

*Exploring the Implications of the Informal Sector: Drawing on Personal Experiences in Ghana
and Research on Peru*

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Introduction and Background Information

When I traveled to Ghana last spring, I was exposed to an entirely new culture. People spoke a collection of unfamiliar languages. Generally, Ghanaians did not possess many of the material items Americans value – automobiles, large homes, nice clothing etc. Ghanaians were more concerned with collective progress and success as opposed to individual achievement. Time was not the scarce resource that it has become in the United States; people were not always on the move. To me, the most intriguing element of Ghana's culture was the country's unique economic system.

Though many cultural differences emerged during my stay, the first and most common observation I made related to Ghana's economy. In travelling to the nation's various regions – each of which had its own cultural distinctions – one constant linked the areas: the informal economy. Whether we travelled to the mountains or the beach, we had access to vendors and/or informal markets; we could depend on these outlets to meet our needs. Travelling on a large bus, we were heavily targeted by street vendors. These men and women would simply knock on our windows, offering to sell us a variety of goods, including fruits, beverages, ice cream and trinkets. Even prepaid phone cards could be purchased from these individuals. Large markets offered an even more extensive line of products. A single-day trip to the market in Kumasi provided me with an opportunity to purchase souvenirs and Christmas gifts for my family. Fabrics, soccer jerseys, handmade beaded jewelry and interesting cooking utensils were all available. Ghanaians who frequented the Kumasi Central Market purchased essentially all of their household needs in one area. The market had a large meat market, more impressive than

any meat seller that I have seen in the United States. Vendors sold over-the-counter drugs and virtually any grocery item one, ranging from produce to handmade peanut butter. These two distinct providers share one important thing in common: all sales are between the purchaser and the vendor (i.e. for legal purposes, no one knows about the sale). Ultimately, these transactions take place and then are immediately washed from the record. No receipts are printed, no signatures are required and nothing is reported; the two parties reach an agreement and part ways. It is an interesting way to shop and a more interesting concept to ponder in the context of a country's economy. My personal experience and readings compelled me to further research these interactions.

Ultimately, the informal sector refers to the individuals and organizations that operate outside the scope of the legal system. Because the informal sector does not have strict entry barriers, essentially anyone can participate. In addition, informal employers can make decisions at their own discretion, as the legal system does not govern these activities. Perhaps the economy's most troubling issue is tax implementation. Since the informal enterprises are unregistered and unknown, they are essentially non-taxable entities. Thus, the government is deprived of important tax revenues due to the sector's nature. And the pervasive nature of the informal economy further magnifies these issues. It can comprise up to sixty plus percent of a nation's labor force. Selling simple goods and services can be more profitable in the informal economy than its formal counterpart. The informal sector and the problems it creates deserve further exploration.

The Informal Sector's Size and Long Term Viability

The informal sector of the economy is not a new phenomenon; its roots can be traced to colonial times. Today, the informal sector is an important cultural and economic component in many societies, particularly among developing nations. Generally, the informal sector is comprised of work that is not documented or official, but instead conducted outside of formal business activities. Lourdes Beneria, for example, explains that the informal sector positions are marked by very low level of earnings, absence of (or very precarious job contracts), unstable working conditions, poor access to social services and absences of fringe benefits, very low rates of affiliation to labor organizations and illegal or quasi-illegal work. It is important to note that this work is “illegal” in the sense that it does not take place within a legal framework, though it does not necessarily entail “illegal activities” (e.g. illicit drug transactions, the black market sales, etc.).¹ Despite the apparent drawbacks of the informal sector, however, people continue to enter these positions thus enabling the informal sector to thrive.

This paper breaks down the informal sector, examining its impact on individuals involved and the greater society. It provides background information on the informal economy and explores its favorable and unfavorable characteristics. Ultimately, I would like to explain why the informal economy is so pervasive and the ramifications of its presence. I hope to shed light on potential suggestions that will curb the informal sector's negative effects.

