

Informality is a manifestation of a flawed relationship between citizens and their state. While the term means different things to different people, it almost always has negative connotations—including inferior working conditions, low productivity businesses, unfair competition, and disrespect for the rule of law. It is not surprising then that the rise observed in informality in Latin American and Caribbean countries over recent decades has garnered attention as a potential brake on improvements in growth and social welfare, and as a force corrosive to the integrity of society.

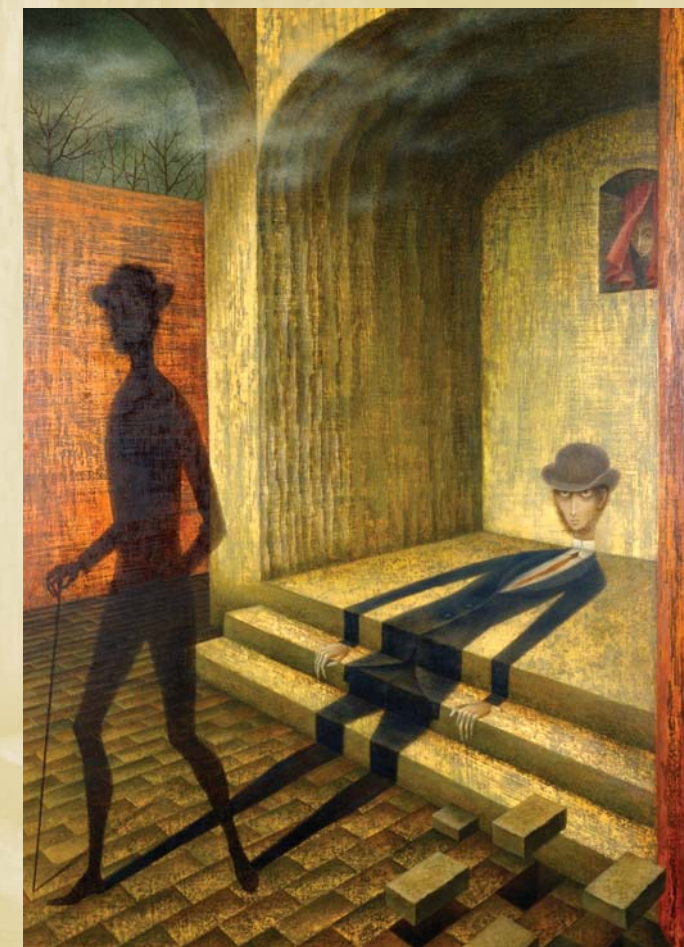
*Informality: Exit and Exclusion* analyzes informality in Latin America, exploring root causes and reasons for and implications of its growth. The authors use two distinct but complementary lenses: informality driven by “exclusion” from state benefits or the circuits of the modern economy, and driven by voluntary “exit” decisions resulting from private cost-benefit calculations that lead workers and firms to opt out of formal institutions. They find both lenses have considerable explanatory power to understand the causes and consequences of informality in the region. *Informality: Exit and Exclusion* concludes that reducing informality levels and overcoming the “culture of informality” will require actions to increase aggregate productivity in the economy, reform poorly designed regulations and social policies, and increase the legitimacy of the state by improving the quality and fairness of state institutions and policies. Although the study focuses on Latin America, its analysis, approach, and conclusions are relevant for all developing countries.

*Informality: Exit and Exclusion* will be of value to professionals and academics studying labor market, social protection, tax, microenterprise development, and urban public policies, and to those working in government, international organizations, research institutions, and universities.

INFORMALITY: EXIT AND EXCLUSION

# INFORMALITY

## EXIT AND EXCLUSION



GUILLERMO E. PERRY • WILLIAM F. MALONEY  
OMAR S. ARIAS • PABLO FAJNZYLBER  
ANDREW D. MASON • JAIME SAAVEDRA-CHANDUVI



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