



“The Informal IS Normal”

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REMARKS

- Is **informality normal**?
- What **drives informality**?
- Is **informality the problem**?
- Is **formalization the solution**?
- Economic Vision: **A Hybrid Economy**

INFORMAL EMPLOYMENT IS THE NORMAL

Worldwide: around 66% of total employment

Developed Countries: 25-40% of total employment

Developing Countries: 50-90% of total employment

- Highest: Sub-Saharan Africa and South Asia (as high as 90% in many countries)
- Medium: South East and East Asia + Latin America (around 65% in most countries)
- Lowest: North Africa and West Asia (around 50% in most countries)

SOME FORMS OF INFORMALITY EXPAND DURING ECONOMIC GROWTH

- Some informal activities expand *during economic downturns or crises*
 - survival activities
 - informalized jobs
- Some informal activities expand *during periods of economic growth*
 - dynamic enterprises
 - industrial outwork – notably in global value chains

THE INFORMAL WORKFORCE IS HETEROGENEOUS

- **Self-Employed**
 - micro-entrepreneurs who hire others
 - own account operators who do not hire others
 - unpaid contributing family members
- **Wage Employed**
 - informal employees of both formal and informal firms
 - casual day laborers
 - industrial outworkers
 - contracted workers

Notes:

1. different *causal theories* and different *policy responses* are needed for each category of informal worker
2. micro-entrepreneurs are the most likely to chose or volunteer to be informal, most workers in other categories are informal due to necessity or tradition

IS INFORMALITY THE PROBLEM?

- **Tax Evasion?**
 - some pay taxes
 - many fall outside tax structure/brackets
 - most willing to pay taxes – if benefits guaranteed
- **Low Productivity?**
 - capital *output* per worker is often low
 - capital *input* per worker is also low
 - most would prefer higher productivity – if this means higher earnings
- **Poverty?**
 - average earnings are low + poverty risk is high in the informal economy
 - most informal workers are poor + most working poor are informally employed
 - reducing poverty requires increasing earnings + reducing risks in the informal economy

IS FORMALIZATION THE SOLUTION?

- ***If being formal*** (as opposed to being informal) means...
 - being registered and paying taxes
 - being legally and socially protected
 - being productive and remunerative
 - being organized and having voice and power

- ***Then formalization*** (of the informal economy) should involve...
 - getting registered and paying taxes
 - being covered by legal and social protection
 - receiving support to become productive and remunerative
 - becoming organized and gaining voice and power

ECONOMIC VISION: A HYBRID ECONOMY

- **Formalizing the Informal:** not just regulation + taxation but also...
 - assets + opportunities + productivity-enhancing support
 - economic rights: commercial + labor + property
 - social protection
 - organization and representative voice
- **“Informalizing” the Formal:** reform of economic policies and institutions to include the informal economy/workforce as legitimate...
 - part of the total economy
 - target of economic policies + incentives
 - stakeholder in policy-making and rule-setting institutions