. This alternative transportation system has provided employment and entrepreneurship opportunities to many immigrants; however, the common view that the main reason for the growth of this system has been the presence of undocumented immigrants is not warranted by whatever information is available which shows that native Americans are also involved in it.

There is strong evidence on the growth of informal operations in retail activity and in several industrial services. Records at the Department of Finance and Taxation show increases in violations and in the numbers of branches involved. Besides street vending and fleamarkets which are frequently unlicensed, high priced shops in jewelry and furs have been found to set up mechanisms to create an informal market for their goods in

order to avoid sales taxes. Auto-repair shops and various types of packaging are two industrial services that have expanded rapidly, most of it as informal operations or illegal homework. Hundreds of auto-repair "shops" can be seen on the streets of immigrant communities or in garages in more middle class residential neighborhoods. The evidence is too fragmentary on these sectors to warrant a detailed presentation.

### Spatial Organization

We are beginning to discern several patterns in the spatial organization of the informal sector in the New York City metropolitan area. One is the concentration of informal activities in immigrant communities; some of these meet a demand that is internal to the communities, while others meet a demand that comes from the larger economy. A second pattern is the concentration of informal activities in areas undergoing rapid socio-economic change, notably gentrification. A third is the concentration of informal activities in areas that emerge as a type of manufacturing and industrial servicing area; while these are frequently located in immigrant communities they cater to the larger economy. There follows a more detailed description of each.

The first pattern contains what are possibly two very different components of the informal sector. One is the use of immigrant workers and communities to lower the costs of production of formal sector industries. The garment industry is the clearest example. Certain components of the construction industry, footwear industry, and industrial services also illustrate this pattern. Immigrant communities can be seen as collections of resources that facilitate informal production or distribution of certain activities. These resources consist of cheap, willing, and flexible labor supplies; entrepreneurial resources in the form of individuals willing to engage in the long hours and often low returns involved and the availability of family labor; and various informal credit arrangements that make possible small-scale capital formation.

The second component of the informal sector in immigrant communities represents a type of neighborhood sub-economy. It consists of a variety of activities that meet the demand for goods and services inside the community, including immigrants residing in other neighborhoods that may lack commercial facilities. These goods and services may be of a kind not provided by the large economy, or provided at too high a price, or provided in locations that entail a long or cumbersome trip. Certain aspects of the informal transportation system are illustrative, notably Gypsy cabs servicing low-income or immigrant areas not serviced by regular cabs. Also illustrative are certain aspects of the construction industry, especially renovations and small store alteration or construction. A wide array of personal services, frequently are done in the homes of the buyer or provider. Certain types of manufacturing, including garments and footwear, and, at least in a few cases, furniture, are carried out in the community meeting local demand. Such a local economic base may well represent a mechanism for maximizing the returns on whatever resources are available in the communities involved. In this regard, they may contribute to stabilize low-income areas by providing jobs, entrepreneurship opportunities and enough diversity to maximize the recirculation of money spent on wages, goods or services inside the community where the jobs are located and the goods and services produced.

The second locational trend we can discern in the spatial organization of the informal sector in New York City is characterized by the concentration of informal activities in areas undergoing high income residential and commercial gentrification. The leading industrial sectors

involved are construction and various forms of woodwork, including furniture making. Also involved in this process are various industries supplying the goods and services sold by the new commercial facilities associated with high income gentrification, from clothing boutiques, gourmet food shops selling prepared dishes, to customized household items. But unlike construction and customized woodwork, many of these activities are not necessarily located in the area undergoing gentrification. While immigrant workers often were found to provide the requisite labor, including highly skilled craftwork, the demand for the goods and services clearly stems from the larger economy.

The third locational pattern we can discern in the spatial organization of the informal sector is the concentration of manufacturing and industrial services in certain areas that emerge as a type of manufacturing district or service market. For example, in one particular location in Queens (West Astoria) we found shops doing glasswork for buildings and vehicles, shops doing refinishing of restaurant equipment, auto-repair shops, carpentry shops that make the frames for furniture and then send them to other locations for finishing, and cabinet makers. All these shops are operating in violation of various codes, and they are located in an area not zoned for manufacturing. This area has emerged as an informal manufacturing district. City government is well aware of its existence but has, it seems, opted for disregarding the violations, probably because of the scarce supply of manufacturing space in Manhattan and the City's interest in retaining small businesses. The concentration of manufacturing shops in this area of Queens has brought about a whole array of related service shops as well as contributed to the development of a zone where new industrial uses are occurring. For example, a major tile retailer in New York City warehouses illegally in West Astoria. One implication in this case that what may initially be a small cluster of manufacturing shops operating informally may, under certain conditions, develop into an industrial district with agglomeration economies that will draw an increasing number of industrial users. This becomes a de facto manufacturing zone. It is also a development that goes against prevailing notions of the economic base in "post-industrial" cities, and the formal procedures that describe how a manufacturing firm is to proceed in setting up shop.

