The Informal Economy and its Relative Effect on Political Capacity

Austin Wright, Xavier University

Informal economics is a field of study which applies to every state in the world. The dynamics of this "shadow" economy infiltrate the entirety of markets, affecting governments, citizens, producers, and consumers. As a result of this deep infiltration, a significant amount of resources have been committed to unraveling the mysteries of the informal economy. Over the course of the last two decades, the academic community has seen a surge of studies and data that explore the determinates of the informal economy, means of measuring said economy, how the informal sector affects economic development, and, most recently, how the informal sector effects a state's political capacity. Modern research has done an excellent job of representing the relative implications of the informal economy on taxation, foreign investment and other phenomena within developed nations. However, despite this definite increase in the available data, models and case studies, this new field of focus, the informal-political capacity relationship, is unarguably incomplete.

Current research on the informal economy has primarily been based on proxy measurements, which makes it quite common for researchers to capture latent variables in their measurements or even, in some cases, ignore other variables altogether. When it comes to developing nations, the available data is even more incomplete. Developing nations are typically ignored due to the relative lack of information on governing systems, population data, and economic activities. However, it is developing nations that may garner the most benefit from understanding the inner workings of the informal economy. It is the general disregard for developing nations and the inaccuracy of current informal economic models that I wish to address.

Underlying Theory

Current means of measuring the informal economy rely heavily on capital intensive processes, such as electricity consumption, or monetary fluctuation, i.e., the flow of money. However, the issue with these measurements is the fact they are only accurate in fully developed, or highly developed, nations. Numerous countries in Africa are severely underdeveloped, and the people there do not have access to food or water, let alone electricity or currency. Therefore, the models which are prevalent in the informal economy literature, are inadequate concerning their implementation in underdeveloped nations. These models either: a) grossly underestimate the primary contributors to the

informal economy or b) ignore these variables altogether. As a result of such underdevelopment, the members of African nations rely heavily on agricultural goods to generate income and means of nourishment. This means of labor also generates a substantial portion of the informal economy. Due to a disconnection regarding societal development, citizens in rural areas frequently engage in barter and trade to acquire essential goods.

Given that current informal economic measures underestimate the role of agriculture in generating informal activity, I wish to propose a new means of measuring the informal economy in developing nations. As the theory stands, I am arguing that large informal economies lead to a state possessing low political capacity. However, specifically, it shall be argued that my measure of the informal economy, with a particular focus on agriculture, is better suited to depict the natural relationship with political capacity in developing nations. This argument is derived from the notion previous models regarding the informal economy underestimate the role of agricultural as a determinate of informal economic size when it comes to developing nations. My new means of measurement, which will be described later on, produces data which accurately reflects the economic role of agriculture in developing nations. Through the utilization of this data, it is theorized that current methodology may then be able to better exemplify the true interactive relationship between the informal economy and political capacity.

Population and Case Selection

While it is undeniable that the informal economy affects all nations, for this study we shall focus on developing nations. Due to the capital intensive measurement systems that currently exist, it is necessary to expand on the measures presented so that they become applicable to non-capital intensive economic systems. This focus makes the population of reference for this design all developing nations which rely heavily on agricultural production. However, we shall focus on two primary cases: Somalia in 1990 and Somalia in 2015.

Somalia is a textbook example of a developing nation which relies heavily on agricultural product, rather capital, to foster economic growth. However, the choice to study Somalia is also motivated by its potential as a hard case. A hard case is a case amongst a prescribed population where the likelihood of the proposed theory being true is extremely low. Therefore, if a theory appears to be true in this unlikely scenario, logically speaking, it must then also apply to other cases within the given population. The use of a hard case allows us to make inferences about the population as a whole. While it is true that Somalia's status as a hard case distinguishes it from the rest of the population, it must be noted that Somalia does possess many similarities with other developing nations regarding history, resource availability, and so forth. This reality, in turn, means that relationships derived from this study may also depict relationships

which exist in other cases. This opportunity to utilize a hard case, along with the ability to reflect the existence of possible relationships with my population, is why Somalia is considered my primary case study.

