

*Productive Inclusion: Productivity, Entrepreneurship and Informality

Public Policies and References (In Portuguese) all *see also returns to education**

•Diagnosis

- *Vozes da Nova Classe Média: Caderno 3* – SAE/PR: Abril 2013
<http://www.sae.gov.br/site/wp-content/uploads/3%C2%BA-Caderno-VCM-Vers%C3%A3o-Final-20130506.pdf>
- *22 Milhões Menores* - Revista Conjuntura Econômica FGV: Agosto 2009
<http://cps.fgv.br/sites/cps.fgv.br/files/artigo/As%2022%20Milh%C3%B5es%20Menores.pdf>

•Formalization: MEI and Supersimples

- *Uma Análise Exploratória dos Efeitos da Política de Formalização dos Microempreendedores Individuais*
Boletim Mercado de Trabalho nº 54 – IPEA: Fevereiro de 2013
http://www.ipea.gov.br/portal/images/stories/PDFs/mercadodetrabalho/bmt54_nt02_analise_exploratoria.pdf
- Texto para Discussão 1939 – IPEA: Março 2014
http://www.ipea.gov.br/portal/images/stories/PDFs/TDs/td_1939.pdf

• Professional Education:

- *As Razões da Educação Profissional* - CPS/FGV: Fevereiro 2012
http://www.cps.fgv.br/cps/bd/senai_razoes/Senai_Neri_texto_TEXTOFim.pdf
- *A Educação Profissional e a Corrida Trabalhista* – Revista Conjuntura Econômica FGV: Junho 2010
<http://cps.fgv.br/sites/cps.fgv.br/files/artigo/A%20educa%C3%A7%C3%A3o%20profissional%20e%20a%20corrida%20trabalhista.pdf>

• Microcredit:

- Livro: NERI, Marcelo. *Microcrédito, o Mistério Nordestino e o Grameen brasileiro: Perfil e performance do CrediAmigo*. Rio de Janeiro: Editora FGV, 2008
- *Pagando a Promessa do Microcrédito* – CPS/FGV: Julho 2009
<http://www.cps.fgv.br/cps/crediamigo3/>

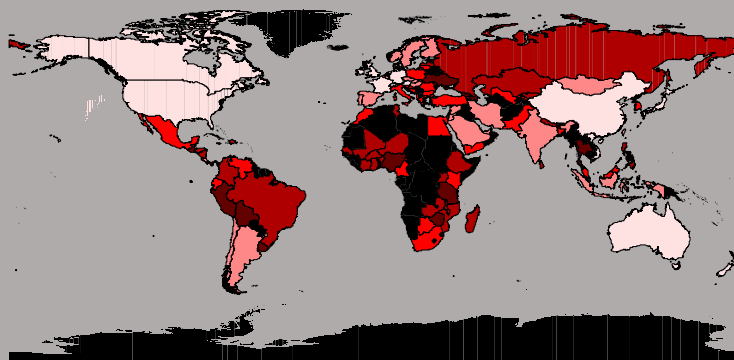
• Innovation

- *Empreendedorismo e Inovação*
https://cps.fgv.br/sites/cps.fgv.br/files/artigo/sopla_2016.pdf
- http://www.compasso.com.br/docs/Inf_Neri_SAE_Empreendedorismoinovacao.pdf

Productive Inclusion - 3 Complementary Lines: Connection with Education Productivity Innovation and Firms Small Firms and Informality

Informality

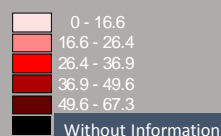
Map of the Informality in the World



Brazil is close to the
International norm

(%) Population with intention to open a business in the next 12 months

World	40,59
Brazil	38,67
Number 52 among 100 countries	
Outros	40,61
America	43,85



Does it make sense to combine informal employees and the self-employed under the heading of the informal sector? Poverty wise it did but policy wise?