A variant of this pattern is illustrated by the case of Williamsburg in Brooklyn, an area that once was a thriving industrial zone near an active navy yard. After a long period largely vacant industrial spaces, we are now seeing a proliferation of informal manufacturing shops in garments, handbags, leather bags, knitting mills and confectionery. These activities differ significantly from the original industrial uses in the area. We also noted seasonal type subcontracting with brand name cosmetics firms to package Christmas and other special orders; this work involves mostly assembly type operations. This is become yet another small manufacturing zone meeting a city-wide demand for certain kinds of goods and services.

We found significant clusters of auto-repair shops in several areas of city, notably Sunset Park in Brooklyn, Corona-Elmhurst in Queens and Washington Heights in Manhattan. The number of shops and cars involved was large enough to point to a service being sold beyond the neighborhood. One of these sites in Brooklyn has a 100 cars at any given day, clearly exceeding the demand for auto repairs that can be accounted for by his neighbors.

## DISCUSSION

The evidence points to several distinctions in the process of

informalization and in the informal sector in New York City. These distinctions have implications for theory and policy.

First, we can identify informal activities that result from the demand for goods and services in the larger economy, either from final consumers or firms. Most of the informal work in the garment, furniture, construction and electronics industries is of this type. And we can identify informal activities that result from the demand of the communities where such activities are performed. Immigrant communities are a leading example, and probably account for most of this second type of demand.

Second, an examination of what engenders the demand for informal production and distribution indicates several sources. One of these is competitive pressures in certain industries, notably apparel, to reduce labor costs given massive competition from lower wage Third World countries (Safa 1981). Informal work in this instance represents an acute example of exploitation. Another source is a rapid increase in the volume of renovations, alterations, and small scale new construction associated with the transformation of many areas of the city from low-income, often dilapidated neighborhoods into higher income commercial and residential areas. What in many other cities in the U.S. would have involved a massive program of new construction was mostly a process of rehabilitation of old structures in the case of New York City. The volume of work, its small scale, its labor intensity and high skill content, and the short-term nature of each project all were conducive to a heavy incidence of informal work. A third source is inadequate provision of services and goods by the formal sector. This inadequacy may consist of excessively high prices, inaccessible or difficult to reach location of formal provision, or actual lack of provision. It would seem that this inadequacy of formal provision involves mostly low-income individuals or areas. Examples are the Gypsy cabs serving areas not served by the regular cabs, informal neighborhood child-care centers, low-cost furniture manufacturing shops, and a whole range of other activities providing personal services and goods. The existence of a cluster of informal shops can eventually generate agglomeration economies that induce additional entrepreneurs to move in. The concentration of manufacturing shops in the two areas in Brooklyn and Queens described earlier are examples. The existence of a rather diverse informal sector making use of a variety of labor supplies may lower entry costs for entrepreneurs and hence function as a factor inducing the expansion of the informal economy. The last source described here can be construed as a type of supply side factor.

Third, we can distinguish different types of firms in the informal sector particularly the locational constraints to which firms are subject. For some firms, access to cheap labor is the determining inducement for a New York City location. While access to the city's final or intermediate markets may also be significant as is the sheer size which facilitates informalization, it is ultimately access to cheap labor, specifically low-wage immigrant workers, which determines location because it allows these firms to compete with Third World factories. Many of these shops could be located in a diversity of areas with cheap labor. Certain segments of the garment industry are illustrative. In contrast, many of the shops engaged in customized production or operation on subcontracts, evince a whole host of locational dependencies on New York City. These firms are bound to the city (or to any large city they might be located in undergoing the kinds of socio-economic transformations we identified for New York City) due to some or all of the following reasons: (a) demand is local and involves typically specific clients or customers; (b) vicinity to design and specialized services; (c) brief turnover time between completion of design and production; (d) demand is predicated on the existence of a highly dynamic

overall economic situation that generates a critical volume of demand and spending capability on the part of buyers; (e) the existence immigrant communities which have some of the traits associated with enclave economies.

Fourth, we can identify different types of jobs we found in the informal sector. Many of the jobs are unskilled, with no training opportunities, involving repetitive tasks. Another type of job demands high skill or acquisition of a skill. The growth of informalization in the construction and furniture industries can be seen as bringing about a certain re-skilling of labor force.

Fifth, we can identify different types of locations in the spatial organization of the informal sector. Immigrant communities are a key location for informal activities meeting both internal and external demand for goods and services. Gentrifying areas are a second important location; these areas contain a large array of informal activities in renovation, alteration, small scale new construction, woodwork and installations. A third location can be characterized as informal manufacturing and industrial service areas serving a city-wide market.