¹ Beneria, Lourdes. “Shifting the Risk: New Employment Patterns, Informalization, and Women's Work.” *International Journal of Politics, Culture and Society*, Vol. 15, No. 1, September 2001.

Though I draw on numerous sources, the paper draws heavily on Hernando de Soto. Born in Peru, de Soto is a respected economist who has conducted significant research on the informal economy. His book, The Other Path, is instrumental for this paper. It offers a first-hand account of the informal sector in Peru, focusing on urban areas. It is the product of years of work and numerous studies. The combination of available information and policy change make Peru an excellent choice for focusing this study.

Historically, the informal sector has grown from a small portion to a considerable portion of numerous economies, particularly in developing nations. The informal sector's popularity can be traced to multiple factors. First, the informal sector has long been an important component of individual nation's culture and economy. Second, it is important to consider the informal sector's relatively lax entrance requirements and its nature. Together, these elements encourage long-term participation. Additionally, participants have reacted to potential threats to the sector, thus helping it survive. Hernando de Soto's exploration of Peru's informal sector illustrates the sector's progression and examines the driving forces behind the progression. These examples are indicative of informal economy on broader scale, too.

Peru's informal sector, for example, has been an element of the nation's identity for centuries. According to de Soto, Peru's informal sector was lively dating back to the middle of the sixteenth century. During this period, the sector was comprised of informal merchants, who would sell and trade their goods on foot. These merchants were predominantly underprivileged, including impoverished Spaniards, Creoles and other racial minorities. It is interesting to note that the poor's participation in the informal sector is a trend that continues

today. Ultimately, informal workers drew considerable attention from the state, causing tension between the sector's participants and the government. Street vendors, for instance, were banned from operating twenty times between 1557 and 1804. And they have been banished several times since 1804, too². Despite the state's repeated efforts to curb the informal sector's influence, it has not been successful. Instead, the informal sector has continued to thrive, due primarily to its role in Peru's culture and the efforts of its participants.

The informal sector's modest entrance requirements play an important role in the sector's growth. In its simplest form, informal work consists of selling a good or service from a non-permanent or business location (i.e. street vending or working from one's home). It does not require a large capital investment, but instead requires a personal commitment to working hard. Further simplifying the entrance requirements are the goods and services that are being exchanged, consisting of basic household items and services (e.g. basic necessities and cleaning/basic upkeep) as opposed to capital goods and luxury services. In addition, entering the informal sector does not require extensive educational or technical training. If an individual possesses a skill or trade that is as simple as sewing or effectively selling goods, then she or he could potentially enter; the only potentially prohibiting factor would be the ability to make an initial investment in the business. Thus, the informal sector does not discriminate in that essentially anyone could potentially enter the sector; this characteristic lends itself to a large participant base and has enabled it to grow to its current size.

² De Soto, Hernando. The Other Path. Harper & Row, Publishers. 1989. New York, NY.

de Soto's examination of the two distinct components of the informal sector, street vending and market vending, helps explain its long-term viability and presence. Street vending is the natural starting point for prospective informal worker, as the barriers to entry are not prohibitively expensive. Generally, street vendors "have no great physical capital or access to credit, with the result that they must finance themselves and generally operate with cash."³ Success in the informal sector is measured by one's ability to make sales and efficiently employ the proceeds to sustain the venture. Because there is a fine line between running a self-sustaining and failing enterprise, individuals must work hard to develop personal skills and networks. When an individual builds a consistent client base, opportunities to expand present themselves. Expansion frequently entails a vendor moving from the street to the marketplace; this signifies a tremendous accomplishment.

Although the transition from unemployment or the formal sector to the informal sector is not prohibitively expensive, the transition from the street to market vending is significantly more costly. Though costly, the transition from street vending to market vending typically pays off. It provides market workers with credibility and security that helps promote successful business. The prospective market vendor must invest time and money to ensure that he/she secures the proper plot, requiring the individual to consider how he/she can most effectively reach his/her clientele. The merchant must consider his/her surroundings carefully; it is critical to consider who frequently traverses the area, who works in this location and what goods they offer, the potential opportunity to join merchant peer groups, and the likelihood that the area

³ De Soto, Hernando. The Other Path. Harper & Row, Publishers. 1989. New York, NY.

will face resistance from the state. Finally, the individual must weigh the financial costs of opening a more permanent location, considering the important non-monetary factors.