Somalia's rank amongst developing nations is quite low, as it is classified as a failed state. The state itself has consistently seen instances of rebellion, terrorism, foreign intervention, humanitarian aid, and complete government collapse. These phenomena inherently suggest that there are a number of factors at work which could directly affect Somalia's political capacity. Due to this reality, it is quite unlikely that I shall be able to isolate the effects of my independent variable, the informal economy, and trace it to my dependent variable, political capacity. Therefore, if my current design can capture the relationship in Somalia, effectively, it will appear quite likely that the same relationship exists in other nations within the prescribed population. Furthermore, the chosen cases will allow us to operate under the guise of the Mill's method of difference.

By examining Somalia over two separate time periods, we can control for numerous confounding variables which include: geographic location, culture, language, customs, resource accessibility, and history. Through the controlling of these various variables, the ability to depict the relative relationship between the informal economy and political capacity will be enhanced immensely. As a direct result, the internal validity of the Somalia case study can be considered quite high. For a point of reference, the term internal validity refers to the ability of a measure to display a causal relationship between two variables. However, it is worth noting that our choice to examine Somalia across two-time frames, rather two nations, limits the external validity of this design. External validity refers to the ability to generalize findings from one study to become applicable to the population as a whole. By only focusing on one nation, it becomes quite difficult to generalize the data collected to the population. While this may be a shortcoming for this design, it is a necessary sacrifice to boost internal validity and clearly track the relative relationship between our variables.

Informal Economy: Conceptualization
Elgin et al. (2014) defines the informal economy "…as a set of economic activities that take place outside the framework of bureaucratic public- and private-sector establishments and do not comply with government regulations". Nagac (2015) defines it as the "…economic activities and transactions that are hidden from authorities so that they are unmeasured or untaxed". Mathias et al., on the other hand, defines the informal economy as "…actions outside the normal scope of commerce, such as unsanctioned payments and gift-giving, as means of influencing competition". However, the conceptual definition of the informal economy that is most representative of the term is a combination of the definitions constructed by Elshamy (2015) and Bruton et al. (2012). More specifically, it is a combination of the passages "the informal economy

compromises those economic activities that circumvent the costs and are excluded from the benefits and rights incorporated in the laws and administrative rule covering property relationships, commercial licensing, labor contracts, torts, financial credit and social systems" and "…businesses that are unregistered but derive income from the production of legal goods and services".

With reference to the above quotations, this study defines the informal economy as follows: The term informal economy refers to those "economic activities that circumvent the costs and are excluded from the benefits and rights incorporated in the laws and administrative rule covering property relationships, commercial licensing, labor contracts, torts, financial credit and social systems", and generate income through the illegal transaction of legal goods. This definition gives an accurate and direct representation of informal economic activity, while simultaneously excluding those activities that would not be included in GDP if they had been brought into the legal system. These activities primarily refer to drugs, the black market sale of weapons, murder for hire, and so forth.

Informal Economy: Operationalization

Regarding the operationalization of the informal economy, I shall use the proxy measures provided by current methodology and augment current models by suggesting a new means of measurement for agricultural contributions. Although earlier on I criticized the representative capabilities of current empirical measures, it is undeniable that they do serve a practical purpose in generating a starting point for informal economic size. These models are also particularly useful in highly developed nations, which typically possess high levels of capital and functioning infrastructures.

There are six primary methods of informal economic estimation: "(a) the discrepancy between national expenditure and income statistics; (b) the discrepancy between the official and actual labor force: (c) the "electricity consumption" approach of Kauffman and Kaliberda (1996); (d) the "monetary transaction" approach of Feige (1979); (e) "the currency demand" approach of Cagan (1958) and others; (f) the "multiple indicators, multiple causes" (MIMIC) approach of Frey and Weck-Hanneman (1984)" (Elshamy).

