

CAN ENGAGING IN INFORMAL ACTIVITIES BE EXPLAINED BY INSTITUTIONAL TRUST AMONG YOUTH IN ALGERIA?

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Abstract:

This article presents an empirical analysis of the determinants of being in informality for youth's people in Algeria, focusing on the effect of institutional trust. The estimation results of discrete choice model using recent survey "SAHWA", confirm that youth's people trusts in institutions have a significant effect on the likelihood of being in informality. However, it seems to differ according to which institutions are considered. It appears that youths who have a confidence in government are less likely to be in the informal sector. However, those who have confidence on political parties and associations and unions are more likely to be in the informality.

Keywords: Labor market, Informality, Trust on institutions, Youth, Algeria.

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1. Motivation and Outline

Several empirical works have analyzed the determinants of being in informal sector. Most focus on the effect of socioeconomic factors such as level of education, localities and regions of residence, number of dependents, skills acquired, marital status, age and gender ((Gallaway and Bernasek, 2002), (Sassen-Koob, 1989, Kesteloot and Meert, 1999), (Williams, 2004), (Schneider et al., 2001), (Becker, 2004), (Schneider et al., 2001), Loayza, 1996, Leonard, 1994, 1998, Venkatesh, 2006; Venkatesh, 2006, Williams, 2013).

The most recent works have found that institutional factors can influence decisions to undertake activities in the informal sector such as corruption (Schneider and Enste, 2000; Ferraira-Tiryaki, 2008), Regulations and legislation ((Hart, 2012; Schneider et al., 2010) or tax burden ((Schneider and Enste, 2000; Ferraira-Tiryaki, 2008, Friedman and al, 2000, Frey and Torgler 2007) but alternative explanation concerning the institutional factor include Portes (1994, 2005, 2010) and Burroni et al. (2008) concern the effect of institutional trust “Informality is curbed by institutional trust”.

The existing literature, has failed to generate a consensus about the effect of institutional factors on the size of informality, and studies still remain largely under-explored especially in the case of Arab countries including Algeria. However, in the most previous empirical studies, the institutional factors are used at macro level.

On the other hand, undoubtedly, young people are placed on the top among age groups who are the most affected by informal employment.

The purpose of this paper is to investigate the effect of institutional factor following microeconomic approach, we try to explore the role of institutional trust according to hypothesize that informality is curbed by institutional trust. We try to answer the following question: Does Trust in institutions influence decisions of youth to undertake activities in the informal sector in the case in Algeria? Analyzing this effect is important in the Arab countries characterized by strong tensions in their labor market.

The measurement of the trust in institutions remains complex, it is difficult to measure it directly by a single observed indicator. The most common way is measuring it by using several indicators such as trust in the parliament; in politicians, in political parties, legal system, the government,...) (Daniele and Geys (2015), Oorschot, Roosma, & Gelissen (2014), Carlson (2016), Marien (2011)).

The paper is organized as follows: In Section 2, we review the existing literature on determinant of informality. Section 3 describes the data sources and methods adopted in our analysis. Section 4 discusses the descriptive results to contextualize and motivate our analyses. Section 5 presents our empirical results, and finally Section 6 concludes.

2- Literature on determinant of informality:

The existing literature has revealed different factors which influence decisions to undertake activities in the informal sector or otherwise. We can divide the literature according to the nature of the factors in two major parts: "socioeconomic and demographic factors" and "institutional factors"

It have all been proven that Socioeconomic and demographic factors have an influence on people's propensity to engage in informal transactions such as level of education (Gallaway and Bernasek, 2002), localities and regions of residence (Sassen-Koob, 1989, Kesteloot and Meert, 1999), income level (Williams, 2004), number of dependents (Schneider et al., 2001), skills acquired (Becker, 2004), marital status (Schneider et al., 2001), age and gender (Becker, 2004, Loayza, 1996, Leonard, 1994, 1998, Venkatesh, 2006; Venkatesh, 2006, Williams, 2013).

Institutional factor is another drivers underpinning the decision de enter in informality such as tax burden, Regulations and legislation and corruption.

Many papers dealing with informal sector put forward tax burden. Rising tax burden leads to higher sizes of informal sector (Giles et al., 2000; Sookram and Watson, 2008).But there is noconsensus about the direction of the effect of tax on the size informality, some studies (Frey and Pommerehne (1984), Schneider (1994,1997), Tanzi (1999), Davis and Henrekson (2004)) in where taxes are left out to play an exogenous role, found a positive correlation between taxes and informal sector size but several recent cross-section and panel data empirical studies, allowing for the possible endogeneity of taxes, associate higher taxes with a smaller size of the informal economy (Johnson. al. (1997), Johnson et. al. (1998), Friedman et. al. (2000), and Torgler and Schneider (2007)).

Regulations and legislation such as labor market regulation and social security legislation have been found to have a significant influence on decisions to participate in the informal economy (Hart, 2012; Schneider et al., 2010).For example excessive regulation of the labor market, through minimum wages can increases the size of the informal economy (Schneider

and Enste, 2000). Else, social security contributions increase the cost of labor in the formal economy, and hence increase the size of the informal economy (Schneider et al., 2010).