Financing this transition can be expensive, as it may require capital investment (i.e. compensating the merchant who is turning the space over), merchant group membership dues, bribe payments and informal taxes.⁴ Thus, the progression from entering the informal sector to opening a more permanent informal location (i.e. informal market) is a timely process that is resource intensive; typically, it is not an overnight event. In turn, people who enter the informal sector with the goal of achieving success must recognize the nature of the commitment and act accordingly. The nature of the sector, in this regard, yields individuals and groups who are committed and personally invested in the success of their enterprise and the greater informal economy.

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The opportunity to move up the informal sector ranks attracts individuals to these positions. And once they have made that initial investment, though small, people generally work to earn a return on that investment. The entrance requirements coupled with growth potential lure the impoverished into these roles.

The informal sector's participants have consistently responded to potential challenges, helping the economy thrive in Peru. Notably, participants have worked together to address issues, forging a bond between individuals and breeding creative solutions to problems. Perhaps the participants' most impressive response to adversity due primarily to property rights disputes has been the formation of self-defense organizations. Because the informal

⁴ De Soto, Hernando. The Other Path. Harper & Row, Publishers. 1989. New York, NY.

generally operates on public property, ownership of the land is debatable and, consequently, hotly contested. Informal groups have been formed to help resolve these disagreements. According to de Soto, the group's "main aim is to protect the site they occupy from further invasion, from resistance by residents harmed by their activities, and from repression by authorities."⁵ Although these organizations work to avoid eviction, they take on additional roles to help the informal sector. These groups are dedicated to protecting the informal sector's reputation and promoting business. For example, one organization helped institute sanitation policies, so citizens would feel comfortable purchasing goods from these merchants. In addition, informal organizations have implemented a policy to help settle disputes between merchants; this policy promoted good inter-merchant relations and provided the sector with an element of continuity. Ultimately, informal sector participants' commitment to solving problems collectively has helped the sector progress.

The Informal Sector's Positive Attributes

Ultimately, the informal sector's presence is not a complete mystery. In Peru, the informal sector has deep ties to Peruvian culture and its makeup attracts and retains entrants. The requirements are not demanding and the growth prospects are appealing. Finally, the informal sector has responded to potential problems, keeping it alive and well. In evaluating the informal sector's popularity, it is also important to consider individual and small firm decisions.

⁵ De Soto, Hernando. The Other Path. Harper & Row, Publishers. 1989. New York, NY.

The informal sector contains certain elements that reflect rational choices. However, it is important to note that these rational choices apply to the individual and not to the greater society. The informal economy, for instance, provides occupations to individuals who might not secure employment otherwise; this is particularly true among low-skilled individuals. If one must choose between providing for his/her family through an informal position and not providing for his/her family, then accepting this position would appear to be the rational choice.

The informal sector also provides opportunities to individuals who possess special skills. For instance, a participant who is artistic may have unique opportunities in the informal sector. If a consumer is looking to purchase artwork, he/she may feel more comfortable in a more informal environment, where the individuals can develop a relationship. In this case, both the consumer and informal worker would benefit from the opportunity. In addition, the informal sector can be lucrative. Although formal research on wages is not readily available, there are anecdotal accounts that point to informal jobs providing higher pay than formal positions. This is not common, but it does occur periodically.

