months prior and following, the incidence of licensing among eligible firms increased from 20.8% to 25.3%. For non-eligible firms the rise was only 25.2% to 26.8%, and so it is reasonable to say the tax reduction program was a driving force. Formalized firms show significantly higher revenues and profits, and led to an increase in employment of 0.4-0.5 employees – a substantial increase in firms where they may have previously only been one or two employees. It is this kind of initiative that actually gets around the problem of the informal sector – it could be the case that it needn't exist at all, if it was cheaper and easier to become formalized. Formality offers the firm access to risk pooling mechanisms that may attract more educated paid workers and engage them in a longer relationship with the firm, making the acquisition of training/capital goods more profitable. The incentive for firms is there, so perhaps if it was made more accessible much of the informal sector would become formalized. Interestingly the biggest gain was thought to be through the choice of a permanent location which permits the expansion of capital and employment, essentially the issue of property rights, which was examined in Buenos Aires by Galiani and Schargrodsky (2010).

Here it was initially thought that land titling programs giving more secure property rights could allow the poor to collateralize land and access credit markets, investing this credit in capital in productive projects, increasing labour productivity and income. This could serve as another mechanism used to alleviate the issues of the informal sector, as property rights could allow for expansion and formalisation, and therefore increased employment in the formal sector. While the experiment in Argentina based around the 1984 expropriation law showed no effect on access to formal or informal credit, those households who were given legal rights of ownership over their homes did increase investment in both their houses and the human capital of their children, and this should contribute to reduce poverty in future generations.

In conclusion, I think overall high rates of migration from rural to urban areas is a sign of success, as it shows a country beginning to industrialise and move away from agriculture. Attempts to curb migration have rarely met their goals, and governments would do better to channel migration into secondary cities to encourage development outside of major urban centres. The fast growth of the informal sector is a natural accompaniment to rural-urban migration, and its usefulness as a tool in controlling and slowing the rate of migration leads me to believe it is not a sign of failure. However, there are associated problems which are hard to ignore, and instead of trying to bolster the growth of the formal sector through incentivizing start ups, the government should try making the actual process of formalisation easier and more affordable. This combined with programs to deal with fragile property rights should lead to both more formal employment today, and investment in buildings and human capital for the future.

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