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The Persistence of Informality: Evidence from Panel Data

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(November 2011)

published in: Research in Labor Economics, 2012, 229 - 255

Abstract:

Informality is a growing phenomenon in the developing and transition country labor market context. In particular, it is noticed that working in an informal employment relationship is often not temporary. The degree of persistence of informality in the labor market might be due to different sources: structural state dependence due to past informality experiences and spurious state dependence due to time-invariant unobserved individual effects, which can alter the propensity of being in the informal sector independently from actual informality experiences. The purpose of our paper is to study the dynamics of informality using a genuine panel data set in the Ukrainian labor market. By estimating a dynamic panel data probit model with endogenous initial conditions, we find a highly significant degree of persistence due to previous informality experiences. This result implies that policies attempting to reduce current levels of informality may have a long-lasting effect on the labor market.

Text: See [Discussion Paper No. 6163](#)



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