The measurement method proposed in (a) is not an option due to it not being particularity applicable in regions with severe underdevelopment and an acute shortage of household statistics. We may rule option (b) out as the primary method of measurement due to atypical labor situations in African nations. Due to many African nations lacking codified labor laws, it is quite common to find children and disabled citizens participating in the workforce. The formula for labor force in macroeconomics is quite specific, and these discrepancies in our region of study prevent us from solely using labor statistics. Option (c) is not applicable for aforementioned reasons. The non-equivalent capital disruption in African nations makes the measure of electricity

consumption unreliable. Measuring electricity consumption to estimate productivity would only capture the regions of a state that are developed, while completely ignoring the agriculturally based regions of society. Options (d) and (e) are also unviable prospects due to similar reasons (c) was not viable.

The elimination of these options leaves us with option (f), the MIMIC model first introduced by Frey et al. (1984) and utilized in Elshamy (2015). The Multiple Indicators, Multiple Causes approach, or MIMIC for short, "…explicitly considers several causes, as well as the multiple effects of the informal economy. The methodology makes use of several associations between the observable causes and the observable effects of an unobserved variable, in this case, the informal economy, to estimate the unobserved factor itself" (Elshamy). This model makes it possible to utilize several indicators, and these previously mentioned models, to construct a relative estimation of the informal economy. For reference to the effectiveness of this model, one may turn to the work produced by Giles (1999) and Dell'Anno (2003), which produced measurements of the informal economy in New Zealand and Italy, respectively.

Despite our utilization of the MIMIC model, there are some concerns with the equations estimations of agricultural influence. African nations place disproportionally high reliance on the agricultural sector to produce goods, in comparison to their international counterparts. Therefore, I shall propose a two-pronged addition to the MIMIC model. The first alteration comes in the form of a survey method, and the second coming in the form of the equation which estimates tax revenue generated from the agricultural sector. In regards to the survey, we shall pull a random sample from farmers who have lived in a single country, Somalia, for an extended period of time. In this case, a minimum of 20 years. These individuals would have been alive prior to the beginning of the Somalia civil war, and are currently living under the newly formed government. Based on these two time periods we shall question the farmers to garner information relating to their goods produced, the size of their farms, the average harvest, the estimated percentage of a harvest that went to open market, and the estimated rates that were used in "informal transactions". These results should illuminate the relative activity of Somalia's informal economy prior to the Civil War and in modern times. In conjunction with this survey,

I suggest a new method of estimating expected tax revenue from the agricultural sector. The formula is as follows:

Average Agricultural Goods Produced (AAGP) = Acres of farmable land × Average Yield Formula

(AAGP − ∑ Household Consumption)×Market Price × Tax Rate = Expected Tax Revenue

The resulting total of this formula shall give us an approximate total of tax revenue that should have been garnered as a result of agricultural production. Using this data, along with the information obtained through the survey method, we shall compare these results with the relative contribution of the agricultural sector to the informal economy as presented by the MIMIC. Following this comparison, we shall make adjustments to the MIMIC model to produce a newly proposed size of the informal economy. Under the assumption that our new proposed informal economy size is more accurate than previous estimations, we shall use this new number to run regression models to isolate the relative relationship between the informal economy and our dependent variable, political capacity.

However, like previous measures, the proposed methodology does possess several limitations regarding accuracy and capturing the proposed phenomenon. One of the most important limitations, which is quite common across all informal economic studies, is the fact there is no official data that reports informal activity. As stated earlier, the informal economy is defined as the economic activity that falls outside of legitimate, monitored commerce. Therefore, the inherent definition of the informal economy demands that we use proxy measures to estimate the relative size of said economy.

The MIMIC model is built upon representative variables which seem to underscore informal economic activity. This structure, in turn, means that we do not possess extremely precise values for the informal economy. The same can be said about my proposed measure of agricultural contribution to the shadow sector. My formulas, at best, produce rough estimations of the relative size of the economic contributions of the agricultural sector. As one can see, these issues of validity are quite common. However, the very nature of our independent variable means that we will never possess 100% accurate empirical measures. Therefore, the complete eradication of these issues is impossible. By utilizing a Mill's method of difference, however, it remains possible to utilize these imperfect measures. The controlling of confounding variables allows us to track the relative changes in our independent variable to the changes in our dependent variable. The ability to track these changes allows even estimations to provide us with the necessary data to assess the strength and direction of the designs implied relationship. As a result, so long as all confounding variables are accounted for, we may utilize these measures to capture the informal economy.