In further examining the informal sector, its presence is rational at the single firm level. Perhaps the sector's treatment of property rights best illustrates its response to challenges. Although the informal sector does not recognize property rights within the legal system, vendors' property rights are secured by an "informal relationship which we have called the 'special right of ownership.'"⁶ This is an important relationship as it protects a vendor's claim to

⁶ De Soto, Hernando. The Other Path. Harper & Row, Publishers. 1989. New York, NY.

public property. The system in place protects vendors, in many cases, from losing the property that they have established; without this protection, it would be difficult for the economy to function properly. Disputes would take precedence over daily transactions that drive the informal sector, ultimately hurting the economy's viability. In responding to potential property rights issues effectively, the informal sector places a greater emphasis on relationship building and trust among workers, which reflects the sector's rational response to potential challenges.

The Informal Sector's Legal Issues

In examining the informal sector's potential participant base, it is also important to consider the sector's legal regulations. Because informal sector participants operate largely outside of the law, they are not protected by legislation intended to protect their formal counterparts. For example, the informal economy does not adhere to labor laws that govern the formal economy, particularly child labor and wage compensation/benefit laws.

Consequently, informal enterprises can utilize children and low-skilled workers who do not have leverage. Ultimately, informal businesses can recruit and hire workers who could not legally work for a formal firm, thus opening extensive opportunities. If, for example, a family is struggling to make ends meet, then they could send one of their children to work to earn additional income. Although this will likely harm the child in the long-run, it is an unfortunate reality of the informal economy.

According to the International Labor Organization (ILO), 120 million children who are between ages five and fourteen work full-time; a staggering 250 million work part-time.⁷ Like many nations, Peru's economy utilizes child labor. Ranjan Ray, a labor economist, produced a study that sheds light on Peru's child labor. His efforts show that roughly 28 percent of Peruvian children work to help support their families.⁸ In further analyzing these statistics, several noteworthy trends emerge. First, as the family enters poverty, the children will be more likely to work. Unfortunately, this is not a surprising relationship; if a family is struggling to make ends meet, then they may send their child into the workforce to help raise additional money. Thus, impoverished families tend to lean on their children at the expense of their education; failing to help children accumulate human capital will perpetuate the cycle of poverty.⁹ In addition, the head-of-household's educational background plays an important role in the children's educational attainment.¹⁰ Ultimately, a parent who is well educated is much more likely to promote his/her child's development than a parent who is not educated. This, too, can perpetuate the cycle of poverty in that parents who were forced to work at the expense of their education will place their children in the same role; without addressing the importance of education, the family may find itself in a vicious cycle of poverty.

⁷ Ray, Ranjan. "Child Labor, Child Schooling, and Their Interaction with Adult Labor: Empirical Evidence for Peru and Pakistan." *The World Bank Economic Review* Vol. 14, No. 2. 2000.

⁸ *Ibid.*

⁹ Human capital refers primarily to health and education that lead to increased productivity. The term is defined more clearly later.

¹⁰ Patrinos, Harry Anthony and Psacharopoulos. "Family Size, Schooling and Child Labor in Peru – An Empirical Analysis." *Journal of Population Economics*. 1997.

Naturally, families who send their children to work choose the informal sector more than its formal counterpart; regulations are lax and families maximize their children's utility in that their work is not well regulated. Although child labor is an issue in Peru, the nation has taken steps to help minimize its effects. Namely, the Peruvian educational system "accommodates the [balance of education and work], as it is organized into part-time shifts (mornings, afternoons and evenings."¹¹ In recognizing that some families depend on their children for stability, the state's efforts have helped minimize the child labor issue. For example, Peru significantly outperforms Pakistan, a country that is five times the size of Peru, in educating children. While 97.2 percent of Peruvian ten year olds attend school, only 64.5 percent of Pakistani ten year olds are enrolled. And the gap only widens over time; while 85.7 percent of Peruvian ten year olds are enrolled in school, only 45.7 percent of Pakistanis in this age group are involved in school.¹² Ultimately, although the state has worked to address this issue, the problem still persists. And it will continue to be an issue, so long as the informal sector thrives. Peru's efforts to minimize the effects of child labor have had a positive impact; however, ongoing research is being conducted to examine the effect of child labor on academic performance. Going forward, this will be important information to consider in addressing the pressing issue of child labor.

