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### Informal Sector and Corruption: An Empirical Investigation for India

by Nabamita Dutta, Saibal Kar, Sanjukta Roy  
(March 2011)

**Abstract:**

India is a country characterized by a huge informal sector. At the same time, it is a country where the extent of corruption in every sector is remarkably high. Stifling bureaucratic interference and corruption at every stage of economic activities is one of the main reasons behind high participation in informal and unregulated sectors. For economies characterized by high inequality and poverty, a useful tool for the government to pacify social unrest, is to choose a lower level of governance allowing substantial corruption in the system. Based on a study of 20 Indian states, we empirically show that higher corruption increases level of employment in the informal sector. Further, our analysis also shows that for higher levels of lagged state domestic product, the positive impact of corruption on the size of the informal sector is nullified.

**Text:** See [Discussion Paper No. 5579](#)

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