Concerning the proposed survey, we must be careful to minimize survey error and the Hawthorne effect. Some of the biggest issues when it comes to conducting surveys are biased questions, non-representative populations, and altered behavior due to the knowledge of study. To combat systemic problems, we must be careful to pull a truly random, and representative, sample from the Somali population, as well as format questions so that they are both accurate and non-biased. Some may also argue that the administration of these surveys will result in civilians altering their responses to avoid

social or legal punishment. To combat such issues, the individual who administers the surveys must do so in private and have no ties to the government of Somalia. These conditions will make respondents much more likely to respond truthfully, thereby erasing some of the possible limitations of survey data collection. Many of the limitations which befall my proposed measures are easily addressed. While it is impossible to pull reference points which do not, in some way, capture other minute social phenomenon, the major threats to social science research are accounted for. So long as the proposed methodology is implemented correctly, and the advice mentioned in this section is adhered too, no major threats to reliability or validity are likely to occur.

Political Capacity: Conceptualization

The second portion of my current design requires a discussion relating to political capacity and the term's implicit meanings. Coson (2012) and Rabinowitz et al. (2007) defines political capacity as "…the ability of a government to effectively extract resources from the population given their level of economic development". Ottervik (2013) defines state capacity as "the degree of control that state agents exercise over persons, activities, and resources within their governments' territorial jurisdiction".

A more normative approach, proposed by Hanson et al. (2013) defines a state's capacity as the ability to effectively carry out its governmental goals. However, the proposed conceptualizations of political capacity fail to produce a definition which captures a state's expectations and is specific enough to be measurable. Therefore, this study proposes a conceptual hybrid, constructed from the works of Petros (2015), Ottervik (2013), and Hanson et al. (2013).

Political capacity is defined as the ability of the state to broadcast power across its territory (i.e., military, police) and to extract taxes from its population and provide public services through a degree of control over people, activities, and resources in a given territory. This definition can further be broken down into three different categories: extractive, coercive, and administration capabilities. By extractive capabilities we refer to the state's ability to collect tax revenue from its populations, coercive capabilities will refer to the state's ability to enforce law and order, and administrative capabilities reference the state's provision of public goods and government institutions. This definition is the best conceptualization for political capacity due to its specificity, and ability to capture the general expectations of the state. The basis of statehood can be seen as a contract between the public and a ruling government, which outlines a specific set of expectations. Citizens agree to pay the government, in the form of taxes, and in return, the state is expected to provide protection, state security, and public goods. In essence, political capacity is simply a term which measures the relative success of the state in meeting its contractual obligations. The definition that has been selected to use

covers every component of the state-citizen contract, which is why the proposed conceptualization of state capacity is the best fit for this research design.

However, due to the intimate nature of political capacity and the informal economy, it is necessary to discuss the issue of simultaneity, as well as a tautology. While it is undeniable that the informal economy and the government intertwine at certain points, the conceptualization of our variables separates the two into specific categories. Political capacity, as defined, measures the state's ability to collect taxes from the formal economy and translate, said taxes into benefits (i.e., security and public goods). The informal economy, on the other hand, is considered all those activities that occur outside of the taxable sphere. Therefore, the size of the informal economy, as well as the number of firms that decide to participate in said economy, dictate the changes in tax revenue and, in turn, the relative capability of a government to collect taxes. This interaction, therefore, highlights the fact the informal economy, as defined in our design, directly impacts political capacity. In essence, the data shows that our X directly impacts Y. However, to deal with simultaneity, an issue where researchers expect X to cause Y and Y to cause X, demands an explanation how political capacity does not cause changes in the size of the informal economy.