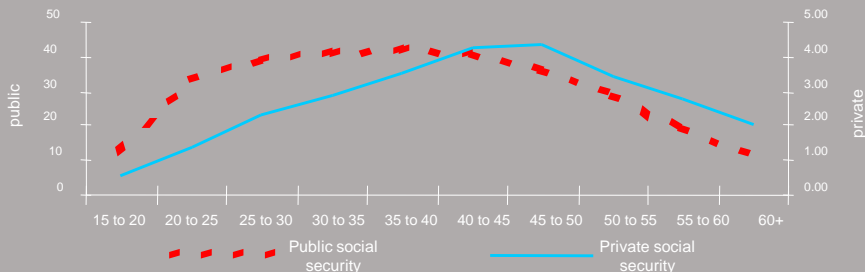
Labor dissatisfaction by Working Class

Working Class	Looking after other job (%)	Would Like to work extra hours (%)
Public employee	4,1	6,2
Formal employee	5,1	6,3
Informal employee	15,0	11,5
Domestic employee	10,8	16,3
Self-Employed (Entrepreneur)	11,4	15,1
Employer	3,1	5,9
Employee without Wage	8,8	8,4
Total	8,0	9,6

Source: PME/IBGE, 2002-2007

Formality (Social Security wise and Financial Life)

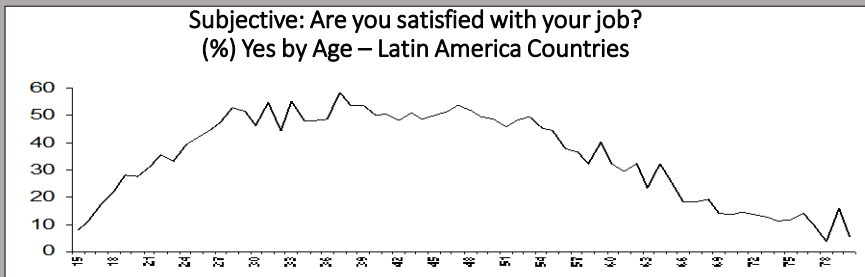
% that contribute to Social Security



Source: FGV Social based on the microdata from PNAD 2002 /IBGE

The peaks of formality and job satisfaction coincide

Subjective: Are you satisfied with your job?
(%) Yes by Age – Latin America Countries

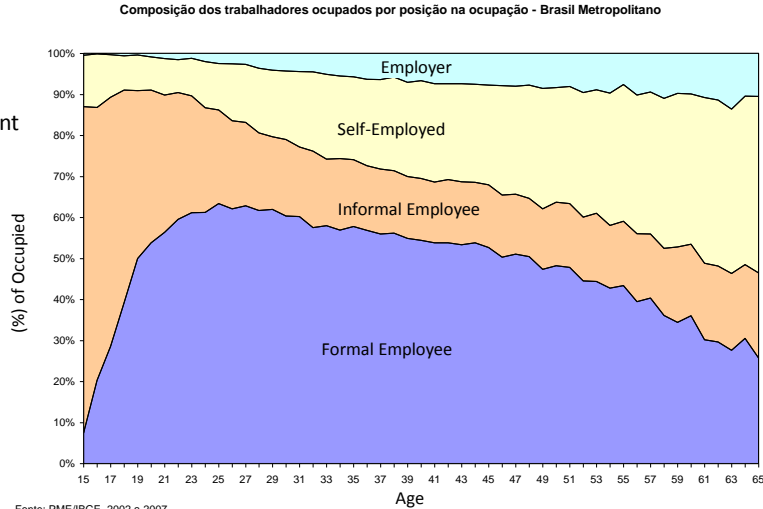


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Source: FGV Social from Gallup's World Poll microdata 2007

% Micro entrepreneurs among the Occupied grows over the Life Cycle

Youth typical working class are informal employees (and Unemployed). Self-Employment increases with age.



Is the traditional measure of informality sum of self-employed, informal employees and unpaid workers a good proxy?

Entrepreneurship in Brazil: Necessity x Opportunity



Contribution to poverty (PNAD)
 ← In the beginning around 1/3 of the poor were in families Headed by self-employed. Much more ore than any working (or Not working) class

Is self-employment a proxy for entrepreneurship in developing countries?