These distinctions, in addition to those that emerge in the more detailed descriptions in the body of the paper, point to the need for more differentiated policy approach than the one currently held by the city. New York's City's government has set up a special unit charged with investigating and eliminating tax evasion on regularly earned income or on the underground production and sale of licit goods --that is to say, what we are referring to as the informal sector. The conceptualization and method of investigation and evaluation of violations reduces all activities to tax evasion (City of New York, 1986). While this approach is understandable in so far as most informal activity involves tax evasion, our research suggests that given (a) high unemployment, (b) the government's explicit policy aimed at retaining small businesses, and (c) the objective demand being met by informal producers, a policy that reduces all informal producers to tax evaders might destroy more than it generates in penalties.

We need to distinguish those components of the informal sector that are socially desirable from those that merely exploit powerless immigrants or evade taxes. In an urban economy which contains population sectors and areas with high levels of unemployment and poverty that are increasingly left out from the core economic sectors, the possibility of semi-formal neighborhood subeconomies should be regarded with interest. These subeconomies, consisting of formal and informal activities, serve to stabilize low-income communities, generate resources for the community which can be recirculated inside that community. It seems that till now such neighborhood subeconomies have been rather common in immigrant communities but rare in native minority neighborhoods. Generally overall socio-economic conditions tend to be better in the former than in the latter. Thus it would seem that punishing informal entrepreneurs and workers in low-income communities might contribute to unemployment and marginalization. The question for policy makers is whether what is now being defined as tax evasion can be redefined in a more constructive approach. Conceivably, some forms of tax exemptions, parallel to those enjoyed by low-income individuals, could be designed to support low-income communities. Taking off from the notion of enterprise zones which grant tax concessions to formal and often large firms, could design community zones which would enjoy similar benefits but only for local entrepreneurs and individual contractors or self-employed workers.

Yet another area that should be recognized as needing a more differentiated policy approach is the growing array of small scale

manufacturing firms which are meeting a demand for customized products, or for limited numbers of a given product and hence unlikely to be produced in large scale standardized factories, or for specific contractors. Our evidence suggests that some of these firms are informal because the leading growth sectors and development policies engender the assumption that modern manufacturing is large scale and standardized, and does not fit in the economic base of so called post-industrial cities. Whatever manufacturing does take place in such cities is thought of as interstitial and probably part of a declining or backward sector of the economy. Policies and tax structures reflect the disadvantaged position of small manufacturing firms. Yet there is a real and growing demand for a whole range of products that benefit from the suppliers and markets in such large cities and typically could only survive in large cities. Furthermore, the demand met by such manufacturing establishments originates to a large extent in the larger economy. These firms represent a growth sector and one of the few sources of manufacturing jobs in the city, frequently involving skilled jobs. It would seem that recognition of the vitality and contributions of this informal manufacturing sector might lead to policy formation that supports the continuation of these firms while at the same time seeking to reduce labor and health code violations. Furthermore, one might want to raise the question as to the possibility that small-scale customized or limited run manufacturing represents a form of organizing production that can also involve leading industrial sectors, notably electronics.

Tax evasion, on the other hand, is probably the correct approach towards firms selling very high priced goods, especially furs and jewelry, which seek informal ways of marketing in order to avoid what amounts to rather high sales tax amounts. That is to say, sectors of the economy that are in a strong position regarding the dynamics of growth and the policy apparatus are to be distinguished from entities such as informal neighborhood sub-economies that stabilize low-income communities, or informal manufacturing districts whose firms are small and economically vulnerable. Finally, where pronounced forms of labor exploitation are the main aim of informalization, penalties should be maximized.

#### CONCLUSION

It would seem from the data here presented that important sources for the informalization of various activities are to be found in characteristics of the larger city's economy. Among these are the demand for products and services that lend themselves to small scales of production, or are associated with rapid transformations brought about by commercial and residential gentrification, or are not satisfactorily provided by the formal sector. This would suggest that a good share of the informal sector is not the result of immigrant survival strategies, but rather an outcome of structural patterns or transformations in the larger economy of a city such as New York. Workers and firms respond to the opportunities contained in these patterns and transformations. However, in order to respond, workers and firms need to be positioned in distinct ways. Immigrant communities represent what could be described as a "favored" structural location to seize the opportunities for entrepreneurship as well as the more and less desirable jobs being generated by informalization.

#### REFERENCES

Abeles, Schwartz, Hackel, and Silverblatt, Inc. 1983. The Chinatown Garment Industry Study. Report to the ILGWU Locals 23-25 and the New York Sportswear Association.



