

11-6-2019

The Importance of Informal Work in Supplementing Household Income

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Citation

Abraham, Katharine G., and Susan N. Houseman. 2019. "The Importance of Informal Work in Supplementing Household Income." Policy Brief. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

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POLICY BRIEF

The Importance of Informal Work in Supplementing Household Income

Katharine G. Abraham and Susan N. Houseman

BRIEF HIGHLIGHTS

- According to a Federal Reserve survey, nearly 30 percent of respondents reported informal work for pay in the prior month, ranging from online work to personal services to selling goods.
- Informal work plays a particularly important role in the household finances of minorities, the unemployed, and those who report financial hardship.
- Independent contractors, other self-employed, and those with unpredictable work schedules are especially reliant on informal work to supplement their income, possibly symptomatic of inadequate or unstable earnings associated with these types of work.
- Informal work can help supplement income from a main job but rarely comes with workplace benefits, underscoring the need to address the lack of benefits many Americans face.

For additional details, see the article at <https://research.upjohn.org/jrnlarticles/193/>.

In recent years, the media has widely reported the rise of the so-called gig economy comprising short-term, independent contractor and informal work, which includes work for online platforms. Such work by its nature comes with little job security. In addition, because these workers are not employees of the organization for whom they work, they are not entitled to employer-provided benefits, nor are they covered by employment laws such as those setting minimum wages or by social insurance programs such as unemployment insurance and workers' compensation.

Concerns about the number of people engaged in such arrangements prompted the Bureau of Labor Statistics to field its Contingent Worker Supplement (CWS) in 2017, the first time it had done so in 12 years. Yet, the CWS uncovered no growth since 2005 in the share of workers whose main job was in the alternative arrangements measured by the survey; the share reporting that they were in independent contractor arrangements actually fell.

A common interpretation of these data has been that policymakers and researchers should focus on the predominant work arrangement—wage and salary or employee jobs—to understand the problems facing American workers, including slow wage growth among lower- and middle-class workers and rising earnings inequality. In part because the CWS measures only the work arrangement on an individual's main job, however, the CWS may not provide a complete picture of nonemployee work. Other evidence shows that online platform and other nonemployee work is especially common as a secondary work activity. To the degree that Americans use this type of work to make ends meet when experiencing financial distress or income shortfalls, it may be a reflection of broader problems with their primary jobs.

Our research uses unique data from the Federal Reserve Board's Survey of Household and Economic Decisionmaking (SHED) to study informal, nonemployee work as a secondary work activity. Using these data, we are able to examine the socioeconomic characteristics of individuals engaged in a variety of types of informal work, the nature of employment in these individuals' main jobs, why they hold side jobs, and the contribution of secondary work to their incomes.

Survey of Household and Economic Decision Making

The SHED asks respondents about their work activities during the past month. Activities are categorized as employed for someone else, self-employed or working for themselves, temporarily laid off from a job to which they expect to return, not employed but looking for work, and not employed and not looking for work. An individual may report multiple statuses. If respondents report working for someone else or being self-employed during the past month, they are asked about the nature of their "main" job—full-time employee, part-time employee, consultant or contractor, or self-employed or a partner. In 2017, part-time employees were asked whether they preferred full-time hours, and we label these individuals involuntary part-time (although this may include

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We base our analysis on a sample of 18,000 responses from the 2016 and 2017 Survey of Household and Economic Decisionmaking.

some individuals who are not available to work full-time as would be required under the definition of involuntary part-time work used for BLS statistics). Individuals who report being employees or a consultant or contractor on their main job are asked who determines their work schedules and, in cases where their employer determines their schedules, how far in advance they are told what it will be.

Everyone—employed or not employed during the past month—is asked whether they have engaged in any of 11 (2016) or 12 (2017) different types of “occasional work activities or side jobs” during the month. The survey is thus well designed to capture informal work activities that are secondary to a primary job. The survey groups informal activities into three broad categories:

- 1) personal services, such as child care, dog walking, house sitting, or disabled adult or elder care services
- 2) online activities, such as on Amazon Services, Mechanical Turk, or Fiverr; renting out property online, such as a car or residence; selling goods online; or driving using a ride-sharing app such as Uber or Lyft (2017 survey only)
- 3) offline sales and other activities, such as selling goods or services at flea markets, garage sales, or consignment shops

If participants in the SHED survey report any side jobs during the prior month, they are asked why they work these jobs, including whether it is primarily for income; how important these jobs are to their household income in the prior year; the share of household income usually accounted for by these jobs; and the number of hours usually worked in these jobs. Participants also are asked to assess their financial well-being, selecting one of four descriptions that best captures their situations—difficult to get by, just getting by, doing okay, or living comfortably.

