

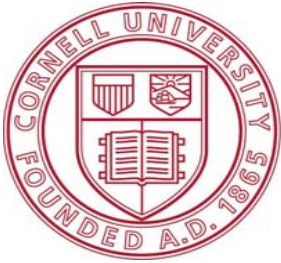
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# Informality and Development

**Gary Fields**  
**Cornell University and IZA**

**March, 2011**



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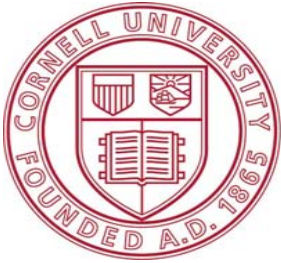


**Q: What do we know about economic growth and change in poverty in the developing world? Two lessons:**

- 1. In the great majority of cases, when economic growth takes place, the rate of poverty falls.**
- 2. When the rate of poverty has not fallen, typically it is because economic growth has not taken place.**

**Note:**

- Not all individuals**
- Not all groups**



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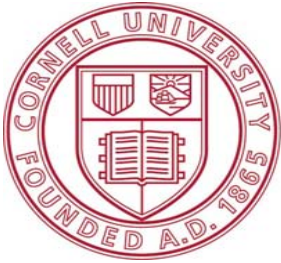


**But:**

**Little is known about the  
growth-poverty-informality nexus.**

**Q: Why don't we know more?**

**A: Inconsistent links between definition and measurement.**



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## **Headline numbers:**

### **1) Levels of informality:**

**India: 93% according to NCEUS.**

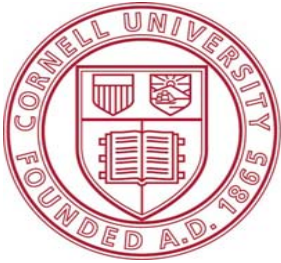
**Mexico: About 60% using ICLS method.**

**South Africa: About 20% using Stats SA Method A.**

### **2) Changes over time:**

**Just a few percentage points in any of the three.**

**“Wobble”**



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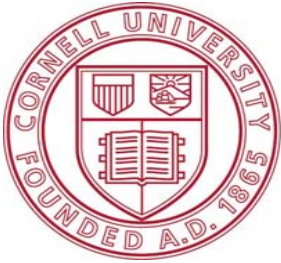
**What to do to remedy the problem of multiple and ambiguous definitions:**

**Antecedents:**

- **“Unemployment”**
- **“Income distribution”**
- **“Socioeconomic mobility”**

**Use words like “ICLS informal employment,” “unprotected,” “unregistered,” “not covered by social security,” and so on.**

**But let’s move on beyond semantics.**

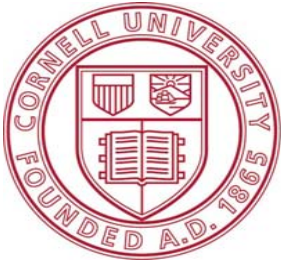


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## **Questions I'd like to see answered;**

- 1. How does the extent of informal employment change with economic growth?**
- 2. How do earnings among those in informal employment change with economic growth a) absolutely and b) relative to earnings elsewhere?**
- 3. To what extent do households that escape poverty do so by  
a) earning more within informal employment  
vs.  
b) getting out of informal employment?**



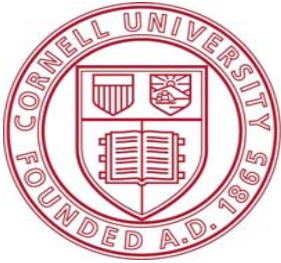
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**The South African conjecture:  
“The only way to get ahead in today’s South Africa is to acquire  
a formal sector job.”**

**Evidence:  
Not so.**





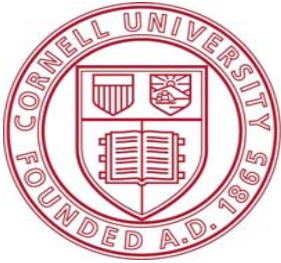
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## What *is* so in South Africa?

- 1. A sizeable number of workers have gotten ahead by moving *out* of casual work, non-professional self-employment, or domestic service and *into* paid employment.**
- 2. Another sizeable number have gotten ahead by earning more *within* self-employment.**
- 3. Still others have gotten ahead through education and training.**





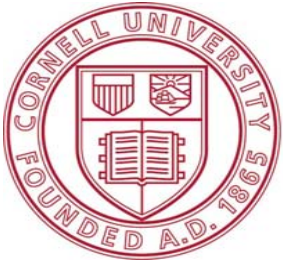
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**Re: “policy implications”:**

**False syllogisms.**

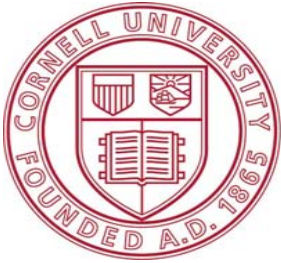
**No one of these three policy areas  
– increasing paid employment, raising the returns to self-  
employment, and investing in education and skills –  
is obviously the best way of using scarce resources to stimulate  
economic growth and reduce poverty.**



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**For deciding how best to intervene,  
social cost-benefit analysis is needed.**



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**Helpful questions to ask ourselves and to ask policy-makers:**

- 1. What specific labor market objective or objectives are you trying to achieve and by what welfare economic criterion or criteria will you decide if your objective(s) is/are being achieved?**
- 2. What is the labor market model you are using to analyze the effects of the proposed policy?**
- 3. What is the empirical evidence favoring one view of labor market functioning over another?**

**If we can't answer these ourselves, we need to do more thinking!  
And if the policy-makers can't answer them, let's push them to!**