

MOVING WIEGO FROM
THE MESO ...
Formal-informal linkages

Conceptualizing formal-informal linkages

Macro	Economy wide	What are the economy-wide interactions between formal and informal. Main focus on the labour market
Meso	Sector wide	How are sectors (e.g. manufacturing) organized between formal and informal
Micro	Individual	How do agents in the informal economy behave vis-à-vis formal, do they behave differently, or does policy impact differently

Thanks to WIEGO, Meso level fairly well researched

- * Research using, *inter-alia*, global value chains, incorporating informal economy
 - * Shows complexity of production, including informal
 - * Shows complexity and diversity within informal
 - * Shows informalisation of the formal economy
 - * Linkages between globalization and informality

Macro-level: recent advances in research

- * How is the labour market characterised?
 - * Multi-sector models, which disaggregate labour market into formal and informal - dualism
 - * What is the difference between formal and informal labour market i.e. why does the IS have to be separately captured
 - * 'Traditional' vs modern – product dualism
 - * barriers to entry vs no barriers to entry
 - * Regulated vs 'unregulated'
 - * Traded vs non-traded
 - * High levels of competition vs low-levels of competition
 - * High levels of productivity vs low levels of productivity

My concern with current macro models

- * Approach is to add informal and stir
 - * The models may be elegant and parsimonious but do they sufficiently capture the key linkages between formal and informal
 - * Do they model a competitive relationship between formal and informal?
 - * Do they model multiple livelihood strategies?
 - * Is the approach to regulations sufficiently nuanced?
- * Micro foundations of macro models are poorly developed

A micro view


- * Common view that informal production outside the purview of the tax system
- * I submit this is incorrect. Take example of VAT in South Africa
- * VAT taxes consumption along the production chain – collecting total tax less input tax along the chain
- * If you are informal, you don't get an input credit i.e. you are treated as though you are the final consumer

MaNgidi the blockmaker

- * Has to compete for market share against other informal manufacturers but also formal producers
- * How might the tax system affect her ability to compete against formal sector producers?

Comparing MaNgidi to formal producer

	FORMAL PRODUCER	MaNGIDI
CEMENT	R60	$R60 + 8.40 = 68.40$
STONES	R10	$R10 + 1.40 = 11.40$
TOTAL MATERIAL COST	R70	$R70 + 9.80 + 79.80$

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- * I have ignored some important costs, including the hassle costs associated with complying with VAT law
 - * BUT, the assumption that MaNgidi is completely outside the purview of tax legislation and unaffected by it is incorrect. In fact, her competitiveness may be adversely affected by being outside the regulations
 - * A formal producer is, by law, able to pass the full tax incidence on to the final consumer. Mrs Ngidi may not be able to do this.

Micro-level : lots we don't know

- * Portfolio approach to income-generation
- * What sorts of barriers to entry may apply in IE?
- * What sorts of competitive relationships exist between formal and informal, and intra-informal
- * Are informal producers really less productive? By how much?

The message

- * The meso is well researched
- * The macro has improved but remains inadequate
- * We need a lot more careful, rigorous, micro research that explores economic behavior in the informal economy, especially vis-à-vis the formal economy
- * This sort of research should aim to interrogate and improve the stylized facts that inform the current class of macro models
- * WIEGO, given its links to MBOPs, is particularly well placed to do this micro-level research