Some studies have observed that the size of a country's informal economy increases with corruption. Corruption makes agents flee into the informal economy (Schneider and Enste, 2000; Ferraira-Tiryaki, 2008, (Friedman et al., 2000). Conversely, other studies (Dobson and Ramlogan-Dobson, 2012) consider corruption beneficial to economies with a large informal sector and weak institutions.

However, the literature that emphasizes institutional determinants also implicitly suggests that trust in institutions should have an effect on people behavior in the decision to undertake activities in the informal sector. Portes (1994, 2005, 2010) postulates that trust in formal institutions inhibits people's tendency to engage in informal activities.

Burroni et al. (2008) explained that the emergence and rise of the informal sector cannot be simply explained by economic pressures: it is strongly influenced by others factors such as the absence of institutional trust.

3-Data and Methodology

We use The SAHWA Youth Survey which concern young people between 15 and 29 years-old in Algeria, Egypt, Lebanon, Morocco, and Tunisia conducted amongst 10,000 young (2000 per country) between 2015 and 2016. The main topics under study in the SAHWA project are education, employment and social inclusion, political mobilization and participation, culture and values, international migration and mobility, gender, comparative experiences in other transitional contexts and public policies, and international cooperation. The survey contains items which measure respondents' trust in institutions such as parliament, politicians, political parties, the legal system, and government.

First, we start with descriptive analysis to used variables of SAHWA data survey. Second, we use empirical methods to analyze the determinant of informality among youth including institutional trust variables. The main analysis consists of estimating a logit model which allows us to estimate the impact of institutional trust variables on the likelihood of being in informality measuring by not being insured by social security. We control with others explanatory variables (socio-demographics, ...). Being in informality can be formalized by a discrete choice structure where individual i is ($Y_i = 1$) or not ($Y_i = 0$) in informality.

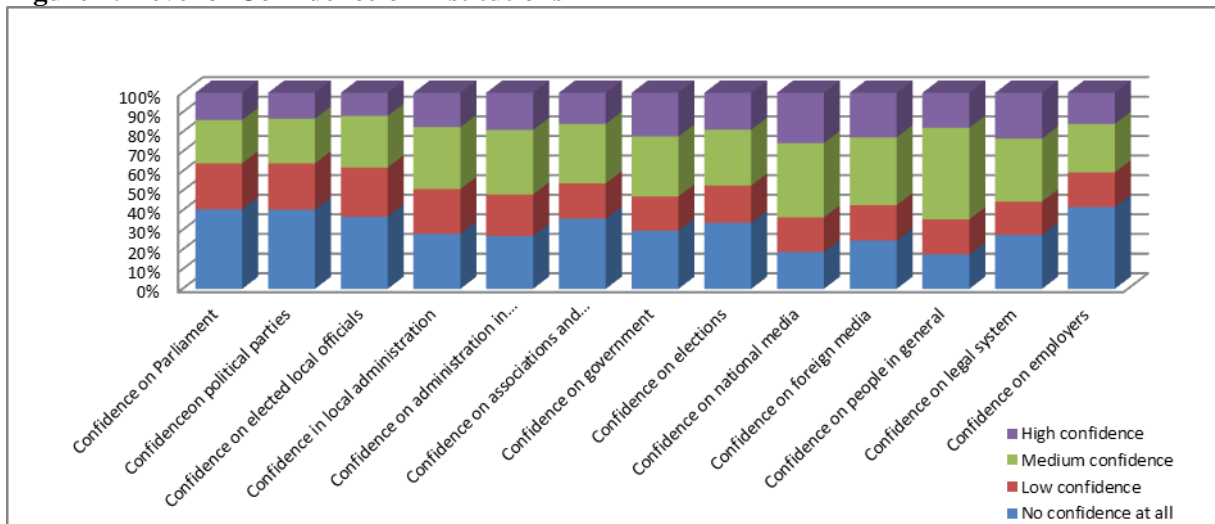
4. Descriptive Statistics:

The analysis of the data suggests that the general level of young people’s trust in different institutions is low. It seems to differ in relation to which political institutions are considered more or less trustworthy.

Important part of the young people does not trust at all the Parliament and political parties. However, much better levels social trust was observed. Only 17% of young people’s don’t have confidence in people in general against 40, 5% for Parliament and Political parties.

Concerning the local level, in Algeria local institutions seem to be more trusted than the national ones.

Figure 1: Level of Confidence on institutions



Source: Constructed by authors using Sahwa Data survey.

