

Modelling Formal vs. Informal Employment and Earnings: Micro-econometric Evidence for Brazil*

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Abstract

Many developing economies, especially in Latin America, appear to be experiencing structural growth in their informal sectors, inconsistent with traditional views that the informal sector acts as a buffer against unemployment, or is symptomatic of labour market segmentation. This paper presents micro-econometric evidence for Brazil that challenges this conventional wisdom. A model of informal sector choice is estimated using selectivity-corrected predicted earnings for each individual in both informal and formal sectors. The results of this show that a higher predicted earnings differential between the informal and formal sector is associated with a greater probability of a worker being employed in the informal sector. We conclude that informal employment may be a desirable form of labour market status for many in Latin America, rather than a consequence of structural segmentation or cyclical displacement.

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