

# How informality affects Brazil

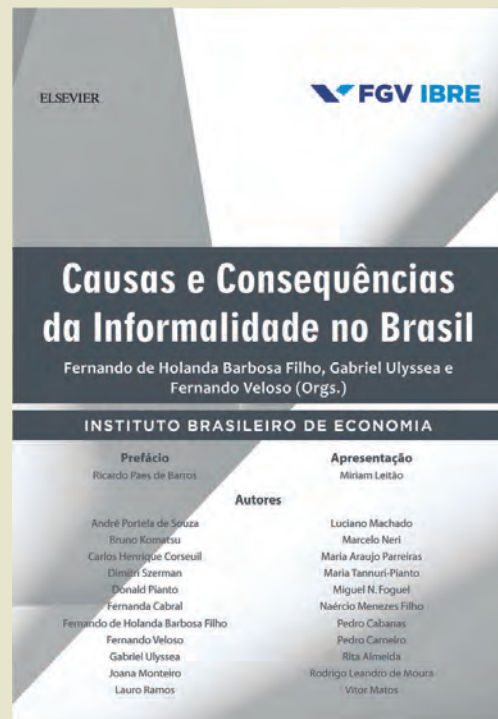
**Solange Monteiro**

SINCE 2000 POLICIES TO REDUCE informality in the economy have been one of the factors that helped to significantly reduce income inequality in Brazil. As more workers and entrepreneurs entered the formal economy, labor income grew, which helped lift millions of poor into the middle class.

However, there is still considerable informality in Brazil. The 2013 National Household Survey (PNAD) found in 2013 that the informal economy accounted for 38% of workers and 66.7% of enterprises. That makes it a prominent item on the country's policy agenda, especially at a time when severe recession is threatening the social gains Brazil has achieved.

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*Gabriel Ulyseia*



IBRE's latest publication, *Causes and Consequences of Informality in Brazil*, deals with this precise issue. It was edited by IBRE researchers Fernando de Holanda Barbosa Filho and Fernando Veloso and Gabriel Ulyseia, of the Department of Economics of the Catholic University of Rio de Janeiro. "We sought to systematize the knowledge produced on the subject to get a deeper understanding of the problem," Ulyseia says. The book contains 15 articles by 23 economists from different institutions that analyze why informality is still so high in Brazil, its consequences, and the impact of public policies on informality.

The first part of the book addresses what characterizes informality in Brazil. Barbosa Filho and Veloso show how informality is correlated to factors that depress productivity, such as

little education, lower value-added per worker, and location in less developed regions. These factors explain most of the likelihood that a person will be self-employed, the researchers say. Next Marta Tanuri-Pianto and Donald Pianto, of the University of Brasilia discuss how workers may benefit from informality, pointing out that in the formal sector low-wage workers may pay as much as 55% in payroll taxes. Then Ulyssea, Dimitri Szerman of Catholic University, and Fernanda Cabral of Petrobras demonstrate that on average the performance of informal firms is 57% lower than that of formal ones, and that more long-lived companies with better educated owners generally perform best.

The second part of the book analyzes the determinants of informality. Carlos Henrique Corseuil and Miguel Foguel of IPEA relate the evolution of formality to the expansion of the economic cycle, demonstrating that informality is reduced after a reduction in unemployment. They also evaluate the results of such policies as incentives to migrate to formality, especially the impact of greater access to credit for small businesses, increased inspection of work places, and facilitation and reduction of entry and operational costs by, e.g., such as streamlining the tax system. For each policy they evaluate its costs and its benefits.

The final section looks at the consequences of informality for the Brazilian economy. Barbosa Filho and Veloso point out that in Brazil

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the 2003–2009 period was characterized by productivity growth and the formalization of economic activities, which contributed about 58% of the total growth in labor productivity. This occurred as workers moved from informal low-productivity sectors to formal higher-productivity sectors. Ulyssea offers a reminder that informal companies are characterized by low productivity, so that reducing the degree of informality should be an end in itself.

In the foreword to *Causes and Consequences of Informality in Brazil*, economist Ricardo Paes de Barros, professor at Insper, says that continued reduction of informality “depends on public policies based on a proper understanding of the causes of successes, and the mistakes we have made over the past decade.” In his opinion, studies like this bring together valuable evidence to improve policies. 