

# **Informal employment at labour market entry. A comparative study of Croatia, Poland and Ukraine.**

Anna Baranowska\*, Michael Gebel\*\* and Teo Matkovic\*\*\*

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## **Abstract**

Informal employment represents a flexible but also precarious path of integrating youth into the labour market in many countries. Using longitudinal, comparable micro-data from three recent school-leaver surveys, this paper provides first empirical evidence on the determinants and early career consequences of informal employment in early labour careers of graduates in Croatia, Poland, and Ukraine. Choosing three countries that represent different institutional regimes allows us to learn how individual level relationships are attenuated by the national context. In Ukraine high taxes, low governance quality and weak law enforcement increase the potential benefits of informal work and reduce the risks associated with working in the informal sector. In Poland and Croatia the taxes are lower and the quality of governance as well as law enforcement is higher. Furthermore, the institutional setting enhances using temporary contracts that represent flexible but formal form of hiring young people.

While the share of informal first jobs is highest in Ukraine, the country with the worst institutional mix of high taxes, low policy quality and widespread corruption, we find similar allocation patterns into informal jobs based on individual resources and employer's characteristics in all three countries. Furthermore, we can show that career damages in terms of lower employment and formal employment chances are most pronounced in Poland, while in Ukraine, the informal sector seems to provide a "parallel economy" of rather secure informal jobs but also lower upward mobility into formal jobs. In contrast, informal sector activity is least stable in Croatia, where subsequent non-employment risks but also ways to formal employment are very pronounced.

\* Warsaw School of Economics, Institute for Statistics and Demography, Al. Niepodległości 162, 02-554 Warsaw, Poland fax: +48-22-5648643, e-mail: anna.baranowska@mzes.uni-mannheim.de

\*\* Mannheim Centre for European Social Research (MZES), Mannheim, Germany

\*\*\* University of Zagreb, Social policy unit, Faculty of Law, Zagreb, Croatia