5. Results and Analysis

The second column of the table below displays the odds ratio of the logit model that explains the determinant of informality (not being insured by social security):

Table 1: Determinants of being in the informality

VARIABLES	odds ratio
Male	0.838
Female (ref)	(0.253)
Age of the first job	0.774***
	(0.0333)
Urban	0.870
Rural (ref)	(0.220)
Level of education (primary and less (ref))	
Middle	0.416*
	(0.214)
Secondary	0.330**
	(0.181)
Higher	0.0617***
	(0.0398)
Confidence on Parliament No (Ref)	0.501
	(0.222)
Confidence on Political parties No (Ref)	2.384*
	(1.126)
Confidence on elected local officials No (Ref)	0.810
	(0.328)
Confidence on local administration No (Ref)	1.862
	(1.222)
Confidence on administration in general No (Ref)	0.581
	(0.377)
Confidence in associations and unions No (Ref)	2.186**
	(0.803)
Confidence in government No (Ref)	0.509*
	(0.206)
Confidence in elections No (Ref)	0.994
	(0.386)
Confidence in national Media No (Ref)	1.069
	(0.446)
Confidence in foreign Media No (Ref)	1.495
	(0.470)
Confidence in people in general No (Ref)	0.859
	(0.343)
Confidence in legal system No (Ref)	0.652
	(0.254)
Confidence in Employers No (Ref)	0.952
	(0.299)
Corruption currently takes place in your country No (Ref)	0.726
	(0.440)
Encountered to nepotism No (Ref)	0.528***
	(0.126)
Political system in your country allow people No (Ref)	
Yes	1.366
	(0.357)
Marital status (Ever Married –Ref)	
Never Married	1.106
	(0.435)
Father level instruction Below Secondary (Ref)	
Secondary and Higher	0.897
	(0.298)
Mother level instruction Below Secondary (Ref)	
Secondary and Higher	0.600
	(0.234)
Father insured by the social security system No (Ref)	0.522
	(0.374)
Father insured by the social security system No (Ref)	1.186
	(0.810)
Have you had professional training No (Ref)	0.674
	(0.172)
Job satisfaction No (Ref)	0.360**
	(0.0881)
Constant	3,278***
	(4,238)
Observations	493

Standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

The model shows that institutional trust does a significant impact on the probability of being in informality. It appears that youths who have a Confidence on government are less likely to be in the informal sector (youths who have a Confidence on government have 1,96 less risk to be in the informal sector comparatively to who don't have it). However, those who have Confidence on political parties are more likely to be in the informality (youths who have a Confidence on political parties have 2,38 more risk to be in the informal sector comparatively to who don't have it).

The result shows that confidence on associations and unions have a positive effect on informality. The people who have confidence on associations and unions are more likely to be in the informal sector (youths who have a Confidence on government have 2,17 more risk to be in the informal sector comparatively to who don't have it).

Concerning the control variables, we find that:

The stratum of residence does not have a significant effect on informality. However, education has a significant negative impact on informality, the likelihood to be in informality decrease with the education level (it confirms previous researches (Bellache, 2010, Galiani, 2012) (Youths with middle education level have 2.4 less risk to be to be in the informal sector comparatively to youths with primary and less education level and youths with secondary education level have 3 less risk to be to be in the informal sector comparatively to youths with primary and less education level. Youths with higher education level have 16,20 less risk to be to be in the informal sector comparatively to youths with primary and less education level). The age of the first job have a significant effect on informality. The result show that more we start working older; more we are in the informality. Encountered nepotism has a significant effect on being in the informality. (Youths who ever have encountered nepotism have 1,89 less risk to be in the informal sector comparatively to who never encountered it).

Unexpectedly, gender has no effect on the probability of being in the informal ((Bellache and al 2010) had showed that female is less likely to be insured for the case of Algeria. Also, Job satisfaction has strong significant effect on being in informality. Youth's people who are satisfied are less likely to be in the informality (Youth's people who are satisfied have 2,78 less risk to be to be in the informal sector comparatively to who not satisfied).

6. Conclusion

This research has shown that institutional trust does a significant impact on the probability of being in the informality. We find some important results, which can be summarized in the following points:

- The general level of young people's trust in different institutions is low. However, it seems to differ in relation to which political institutions are considered more or less trustworthy.
- Youths who have a Confidence on government are less likely to be in the informal sector. However, those who have Confidence on political parties are more likely to be in the informality.
- Confidence on associations and unions has a positive effect on informality. The people who have confidence on associations and unions are more likely to be in the informal sector.
- Concerning the control variables, we find that the stratum of residence does not have a significant effect on informality. However, education has a significant negative impact on informality, the likelihood to be in informality decrease with the education level. The age of the first job have a significant effect on informality. More we start working older; more we are in the informality. People who ever have encountered nepotism are less likely to be in the informal sector (People who ever have encountered nepotism have to be in the informal sector. Gender has no effect on the probability of being in the informal and finally, Job satisfaction has strong significant effect on being in informality. People who are satisfied are less likely to be in the informality.

Our Findings suggest that in Algeria, Enhancing the level of youth's trust in institutions can decrease the level of the informality and therefore improve the Government Performance.

The government must create political stability, and improve the condition of law and order, in order to improve institutions quality in order to increase the level of trust among individuals and improve the confidence of people on political and public institutions.

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