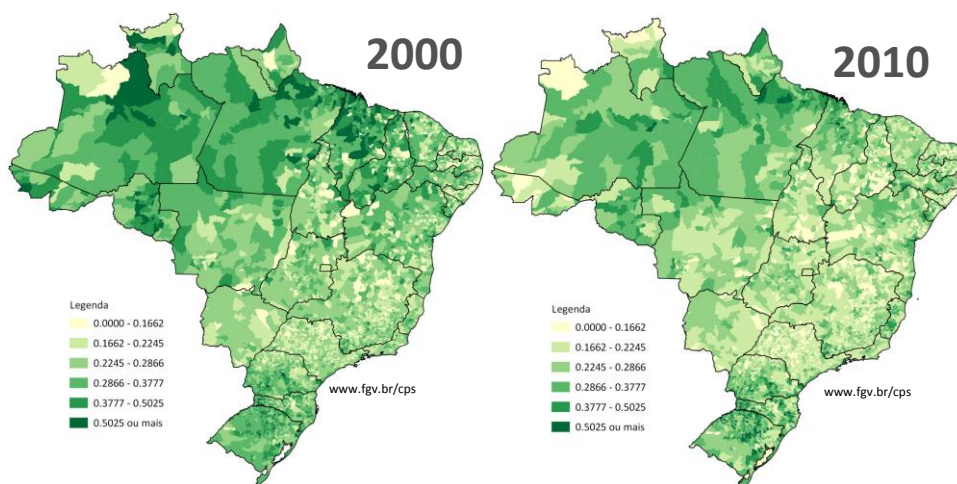
Having your own business is the third biggest dream of the Brazilian, right behind buying a car and travelling around the country. The number of people that crave becoming their own boss is of 31%, almost double the percentage that wish to make a career on a company (16%). The research also reveals that, of each 100 Brazilians that start a business, 71 are motivated by a business opportunity, and not by necessity.

Less Firms, Better Businesses?

Part 1 Script: Subsistence businesses exchanged for jobs within formal labor market and for better businesses with greater potential for accumulation and growth
Less Competitors, More Clients (up to 2014)
What is the Current Crisis Impact?

Quantity of Entrepreneurs

Rate of Entrepreneurship (%)

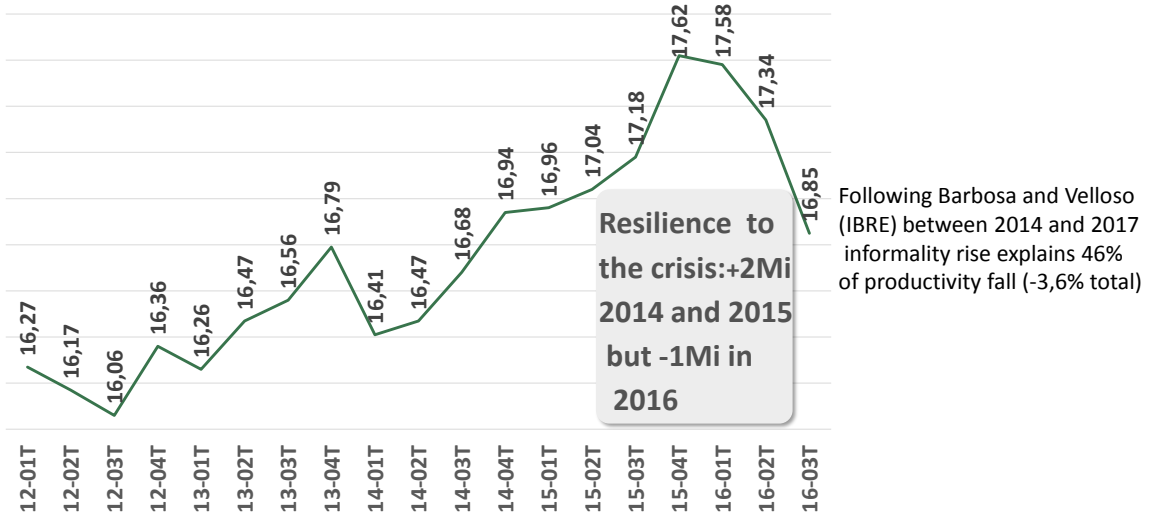


Rate was 26,29% in 2000 and 23,05% in 2010

Vide video-Extra: http://www.compasso.com.br/midia/empreendedorismo_br.htm

Source: CPS/FGV with CENSO/IBGE microdata

The Crisis, the Cushion and the Floor: Participation of Self Employed and Employers in the Population - 15 to 59 years (%)