¹¹ Patrinos, Harry Anthony and Psacharopoulos. "Family Size, Schooling and Child Labor in Peru – An Empirical Analysis." *Journal of Population Economics*. 1997.

¹² *Ibid.*

In evaluating the informal sector's entrance requirements, it is important to consider the challenges associated with opening and running a business that extend beyond financing. Namely, the informal sector does not require participants to seek licensing or meet product requirements. This is a stark contrast from the formal sector as it has adopted these measures. Professionals (e.g. doctors, lawyers and accountants), for instance, must finish the requisite schooling, pass standardized exams and continue their education to practice in their respective fields. In addition, organizations, such as The Food and Drug Administration, provide product guidelines that govern formal businesses that sell certain goods and services. Together, these measures help govern business activities. Not only do they hold distributors accountable for their actions, but they also provide consumers with a level of security. Because the informal sector has not adopted these policies, distributors and consumers do not enjoy the quality of interaction that their formal sector counterparts do. Ultimately, although the informal sector's lax regulations do help provide opportunities, they do not hold the providers accountable or protect the consumers.

Informal Organizations Impact

Although organizations help promote the informal sector, they cause significant problems, too. First, informal workers can be manipulated by these organizations. de Soto elaborates on the difficulty of the voting process within these organizations, explaining "many of the decisions made by such organizations require a majority. But when each owner has only one vote, serious difficulties may arise because the differing intensity of each voter's

preferences is not taken into account.”¹³ Thus, it is difficult to make and enforce decisions. In addition, these organizations are not perfect; reports of corruption frequently surface. Consequently, informal workers who participate in these organizations are not necessarily protected by the group. The problems these organizations create go beyond the scope of the individual level. Most important, “the group replaces legal institutions and the state’s power to ensure that agreements are executed as agreed,” limiting the group’s success; these groups simply do not have the clout that more formal organizations do.¹⁴ And by operating outside the scope of the government, these organizations detract from the state’s ability to enforce its laws and regulations. de Soto sums up this issue, explaining that “the coercive capacity of such organizations is always less than a good judicial system.”¹⁵ Though these organizations do help the informal sector run smoothly, they create their equal share of problems, too.

The Informal Sector’s Impact on Society

In further examining the informal sector, it is crucial to consider how the sector affects the greater society. Though the informal sector possesses redeeming qualities, it also possesses characteristics that are harmful to society. Notably, the informal economy inhibits human capital development, which is an important element of economic development. In addition, the participants’ decision to operate outside of the law limits the government’s power and its ability to provide for the people; this is due primarily to tax evasion.

¹³ De Soto, Hernando. The Other Path. Harper & Row, Publishers. 1989. New York, NY.

¹⁴ *Ibid.*

¹⁵ *Ibid.*

The nature of the informal sector, particularly the low entrance requirements, coupled with the sector's growing popularity can have a detrimental impact on human capital development. Michael P. Todaro and Stephen C. Smith, two renowned economists, explain that human capital is the term "economists often use for education, health, and other human capacities that can raise productivity when increased."¹⁶ It is critical for individuals and societies to value human capital development as it can promote economic development; as Todaro and Smith note, "improved health and education help families escape some of the vicious cycles of poverty in which they are trapped."¹⁷ However, neglecting to value human capital development can lead to a viscous cycle of poverty. For instance, entrance into the informal economy does not require formal education or technical skills; essentially anyone can seek entrance. In addition, successful informal workers can make a decent living, even if they do not possess advanced knowledge and/or skills; honing a particular craft may well be enough. Together, the opportunity to make a living without making a significant investment in education leaves an individual with little incentive to obtain a formal education. Furthermore, if an individual obtains success in the informal economy, he/she might encourage his children to join on, helping the family amass a greater income. And even if the parents do not pull their child out of school to work in the informal sector, they still may not encourage their children to maximize their education. Thus, rather than increase the importance of human capital to help end the cycle of poverty, the informal sector may decrease the importance of human capital to

¹⁶ Smith, Stephen C. and Michael P. Todaro. Economic Development. Pearson/Addison Wesley. 2006. Boston, MA.