As stated previously, political capacity in this paper examines tax collection and the provision of benefits. The idea of tax collection simply examines the state's ability to collect taxes from those firms in the formal commerce market. Taxation as a measure is representative of efficiency and a direct reflection of governmental capabilities. Based on this understanding, it is impossible for this segment of the political capacity conceptualization to directly impact the size of the informal economy. The second portion of the political capacity definition, additionally, does not impact the size of the informal economy. Our second component deals specifically with the state's provision of benefits to its citizens. This, once again, is a discussion related to efficiency and reliability. The states translation of taxes into benefits is a reflection of just that. If we measured tax burden, governmental programs, etc., then it would be a completely different story as these are determinates of the informal economy. However, since our definition of political capacity deals primarily with efficiency and the following section, which discusses operationalization, produces data which reflections relative government effectiveness, simultaneity does not appear to be an issue. Concerning tautology, some may argue that since taxation is on both sides of my hypothesis, my underlying theory is inherently true. However, the nature of taxation in both my independent and dependent variable is completely different. The informal economy diverts taxation away from the government due to firms operating outside of the formal commerce system. Within political capacity, the role of taxation relates to collection and efficiency. While the informal economy may affect the relative pool of taxes available for extraction, in no

way does it affect the state's ability to collect. Therefore, this understanding makes tautology a nonexistent issue.

Political Capacity: Operationalization

In regards to operationalization, the best method of measurement can be derived from our earlier deconstruction of political capacity into our three categories: extractive, coercive, and administration capabilities. By utilizing this deconstruction, the previously unmeasurable concept of political capacity becomes operational. The method of measuring extractive capabilities will be derived from Rabinowitz (2007), Soifer (2012), and Hason et al. (2013). One measure of extraction shall follow this formula:

Relative Extraction = Actual Extraction / Predicted Extraction

The resulting number, which will range from $0 < X < 1$, will provide a relative ratio of extractive capabilities. Using the proposed formula we may then assess the capacity of the state in respect to this category.

The second measure shall be taken from Soifer, who proposes that "…the percentage of revenue generated from income and wealth taxes divided by the percentage of revenue generated from customs and resource rents…should be a measure of state capacity". The proposed underlying theory is that "…a state that relies heavily on customs duties—collected only at major ports of entry and exit—requires little in terms of extractive capacity throughout the vast remainder of its national territory, while the taxation of domestic commerce, wealth, or income, requires the state to have much greater reach". Therefore, it can be inferred that a state which relies more heavily on direct taxation has a higher level of political capacity, while those states which rely more heavily on duty taxes can be interpreted as having a lower political capacity. Under this rational, the ratio which is produced by this formula will give us a relative estimation of political capacity. For further supporting evidence one should turn to Hanson et al. (2013).

Coercive capabilities shall be measured using proxy variables which inherently depict the relative security level in a nation. Our initial measure can thus be derived from several statistics, a concept which is also referenced in Soifer (2012). Soifer suggests that the first indicator shall be "…violent crime rate: though the causes of crime are of course more complex that state weaknesses, the presence of violent crime reflect the inability of the state to provide security". Due to the fact maintenance of law and order is an inherent expectation of the state, crime statistics can be considered a relative reflection of state capacity.

The second statistic of measure is the number of armed conflicts, rebellions, and failed military coups that have occurred in the territorial region of a state. One of the basic characteristics of a state is the idea of the monopolization of power, the ability to

legally use the military and police forces to enforce law, order, and stability. State's with a high number of inter-state conflicts can be understood as not possessing a monopolization of power, meaning they are incapable of fulfilling their contractual obligations. The inability to fulfill said obligations can then be understood as a lack of political capacity. The last measure of coercive capabilities can be taken from Hanson et al. (2013). Hanson et al. (2013) suggest that one may use "…the log value of military expenditures per million in population and the number of military personnel per thousand in the population as indicators of coercive capacity". It is suggested that states which spend a high amount of resources on military maintenance and provision and have a high percentage of citizens in military service, command a higher level of coercive control than those who spend less or those whose populous is less engaged. Therefore, this equation is an excellent means of an empirical measure that provides use with comparable data.

