



Wage inflation and informal work[☆]

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HIGHLIGHTS

- We investigate if informal “gig” work could help explain current low wage inflation.
- We find evidence for a Phillips curve between informal work and wage inflation.
- We find no such association between wage growth and standard unemployment rates.

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ABSTRACT

Despite the low unemployment rate in the United States, wage inflation has remained modest. This paper investigates whether hidden labor market slack in the form of informal “gig” economy work could help explain this puzzle. Using our Survey of Informal Work Participation for 2015–2016 we find that informal labor is negatively associated with wage growth at the census division level, while no such association exists between wage growth and unemployment rates.

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1. Introduction

Since 2015Q1, the U-3, or “headline” unemployment rate in the United States, has fallen by more than a full percentage point, while quarterly wage growth has been flat, and year-over-year wage growth has actually declined.

One possible explanation is that the labor market is not as tight as the headline unemployment rate indicates. This rationale is intriguing given the growing evidence that a significant number of U.S. adults are employed in nonstandard or informal “gig” work arrangements that may not be captured in official unemployment rates. Our estimates for gig work in 2015–2016 stand at 34% of U.S. adults, or 19% focusing on labor-intensive gig activities only (Bracha and Burke, 2016).

We explore this idea by examining the relationship between wage inflation and informal “gig” work at the level of the census division since 2015. The exercise is limited to the three waves of our Survey of Informal Work Participation (SCE-SIWP); nevertheless, it is an important question to explore, and we do indeed find an informal work–wage inflation Phillips curve.

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Our results suggest that informal work may represent added potential labor supply that could reduce pressure on measured wages. Consistent with this idea, most informal work participants in our survey would switch informal work hours for added formal work hours. And, importantly, our estimates suggest that the slack embodied in informal work is economically significant—between 2.2% and 5.7% of the labor force for 2015–2016, depending on the census division. In agreement with our results, Bell and Blanchflower (2018) find in data from the U.K. that desired additional work hours help explain slow wage inflation, and Castillo and Montoro (2012) show in a theoretical model that informal labor may act as a buffer on inflation.

2. The survey of informal work participation (SCE-SIWP)

The SIWP is an annual special module within the Federal Reserve Bank of New York’s Survey of Consumer Expectations (SCE), which is representative of the U.S. adult population. The SIWP asks about informal work (paid) activities including hours of work, income earned, and how informal pay relates to formal pay for each individual who works informally. An individual’s state of residence is identified using the main SCE.

We have three waves of the survey, administered in January 2015 (N=1209), 11 months later in December 2015 (N=1058), and in December 2016 (N=1151). After removing self-described retirees, income outliers (over \$600,000 a year), and those missing important information, we are left with 695, 690, and 843 respon-

Panel (a): Engagement

For each of the informal paid activities or side jobs listed in the table below, please respond to the following question:
Please provide a response for each row listed below.

	Are you currently engaged in this activity?	
	Yes	No
Babysitting	<input type="radio"/>	<input type="radio"/>
House sitting	<input type="radio"/>	<input type="radio"/>
Dog walking	<input type="radio"/>	<input type="radio"/>
Yard or lawn care (i.e., mowing, weeding, etc.)	<input type="radio"/>	<input type="radio"/>
Housecleaning	<input type="radio"/>	<input type="radio"/>
House painting	<input type="radio"/>	<input type="radio"/>
Eldercare services	<input type="radio"/>	<input type="radio"/>
Providing services to other people (for example picking up their dry cleaning, helping people move houses, running errands, booking travel, or other personal assistance)	<input type="radio"/>	<input type="radio"/>
Selling goods at consignment shops	<input type="radio"/>	<input type="radio"/>
Selling goods on eBay, craigslist, or similar websites	<input type="radio"/>	<input type="radio"/>
Renting out property such as your car, your place of residence, or other items you own	<input type="radio"/>	<input type="radio"/>
Driving for a ride sharing service like Uber, Lyft, or Sidecar	<input type="radio"/>	<input type="radio"/>
Responding to surveys, including phone surveys, online surveys, and in-person surveys	<input type="radio"/>	<input type="radio"/>
Getting paid to complete tasks online through websites such as Amazon Mechanical Turk, Fiverr, or similar sites (examples of such tasks include, but are not limited to, editing documents, reviewing resumes, writing songs, creating graphic designs, rating pictures, etc.)	<input type="radio"/>	<input type="radio"/>
Posting videos, blog posts, or other content online, such as on YouTube, and receiving pay (including ad revenues or commissions) as a result	<input type="radio"/>	<input type="radio"/>
Other informal paid activity or side jobs (please specify) <input type="text"/>	<input type="radio"/>	<input type="radio"/>

Panel (b): Follow up Questions for a Specific Informal Work Activity

You reported that you have engaged in the following informal paid activity:

Babysitting

Considering the past two years or 24 months, in how many months did you engage in this activity **for pay**?

Please enter numbers in the box(es) below.

months out of 24

The following questions refer to a typical month (within the past two years) in which you engaged in this activity. In a typical month in which you engaged in this activity **for pay**, how much time do/did you spend on this activity? If less than one hour, report only in minutes.

Please enter numbers in the box(es) below.

hours and

minutes per month

In a typical month in which you do/did this activity, how much money do/did you typically earn doing this activity?

Please enter a number in the box below.

dollars per month

Do/did you use websites and/or mobile platforms in the course of doing this work, and/or finding such work?

Please select only one.

Yes

No

Fig. 1. Informal Work Engagement Questions.

dents from the three surveys, respectively. The main results presented here pertain to this restricted sample, which corresponds to the analysis sample in our previous, in-depth study of informal work—see Bracha and Burke (2016).

The two main survey questions used to measure informal work participation are presented in Fig. 1. Panel (a) presents the question asking about current engagement in informal paid activities, and panel (b) gives an example of the follow-up questions pertaining to each activity marked “yes” in the first question.

Given our interest in wage inflation, we focus on informal work that is labor-intensive, where a respondent is an informal worker if he or she (1) indicated working in at least one informal paid activity that is not survey work or renting/selling activities, and (2) reported strictly positive hours considering all activities except surveys and renting/selling. According to this measure, 19% of the individuals in our analysis sample (averaged over the three survey waves) are classified as informal workers. These individuals averaged 24 h and \$370 per month in informal hours and earnings.

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