¹⁷ *Ibid.*

continue the cycle of poverty. If one examines the informal sector and its consequences in this light, then one can make a case for the sector's devaluation of education.

Tax Issues

Because the informal sector operates outside the legal system, that state runs into significant problems trying to tax these enterprises. Unfortunately, the state's efforts to tax are predominantly unsuccessful. Consequently, the government must devise a plan to increase its revenues and promote policies it supports. However, to accomplish this goal, the government must place a large tax on formal enterprises to compensate for the informal, non-taxable, sector. Ultimately, formal sector organizations are frustrated by these high taxes, giving a formal sector company an incentive to operate informally, if possible; these taxes also give successful informal enterprises a disincentive to enter the formal economy. Thus, this relationship puts the state in a difficult spot; they need to raise revenue to support its programs, but the relationship between the informal and formal sectors makes it difficult to employ an effective tax system. Failing to raise revenues hinders the government's efforts to help the people it oversees.

Norman Daniels *Just Health* illustrates one area that is significantly affected by the government's inability to raise tax revenue: the health system. Ultimately, Daniels explores health systems, hoping to provide suggestions that will help nations improve their health systems. His work calls for an evidence-based approach to help ensure resources will be used effectively to promote greater health. He focuses on the financial barriers to equitable health, among other things, which are correlated with the informal sector.

In reviewing the financial barriers to health promotion, Daniels notes that the large informal “nontaxable employment sector in many developing countries, often including 60-90 percent of the population” presents challenges to equitable healthcare.¹⁸ Moreover, as the informal sector grows, the government’s taxable base declines, compelling the government to make tough decisions regarding taxation and policy implementation. Not only does a state’s health program suffer, but many areas that affect public health suffer, too. For instance, programs such as social security, worker compensation, and direct medical care are not fully funded and consequently ineffective.

In examining Peru’s recent strides toward promoting a more equitable health system, it is clear that government financing can have a dramatic impact. In the early 1990’s, Peru committed to undergoing a health reform to promote “equity, efficiency and quality in the provision of health care”; this reform particularly aimed to improve the equitability of Peru’s health system.¹⁹ Peru’s rich to poor ratio, in terms of ill individuals who accessed outpatient care, was 1.9, which was significantly higher than its regional counterparts. For instance, Guatemala’s ratio was 1.5, while Paraguay’s was 1.6. Martin Valdivia’s study of Peru’s health care system sheds light on the success of the nation’s healthcare reform efforts. His research shows that impoverished Peruvians benefited from this reform. While the facilities predominantly used by the wealthy increased by 48 percent between 1992-1996, the facilities

¹⁸ Daniels, Norman. *Just Health: Meeting Health Needs Fairly*. Cambridge University Press. 2009. U.S.A.

¹⁹ Valdivia, Martin. “Public Health Infrastructure and Equity in Utilization of Outpatient Health Care Services in Peru.” *Health Policy and Planning*. 2002.

used by the impoverished grew by a staggering 82 percent during the same time period.²⁰

Ultimately, the poor's increased access to medical care is a strong indicator that Peruvian health care reform is going in the right direction. However, this study could further benefit from a more in-depth breakdown of the health care system. It would be interesting to study the poor's access to health professionals, not just to facilities. In addition, focusing on other health distribution techniques (e.g. distributing pharmaceuticals or providing education) would further help this study. Still, Valdivia's study shows that nation's can improve their health systems by committing resources to improve them. In Peru, for instance, health expenditures grew from \$1.2 billion U.S. dollars to \$3 billion U.S. dollars between 1993-1996.²¹ Without this funding, the health system would not have improved and the poor would likely be underserved. Ultimately, to help raise the funds to enhance the benefits the state can provide to society, the state must work to increase its revenue base and then allocate it efficiently.