We pool data from the 2016 and 2017 SHED surveys, whose module questions on informal work are comparable in the two years. Our analysis is based on a sample of over 18,000 responses. Although the fact that SHED respondents are participants in an online survey panel may mean that the incidence of informal work in the SHED is higher than in the population at large, there is no reason to doubt the picture the survey paints regarding what types of people engage in informal work and why.

Who Takes Side Jobs and Why

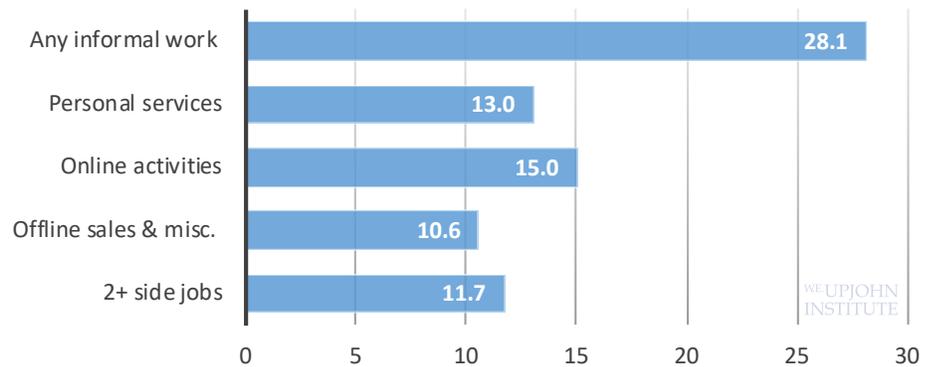
According to the SHED, informal, secondary work activities are quite prevalent, with 28.1 percent of respondents reporting that they had engaged in one of more of these activities in the prior month. Although online activities were the most commonly reported, with 15.0 percent engaging in online work in the prior month, the percent who reported doing side jobs in personal services and offline sales and miscellaneous activities was also relatively high at 13.0 and 10.6 percent, respectively (see Figure 1).

Of all respondents, 18 percent, or roughly two-thirds of those with side jobs in the prior month, reported that the primary reason for working these jobs was to earn money. For a sizable minority, these jobs are an important source of income. Among those polled, 10.7 percent said that income from informal work was important to their income in the past year, 9.6 percent said that income from such work usually accounted for at least 10 percent of their household income, and 7.1 percent reported usually working at least 20 hours or more in side jobs during a month. Over 40 percent of those reporting side jobs, or 11.7 percent of respondents, cited two or more types of side jobs in the prior month.

The prevalence of informal work and its importance as a source of income differ significantly across groups in the population. Minorities and lower-income individuals are more likely to report that they work in side jobs to earn income, that the income from these jobs was an important source of household income in the prior year, and that it accounted for at least 10 percent of their household income. The reliance on income from side jobs also declines with age. For example, 15.8 percent among those aged 25–34

Minorities are more likely to report that the income from their side jobs accounted for at least 10 percent of their household income in the prior year.

Figure 1 Informal Work in Past Month (%)



SOURCE: Authors' calculations using SHED data.

report that income from side jobs was an important source of income during the prior year, compared to 4.7 percent among those aged 65–74.

Figure 2 illustrates the close correspondence between individuals' financial well-being and their reliance on income from side jobs. Compared to those who report living comfortably, those who find it difficult to get by are about 15 percentage points more likely to report that side jobs were an important source of income in the prior year (21.5 percent versus 6.4 percent), and about 11 percentage points more likely to report that incomes from these jobs usually account for at least 10 percent of household income (17.3 percent versus 6.4 percent). A sizable minority of those indicating that they are just getting by also report that side jobs were an important income source (14.0 percent) and usually account for at least 10 percent of household income (12.4 percent). Similarly, the share reporting that they worked in two or more types of side jobs in the prior month increases with financial stress. Whereas 9.4 percent of those living comfortably reported at least two side jobs, 19 percent of those finding it difficult to get by and 13.4 percent of those just getting by reported multiple side jobs.

Main Jobs and Side Jobs

The data also reveal a linkage between employment status, the characteristics of an individual's main job, and the importance of side jobs for income. As shown in Figure 3, those in various self-employment arrangements rely more heavily on informal or side jobs for income. Over 20 percent of those who describe themselves as being self-employed, a sole proprietor, a partner, or a consultant or contractor on their main job

Figure 2 Importance of Informal Work to Income by Financial Well-Being (%)