The last component, administrative capabilities, shall measure the effectiveness of the government in the provision of public goods and the relative quality of said goods. The indices from which I shall draw my data points come from international organizations, past research, and other points of references as presented in Hanson et al. (2013).These points of reference include "…Administrative Efficiency (Adelman and Morris, 1967), the Weberianness index (Rauch and Evans, 2000), the Administration and Civil Service Index (Global Integrity, 2012), and the Effective Implementation of Government Decisions rating (IMD, 2011), and a measure of civil service confidence from the World Values Survey (World Values Survey Association, 2009). These indices are compiled of several data points which are obtained through extremely precise methodology. This precision, in turn, isolates the possibility of capturing phenomenon other than the one being examined, making these sources both reliable and valid in their data production. Collectively these equations, indexes, and models produce hard data which empirically represent a state's institutional quality, capabilities, provision, public trust, and stability. The holistic nature of these indices, therefore, makes this measure an excellent tool regarding capturing our definition of administrative capabilities. For a point of reference, for any models or indices which were created after the time periods of Somalia we have selected we shall simply rerun the same equations with the data available from the appropriate time frames.

Research Limitations
The proposed methodology does possess several limitations regarding accuracy and capturing the proposed phenomenon, as well as confounding variables. Much like the issues associated with the informal economy, operationalizing political capacity demands the utilization of representative measures. Since it is impossible to purely measure political capacity, the only method of data collection and analysis is through proxy

variables. While it is suggested that proxy variables capture the desired phenomenon we wish to measure, an unavoidable shortcoming is validity. The external validity issues are derived from the fact that proxy measures may capture underlying phenomenon other than the one we wish to measure. As a result of this interference, the numbers produced by the proposed methodology may produce data that fluctuates across different cases or time periods. These changes may, then, alter the relative strength and relationship between the variables in question. In relation to validity, proxy measures possess and underlying issue with accuracy. The fact that proxy measures cannot capture the true values of the desired variable with 100% accuracy may result in the production of data which is contradictory to reality. However, so long as the variable indicators being chosen are precise in their measurements it is possible to minimize these internal validity issues.

Additionally, it must be noted that the proposed methodology fails to address several confounding variables including regime longevity and evenness of regional political power. Regime longevity is an issue specifically because the length of a government's existence is directly proportional to perceived legitimacy. A government's legitimacy directly reflections the civilians faith in the governing institutions of the state. Therefore, the longer a state has held power, the more likely citizens have faith in government institutions and, in turn, the less likely they are to operate within the informal economy. Current methodology does not account for this, making this confounding variable a critical issue for this research design. The evenness of regional political power is also a threat to our current design. Within different parts of developing nations, the government possesses different degrees of power and influence. This is primarily due to weak social institutions or uneven social development. The resulting phenomenon, in turn, suggests that a state's political capacity may vary by geographic region. If this is true, then it is entirely possible that a generalized relationship between the informal economy and political capacity may not be truly representative of the state as a whole. Such an issue was partially addressed in Soifer (2014), however, currently proposed methodology does not account for the distribution of political power. In turn, this phenomenon could potentially affect the conclusions derived from this research.

The last point of focus deals primarily with the proposed survey method and its ability to capture accurate information. To collect information regarding the informal economy, we as researchers must ask questions which may require individuals to admit to breaking trade laws. This reality, in its self, is a major issue for the proposed design. Individuals, especially those in developing nations where government intimidation may be frequent, are generally unwilling to admit to crimes due to fear of punishments or repercussions. Therefore, if any of the questions included in the survey involve illegal activities, then it is quite likely that the survey will produce inaccurate data. This inaccuracy highlights an underlying validity issue with the proposed measure. Furthermore, the general sample

of Somali farmers may also fall victim to biases. During times of civil conflict survival strategies are at an all-time high, and may disregard institutional rule to survive. This may include, but is not limited to, the illegal trade of goods through bartering, theft, and so forth. These phenomena can be used to explain discrepancies in agricultural production and consumption during these times frames. Our survey involves Somali farmers who were alive prior to the beginning of the civil war. Therefore, when collecting survey data from these individuals, it is quite possible that they will report activities which skew our data. This skewness, in turn, may establish an underlying level of biases for the current design. Due to the fact biases threatens the reliability of our research, it becomes necessary to format and frame questions in a manner which avoid the collection of inaccurate data.

