

*There is neither a first nor a last word and there are no limits to the dialogic context.*  
Mikhail Bakhtin

# THE INFORMAL ECONOMY IN PERU (transl.)

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**Roberto Machado, Pontificia Universidad Católica del Perú**

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**Interview by Ana Fonseca**

*This is a translated transcription of our audio interview originally conducted in Spanish, "La economía informal en el Perú" (The Informal Economy in Peru). This interview was originally published in an extended version by Radio Heteroglossia on February 2015. The original interview has been shortened for this publication to fit our new, condensed format.*

**Ana Fonseca:** Thanks for listening to Radio Heteroglossia. I am Ana Fonseca and our guest today is Dr. Roberto Machado. Roberto Machado is an economist and an independent consultant for various public and private institutions in Peru and abroad. Today, we will be talking about the article written by Dr. Roberto Machado entitled, "*La economía informal en el Perú: magnitud y determinantes (1980-2011)*," (in English: "The informal economy in Peru: magnitude and determinants 1980-2011") published in 2014 in the academic journal *Apuntes* of the *Centro de Investigación de la Universidad del Pacífico* in Peru, which analyzes the various causes, dynamics and impacts of public policies on the informal economy in Peru from an estimate of the contribution of the informal economy to the Peruvian Gross Domestic Product during the period of 1980 to 2011. Dr. Roberto Machado, welcome and thank you for joining us today.

**Roberto Machado:** Thank you for the invitation; it's a pleasure to address all listeners of Radio Heteroglossia.

**Ana Fonseca:** Dr. Roberto Machado, what is the role of the informal economy in the Peruvian socio-economic context and what are the main points that people can take from your article?

**Roberto Machado:** The motivation for the article was that there is clearly a consensus in Peru that the incidence of the informal economy is quite large. However, there were neither elements, nor tools that could explain and identify with any solid basis what are the determinants of the informal economy and what causes this informal economy to grow or decrease. To that end, what I tried to do in the article was, first of all, to create a sense of time and construct a time sequence in terms of what is the contribution of the informal economy to the GDP of the country. We did not find in the literature any study for Peru that had constructed a time sequence explaining the evolution of the informal economy. This prevented an identification of the variables that influence and determine the dynamics that cause the informal economy to grow or to shrink in terms of its contribution to the Peruvian GDP. So I constructed a time sequence since 1980 to 2011 and from this I made an econometric estimate to try to determine what are the main factors explaining the increasing size of the informal economy. What I found, what the numbers tell me, is that the levels of productivity are what determine the size of the informal economy. Therefore, the best way to formalize or reduce the size or impact of the informal economy in Peru, is by increasing the levels of aggregated productivity in the economy significantly.

**Ana Fonseca:** How do you understand the idea of productivity? And how do you measure those levels of productivity, which in the case of Peru, you have noticed help explain the size of the informal economy?

**Roberto Machado:** Well, there are different ways of measuring productivity but in reality it is measured by sectors. Basically what one does to measure productivity in a business is, well if a business produces one thousand and it has ten employees in a year, then one divides one thousand by ten which equals one hundred and that 's the productivity of the work done in that business. Now, to do that in an aggregated fashion for all the economy is extremely difficult. Therefore, what one does, or what studies do normally, is to use an approximate variable that can capture the average of such productivity in the economy as a whole which is basically how much the Gross Domestic Product is. In other words, how much the economy produces in a year divided by the total number of inhabitants in that particular economy, and that gives you an approximate value of what the productivity of the economy is, which is the Gross Domestic Product per capita.

**Ana Fonseca:** What factors influence those levels of productivity? Is it education one of those factors, for example?

**Roberto Machado:** Of course, human capital is a very important factor which is closely linked to education, whether it is at the high school level, university or college. And also career development at work, and use of up-to-date technologies in your workplace. During the last years, technology has advanced very quickly so businesses should be able to introduce their workers to such new technologies not only in terms of using new machinery and technological devices, but also adopting new techniques for performing tasks; it's not only about improving kinds of machinery and technological devices used, but also improving the processes and productive techniques followed to do certain tasks in a business; and of course, the ability to innovate on the part of the workers, which is of course something one develops at work, but workers should be provided with the right tools and working conditions that enable and encourage them to innovate.

**Ana Fonseca:** And you propose that the Peruvian government should focus more on creating more opportunities for Peruvians in terms of education and access to technology, and all the elements within which you understand the idea of productivity or what facilitates productivity.

**Roberto Machado:** That's right. We should increase productivity. That's the axis. If you want to formalize the informal economy you have to increase productivity. Additionally, productivity is the only way that guarantees a sustainable economic growth. It is with a continuous increase of work productivity.

**Ana Fonseca:** And from your point of view, levels of productivity increase through education and access to technology.

**Roberto Machado:** That's right, and also -of course- through the improvement of the health care system. We need to have a labour force that is healthy, well fed and well educated. That's what we need in addition to providing access to technology, information, and career development at work that allows the labour force to develop all its potential. That's what is going to reduce the high incidence of the informal economy in Peru substantially.

**Ana Fonseca:** In your article you observe that in occasions the informal economy works as a buffer that minimizes the impact that certain economic crisis could have. Therefore, during those periods of economic crisis the incidence of the informal economy tends to increase. You also note that part of the income generated in the informal economy is spent in the formal economy at times in Peru. This, as you explain in your article, when the incidence of the informal economy is relatively low, which prevents it from

developing independent channels within which the revenues produced in the informal economy can circulate within it. In other words, it is only when the informal economy is not as high, that the revenues generated in the informal economy are spent in the formal economy in Peru. Then, based on this, one thinks that the existence of the informal economy, whether it is low or high, brings some economic benefits to a point. This makes one reevaluate the idea of minimizing or putting an end to the occurrence of the informal economy by formalizing it. My question then is, what are the advantages and disadvantages of formalizing the informal economy in Peru?

**Roberto Machado:** Well, in reality it is a matter of human rights. I think there is a legislation which in constitutional terms outlines that we are all equals in the eyes of the law. Therefore, all workers should have the same rights. That's why I think the labour legislation in this country should be just one. One law that regulates all labour activities in this country without discriminating against some people, without developing special labour regimes for certain kinds of workers, economic activities or sectors. So this has to be made clear, in my opinion. What happens is that people have to protect themselves. What I have always said is that in Latin America, including Peru of course, some variables that are used in developed countries to measure what is the situation of the labour market such as the rate of unemployment -which is such an important economic figure in Europe and the United States- in Latin America there is a relative silence in regards to that figure because in most of our countries we don't have a strong unemployment insurance or social protection system, most were dismantled in the 1990s in almost all countries of Latin America. Then being unemployed is a luxury. Only wealthy people can afford being unemployed because they can live from their properties, savings, financial connections or their families. However, the majority of workers here do not have those privileges and thus they have to generate an income one way or the other on an everyday basis because if one doesn't generate an income today, literally there will be no food at home tomorrow. In the context of this economic model that we have in Peru and other countries in Latin America, and in spite of the macroeconomic growth that is observed in the region, job creation is very low because the dynamic sectors of these economies are not personnel-intensive. Then people have to become resourceful and the evident solution is, of course, self-employment which is mostly informal.

**Ana Fonseca:** Dr. Roberto Machado, thank you very much for your time and for sharing with us your knowledge about this topic.

**Roberto Machado:** It's been a pleasure, thank you very much for the opportunity and I hope this conversation is useful.

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