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DIVULGAÇÃO ETCO

Roberto Abdenur: "The number of people without access to jobs is still very high, which factor reflects on the informal economy"

Growth of the informal economy has remained stable over the last few years

The informal economy, which is defined as the production of goods and services not reported to the government, produced R\$ 663 billion last year – amount equivalent to 18.3% of GDP. The index reported last June by the Brazilian Institute for Ethics in Competition (ETCO) in conjunction with Fundação Getúlio Vargas' Brazilian Institute of Economics (Ibre/FGV) shows stabilization: in 2009, the index represented 18.5%, while in 2008 amounted to 18.7%.

Even though the balanced level over the last three

years points to a gradual reduction in Brazil's informal economy, such drop is still too small to be celebrated. According to the executive president of ETCO, Roberto Abdenur, the index "calls on society and government powers to reflect about the reasons of these results, especially taking into consideration the Country's modernization process".

In addition to maintaining ties with organized crime and compromising labor relations, informality, according to Abdenur, causes direct damages to

society, creates an environment of transgression and encourages opportunistic economic behavior, reducing the quality of investments and growth potential of Brazil's economy.

In an interview to *O Papel*, ETCO's president provides more details of aspects that endorse the economy also called underground and that needs to be urgently combated.

O Papel – What factors stimulate Brazil's informal economy?

Roberto Abdenur – There are a series of them and one that clearly stands out is excess taxes. Our tax load amounts to more than 35% of GDP, and the level of indirect taxes embedded in product prices is socially absurd and unfair. The high tax load takes on greater relevance when coupled with the excess bureaucracy linked not only to the payment of taxes itself, but also activities such as opening or closing down a company and the simple conduction of business. The fact that, over time, the informal economy has not been able to generate jobs at par with the growth of the economically active population, also directly reflects on informality. This situation has improved considerably, but the number of people without access to jobs is still very high. Lastly, it is important to point out that corruption is also part of the problem, with the participation, many times, of government employees, the practice of bribing or even the participation of bad politicians in these activities.

O Papel – In what way does Brazil's current economic context act on the informal economy? Is a strong economy a favorable factor for growing the informal economy or, on the contrary, it could be a strategy for halting informal growth?

Abdenur – The increase in income, which occurs for example when the middle class grows, allows consumers to have more access to products inserted in the formal economy. These products may be more expensive than their fake equivalent or those sold in the informal economy, but there are the advantages of authenticity and better quality. It is necessary to recognize that, because of high taxes and the other factors mentioned, people are still very stimulated to consume goods and services from the informal economy. However, we need to consider that the increase in credit leads people in the

informal economy to seek the formal economy, which they have no access to. More credit also makes it easier for consumers to opt for products and services from the formal economy. In summary, what we need – and is being done – is a greater process of institutionalizing the economy in general.

O Papel – Has the government positioned itself in any way to control the informal economy's share?

Abdenur – The modernization of Brazil's economy is gaining momentum thanks to factors such as more credit, a growing middle class, an expedited judiciary and a few actions aimed at simplifying the tax collection system – such as the *Simples*, which benefits the small business niche. There is also the adoption by States of modern instruments such as the Electronic Fiscal Invoice, but there is still a lot to be done by authorities in terms of streamlining the tax system, reducing the tax load and bureaucratic requirements.

O Papel – What kind of losses could a growing informal economy have on the country?

Abdenur – The losses are several, one being a reduction in the generation of formal jobs and the continuity of those who work in the informal economy in precarious situation, having no job security or social security benefits of any sort. These, in turn, form a vast contingent excluded from the market and even the organized society. Another problem is the loss of tax revenues, jeopardizing important programs such as public healthcare, education, infrastructure and security. There are also losses for consumers, when buying poor quality products not in conformity with standards set forth by regulatory bodies and consumer protection agencies. Lastly, there is a lack of interest to make new investments on the part of businessmen that are negatively affected by these activities. At the extreme limit, many times, the profits from the underground economy go to money laundering and illicit or even criminal activities.

O Papel – Is it possible to say that small and medium businesses are the ones that face the most problems in being able to pay social security costs when contracting people and, therefore, remain in the informal economy?

Abdenur – All sectors, without exception, suffer from an informal economy, from micro-companies

United States and Germany would be good examples of countries that combat informality. The incentive for small and medium business people and the streamlining of tax load are some of the actions that could be used as reference

to multinationals, regardless of business field. The informal economy includes those who engage in tax dodging, pirating and contraband, which are the best known facets of this type of contravention, but there is also the small trade owner or service provider who is not registered, in many cases due to the costs and bureaucratic complications of the CLT regime.

O Papel – What are the expectations for 2011? Do you think the informal economy will develop parallel to the formal economy or do you expect to see a drop in comparison to the level presented in 2010?

Abdenur – To a certain point, it is positive that a certain reduction is occurring in the informal market's share in relation the total economy, but the reduction has been too slow and gradual and the level is still very high, which is not good. The level of Brazil's underground economy, i.e. 18.3% of GDP, is more or less double that of developed countries. It is important to point out that some measure of informality is

almost inevitable, even in highly developed countries. Informality in Brazil, however, is excessively high for the well-being of our economy and its absolute value – totaling today R\$ 663 billion, which amount practically corresponds to Argentina's GDP.

O Papel – Using other countries as reference, which could be cited as good examples in "combating" the informal economy? Could such examples be applied here in Brazil?

Abdenur – There are several countries that are successful in combating the informal economy. Examples would be the United States and Germany, countries where I lived in and was able to see how actions encouraging people to stay in the formal economy occurred in practice. One of the main actions we can use as example is the incentive for small and medium business people, by facilitating access to bank credit, streamlining the tax load and eliminating the bureaucracy in opening up a company. ■

"There is still a lot to be done by authorities in terms of streamlining the tax system, reducing the tax load and bureaucratic requirements"

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