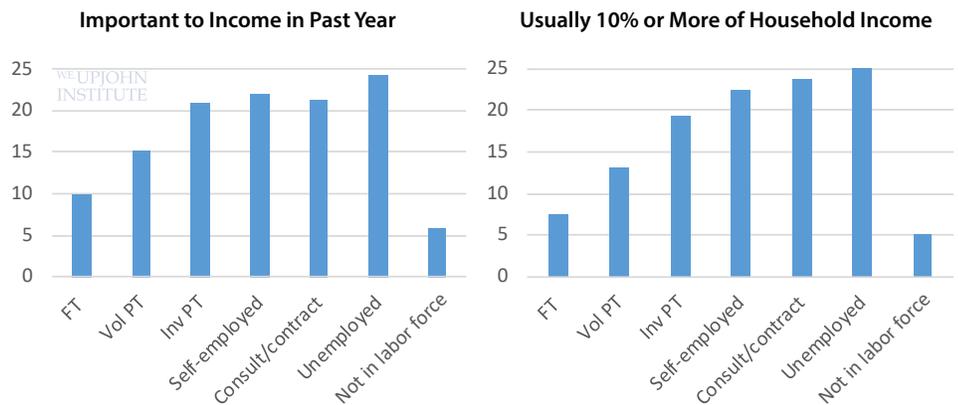


SOURCE: Authors' calculations using SHED data.

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A sizable minority of respondents with unpredictable work schedules rely on informal work to supplement income from their main job.

Figure 3 Importance of Informal Work to Income by Employment Status (%)

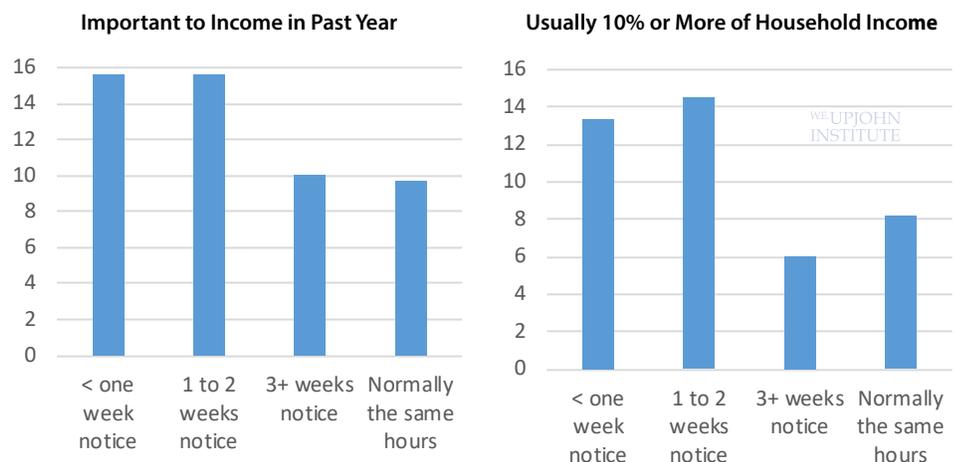


SOURCE: Authors' calculations using SHED data.

also report that informal work was an important source of their household's income during the preceding year, and over 20 percent indicate that at least 10 percent of their household's income usually comes from such side jobs. In addition, a sizable minority of the unemployed and the underemployed rely on income from informal work. About 25 percent of the unemployed said that income from side jobs was important to their income in the prior year and usually accounted for at least 10 percent of their income; the corresponding shares were about 20 percent for involuntary part-time employees.

With the advent of scheduling algorithms, many workers, particularly in retail and other services jobs, receive short notice of their weekly work schedules. While allowing firms to more closely match workers' schedules to their needs, these practices mean that workers' hours and incomes often vary from week to week, shifting risk onto workers. As shown in Figure 4, a sizable minority of SHED respondents with unpredictable work schedules rely on informal work to supplement income from their main job. Compared to those with stable work schedules or considerable advance notice of their work schedules, those who typically receive two weeks or less notice about their schedule from

Figure 4 Importance of Informal Work to Income by Work Schedule Notification from Employer (%)



SOURCE: Authors' calculations using SHED data.



Those most likely to hold side jobs to supplement income are the least likely to have benefits.

their employer are 5–8 percentage points more likely to say that income from informal work is important and usually accounts for at least 10 percent of the household income.

Conclusion

Informal work plays a particularly important role in the household finances of minorities, the unemployed, and those who report financial hardship. Reliance on informal work for income also varies strikingly by work arrangement. Those in self-employment arrangements, involuntary part-time employees, and employees with unpredictable schedules are considerably more likely to work side jobs to earn money. The relative importance of informal work to supplement income among those in part-time, precarious, or other alternative work arrangements may be a symptom of the inadequate or unstable hours and earnings often associated with these forms of work.

While informal work can help supplement income from a main job, it rarely comes with workplace benefits. Those most likely to hold side jobs to supplement income, in turn, are the least likely to have critical benefits such as sick pay, health insurance, and retirement plans in their main job. A comprehensive approach is needed to address the lack of access to benefits.

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