Concluding Remarks

By utilizing these definitions and the proposed methodology, it becomes possible to exemplify the link between the informal economy and political capacity. While the proposed research design augments current informal economic-political capacity findings by providing new possible measures for developing nations, in no way is current research complete. Based on the previous discussion, it becomes quite obvious that the social science community may greatly benefit from studies which further refine measures of both the informal economy and political capacity. Future studies may wish to expand upon the work done by Soifer (2016), which attempts to account for discrepancies in governmental influence due to region in the measurement of political capacity, and Dell'Anno (2003), which deconstructed the informal economy into three possible segments of measurement. An exploration of these fields may enable future researchers to develop empirical measures for both variables which achieve unprecedented levels of reliability, as well as accuracy. Furthermore, it may prove beneficial to examine the simple underlying phenomenon and effects related to varying levels of both the informal economy and political capacity. By continuing the works of Joshi et al (2014) and Hanson et al (2013) it would become much easier to comprehend the relative effects each variable has on other components of society. This comprehension, in turn, may then translate to the development of better conceptualizations, more precise operationalizations, and provide the tools necessary to deal with latent or intervening variables. With all that being said, the information provided in this paper does help push the research agenda forward. The development of more accurate measures for developing nations will be quite beneficial in the near future. With the international community shifting its gaze towards regions such as Africa, a comprehensible understanding of the informal economy will prove invaluable in terms of assessing numerous social phenomenon.

Bibliography

Arbetman-Rabinowitz, Marina and Johnson, Kristin. "Relative Political Capacity: Empirical and Theoretical Underpinnings." (2007): 1-15. Web. 24 Oct. 2016.

Bruton, Garry D, Ireland, R. Duane, and Ketchen Jr, David J. "Toward a Research Agenda on the Informal Economy" *Academy of Management -,-* (2012): 1-11. Web. 24 Oct. 2016.

Coson, Murniz. "The Interaction of Political Capacity and Economic Growth to Attract Foreign Direct Investments at the Provincial Levels of Developing Countries." (2012): 1-125. Web. 24 Oct. 2016.

Dell'Anno R. (2003) "Estimating the Shadow Economy in Italy: A Structural Equation Approach", Department of Economics, University of Aarhus, Working Paper 2003-7.

Elshamy, Hany M. "Measuring The Informal Economy In Egypt." International Journal Of Business Management & Economic Research 6.2 (2015): 137-142. Business Source Complete. Web. 24 Oct. 2016.

Giles, David E.A (1999) "Measuring the Hidden Economy: Implications for Econometric Modeling", *The Economic Journal*. 109/456, pp. 370-380.

Hanson, Jonathan K, and Sigman, Rachel. "Leviathan's Latent Dimensions: Measuring State Capacity for Comparative Political Research." *World Bank Political Economy Brown Bag Lunch Series -,-* (2013) Web 4 Nov. 2016.

Joshi, Anuradha, Wilson Prichard, and Christopher Heady. "Taxing the Informal Economy: The Current State of Knowledge and Agendas for Future Research." *The Journal of Development Studies* 50.10 (2014): 1325-347.

Mihaila, Teodora. "Modeling the Informal Economy: A review." *Financial Studies -,-.* (2015): 93-103. Web. 24 Oct. 2016.

Nagac, K. "Tax System And Informal Economy: A Cross-Country Analysis." Applied Economics 47.17 (2015): 1775-1787. Social Sciences Citation Index. Web. 24 Oct. 2016.

Ottervik, Mattias. "Conceptualizing and Measuring State Capacity: Testing the Validity of Tax Compliance as a Measure of State Capacity." *The Quality of Government Institute -,-* (2013): 1-38. Web. 24 Oct. 2016.

Sekeris, Petros G. "State Power, State Capacity, and Development." *Peace Econ. Peace Sci.* 21.4 (2015): 553-60. Web. 24 Oct. 2016.

Soifer, Hillel. "Measuring State Capacity in Contemporary Latin America." *Revista De Ciencia Politica* 32.3 (2012): 585-598. Web. 24 Oct. 2016.