Conclusion

In examining the informal sector, one must consider the issue from multiple perspectives, considering its pros and cons. Ultimately, the informal sector provides a variety of predominantly low-skill jobs, including street sales, informal market sales and simple services. Though accurate figures are difficult to obtain, some nations informal sectors accounts for the majority of the country's economic activity. What sets apart these positions from their formal counterparts is the legality of these enterprises. Because the sector operates outside the scope

²⁰ Daniels, Norman. Just Health: Meeting Health Needs Fairly. Cambridge University Press. 2009. U.S.A..

²¹ *Ibid.*

of the formal legal system, there are benefits and drawbacks to the individuals involved and greater society. Thus, the informal sector's prevalence and impact, particularly in developing countries, is important to consider.

That the informal enterprises operate outside the legal system is beneficial in some regards. Namely, these positions are accessible in that the entry requirements are not prohibitively demanding. An individual who is not highly skilled or well-off can enter the market. Additionally, the informal sector helps create niche market, where individuals who possess particular skills can market their product or service. And these individuals may receive higher pay by working informally. This is particularly appealing to the poor, as it may provide them with an opportunity to provide for their families. And since the poor are most likely to fill these positions, it is crucial that advanced requirements are unnecessary. Though it may not be the most effective way to escape poverty, there is something to be said for possessing a job and taking on responsibility. Not only does working help provide one with an income, but it has also helps an individual boost his/her confidence and develop marketable skills. In addition, if one is successful in the informal sector, he/she can move up the ranks and make a decent living, providing a poor family with an element of security.

In examining the informal sector, one cannot help but think of its negative attributes. Although the non-existent legal framework is initially appealing, it does not lend itself to successful development. In addition, the informal sector drastically limits the government's taxable base, which affects the greater society. Thus, the informal sector's drawbacks must be considered.

In operating outside the law, the informal sector exposes many people to potential harm. The formal sector is well regulated in areas such as hiring and business practices. Policies are implemented to ensure employers evaluate prospective employees fairly and to provide employees and consumers with security that the products and/or services were provided the right way. Ultimately, these policies protect everyone involved with the formal economy. Employees working hours are regulated. Federal and state minimum wage laws ensure employees are compensated fairly. Customers are guaranteed that the products they purchase are safe to consume. The informal sector, however, does not provide these comforts to employees or workers.

Failing to provide these security measures affects many players, but children suffer the most. Child labor laws that govern the formal sector are essentially non-existent in its informal counterpart. In many cases, impoverished families depend on their children to provide additional income. Though this is important for the family's well being, it takes away from the child's educational opportunities, thus inhibiting personal and overall development. If a child must work at the expense of his/her education, his/her future opportunities will be severely limited. Most important, if the child does not value education, he/she will not instill the value in his/her children. In examining the chain of events, education may be devalued in the long-run, this increasing the family's chances of long-term poverty.

In operating outside the legal realm, informal workers leave the government with essentially no way to collect taxes. These organizations operate "off the record" in that the transactions are not documented or reported to anyone outside the organization. Although this

helps individuals and firms involved in the informal economy, it hinders the government's ability to implement successful programs. These programs are intended to provide benefits to the people. Not only does this hurt the informal workers, but it also has an impact on the greater society. Without a taxable base, the government simply cannot provide programs such as social security or widely available health care. And the poor, who certainly benefit from these programs, face an uphill battle in trying to escape poverty.

Ultimately, the prevalence of the informal sector needs further attention. Because it is a critical component of many cultures and a supplier of many jobs, it is unreasonable to expect that the informal sector could be completely eradicated. Moreover, there is something to be said for its ability to provide jobs to individuals who may be incapable of holding a formal position – namely the poorest of the poor. In this regard, the sector essentially acts as a safety net. However, the problems that the informal sector creates and/or perpetuates cannot be understated. The people who produce and consume these products are not protected. Most important, it inhibits the government's efforts to provide social goods. Without taxes, the government cannot fund these programs. In examining the informal sector, it is important to consider its redeeming and not-so-redeeming qualities. Future policy cannot be passed without a comprehensive approach to the issue.

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