Risk Attitudes, Informal Employment and Wages: Evidence from a Transition Country

Thomas Dohmen
Bonn University, IZA and DIW

Melanie Khamis
Wesleyan University and IZA

Hartmut Lehmann*
University of Bologna, IZA, ICID and DIW

Abstract

Using data from the four waves of the Ukrainian Longitudinal Monitoring Survey - ULMS (2003, 2004, 2007 and 2012), we analyze the question whether workers with a higher willingness to take risks are more likely to select into informal salaried or informal self-employment. The data permit us to distinguish between five employment states: formal and informal self-employment, formal salaried employment, voluntary informal salaried employment and involuntary informal salaried employment. The produced empirical evidence reveals risk attitudes as a strong determinant of the incidence of all types of informal employment. We take this as evidence that the labor market in Ukraine is rather integrated and that segmentation plays a minor role. Our earnings risk analysis clearly demonstrates that workers with a higher willingness to take risks are more likely to choose employment states with a wider distribution of residual wages. We also produce evidence that allows us to reject the idea of reverse causality: risk attitudes impact on the choice of employment state whilst this latter does not influence risk attitudes. Thus we interpret the link between risk attitudes and selection into informal employment as causal.