- City of New York. 1982. Report on Economic Conditions in New York City July-December 1981. New York Office of Management and Budget and Office of Economic Development.
1986. Unearthing the Underground Economy. New York City Department of Finance. (December).
- Feige, E.L. 1979. "How Big is the Irregular Economy?" Challenge 22 (Nov.-Dec.):5-13.
- Gutmann, P.M. 1979. "Statistical Illusions, Mistaken Policies." Challenge 22 (Nov.- Dec.):14-17.
- Leichter, 1982. "Sweatshops to Shakedown: Organized Crime in New York's Garment Industry." New York: Office of the 29th District of the State of New York, Monthly Report.
- Light, Ivan H. 1979. "Disadvantaged Minorities in Self-Employment." International Journal of Comparative Sociology 20:31-45.
- Lomnitz, Larissa. 1978. "Mechanisms of Articulation Between Shantytown Settlers and the Urban System." Urban Anthropology 7:185-205.
- Morales, Rick and Richard Mines. 1985. "San Diego Full-Service Restaurants: A View from the Back of the House." Report, Center for U.S. - Mexico Studies, University of California, San Diego.
- NACLA (North American Congress on Latin America). 1978. Capital's Flight: The Apparel Industry Moves South, Latin America and Empire Report, Vol. 11, 3 (Special Issue).
- New Jersey Department of Labor. 1982. "Study of Industrial Home Work." Trenton, N.J.: Office of Wage and Hour Compliance, Division of Workplace Standards.
- New York State Department of Taxation and Finance. 1982. The Task Force on the Underground Economy: Preliminary Report. Albany: State of New York.
- New York State Department of Labor. 1982a. "Study of State-Federal Employment Standards for Industrial Homeworkers in New York City." Albany: Division of Labor Standards.
- 1982b. Report to the Governor and the Legislature on the Garment manufacturing Industry and Industrial Homework. Albany: State of New York.
- Port Authority of New York and New Jersey. 1981. Inventory of Foreign Owned Firms in Manufacturing, by Major Industry in the New York-New Jersey Metropolitan Region. New York: Planning and Development Department, Regional Research Section, Port Authority of New York and New Jersey.
1982. The New York Regional Economy: 1981 Review, 1982 Outlook. New York: Planning and Development
- Renooy, P.H. 1984. Twilight Economy: A Survey of the Informal Economy in the Netherlands. Research Report, Faculty of Economic Sciences, University of Amsterdam.
- Safa, Helen I. 1981. "Runaway Shops and Female Employment: The Search for

Cheap Labor," *Signs*, 7 (Winter):418-33.

Sassen-Koob, Saskia. 1981. "Exporting Capital and Importing Labor: Caribbean Migration to New York City." *Occasional Papers No. 28*. New York: Center for Latin American and Caribbean Studies, New York University.

1984a. "The New Labor Demand in Global Cities," pp. 139-71 in *Cities in Transformation: Capital, Class and Urban Structure*, edited by M.P. Smith. Beverly Hills, California: Sage.

1984b. "Growth and Informalization at the Core: The Case of New York City." Pp. 492-518 in *The Urban Informal Sector: Recent Trends in Research and Theory*. Conference Proceedings. Baltimore: Department of Sociology, John Hopkins University.

Sassen-Koob, Saskia and Catherine Benamou. 1985. "Hispanic Women in the Garment and Electronics Industries in the New York Metropolitan Area," *Research Progress Report*, presented to the Revson Foundation (New York City).

Sassen-Koob Saskia and S. Grover. 1985. "Unregistered Work in the New York Metropolitan Area." *Working Paper*, Columbia University, Graduate School of Architecture and Planning.

Spitznas, Thomas. 1981. "Estimating the Size of the Underground Economy in New York City," *The Regional Economic Digest* (A semi-annual publication of the New York Regional Economist's Society), Fall 1981, vol. 1, No. 1.

Stepick, Alex. 1984. "The Haitian Informal Sector in Miami," Pp. 384-434 in *The Urban Informal Sector: Recent Trends in Research and Theory*. Conference Proceedings. Baltimore: Department of Sociology, Johns Hopkins University.

Tanzi, Vito. 1982. *The Underground Economy in the United States and Abroad*. Lexington, MA: D.C. Heath.

Waldinger, Roger. 1985. "Immigration and Industrial Change in the New York City Apparel Industry." Pp. 323-49 in *Hispanics in the U.S. Economy*, edited by G.J. Borjas and M. Tienda. New York: Academic Press.

Wang, John. 1979. "Behind the Boom: Power and Economics in Chinatown," *New York Affairs*, 5,3.

Wolff, Goetz. 1984. "The Decline of Unionization and the Growth of Employment in the Los Angeles Region," Los Angeles: Graduate School of Architecture and Planning.

-----

Requests for ordering copies of this paper should be submitted to:

Working Papers  
Institute for Social Science Research  
UCLA  
Box 951484  
Los Angeles, CA 90095-1484

or email: [issr@issr.ucla.edu](mailto:issr@issr.ucla.edu)