INTERNATIONAL MOVEMENTS OF MONEY AND MEN: IMPACT ON INFORMAL MARKETS

Seminar

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CNR-ISSM
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Abstract
Using panel data for a large cross-country sample, we consider the roles of three relatively new determinants of the size of the informal economy in a country. The potential determinants are (a) FDI inflows, (b) net inward development aid, and (c) net immigration. Fairly standard control variables are included, and an effort is made to address several methodological considerations. Both FDI and immigration tend to increase the informal sector, although the effects seem small. Aid inflows appear to reduce the informal sector, but the statistical significance of the estimates is low. Among the control variables, government size (consumption) shows the most persistent and significant effect toward increasing the informal economy, while some estimates indicate inflation to lower the informal sector marginally.

As a secondary exercise, we consider the effect of globalization, and note the informality-increasing role of social and overall globalization, and lack of a significant role of economic and political dimensions of globalization. The main contribution of the work perhaps lies in articulating the role of immigration in increasing the informal sector.