Source: FGV Social / CPS with PNADC/IBGE microdata

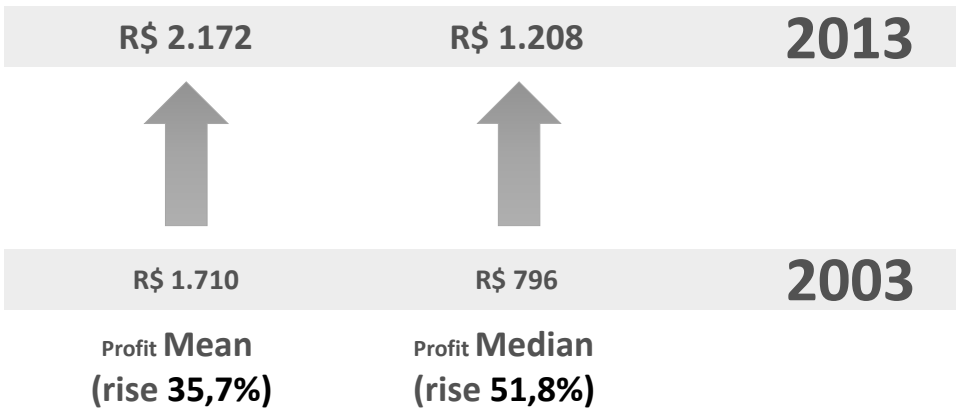
+ Individual Prosperity

		Crisis Update National PNADC Mean		
% Change Mean Earnings	2014 To 2018	Self-Employed	Employers	Formal Employees
		-4,43	-5,24	2,87

Micro entrepreneurs Profit +5,58%

+6,56%

2013 to 14 (April)



*Values in Reais of 2013.

Source: FGV Social/CPS with PME/IBGE microdata

+ Profit Equity

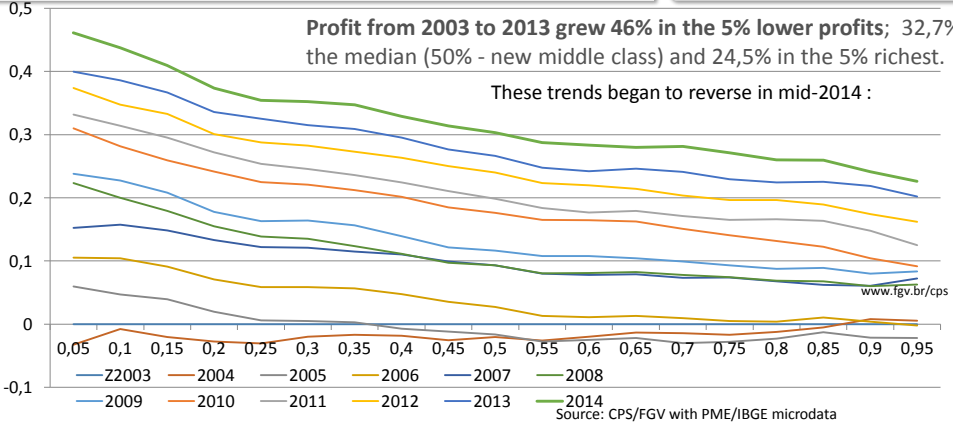


The only fall interruption since 2003, besides 2009

Source: FGV Social/CPS with PME/IBGE microdata

Year Effect (2003 – april 2014)
Profit grew year by year, with greater strength in the lower classes

Where did profits increase more?
At the base, middle or top of the business?



Subsistence businesses were exchanged for formal jobs and for businesses with greater potential for growth.
Less Firms, Better Business: The two biggest problems of microentrepreneurs: lack of demand and excess of competition.

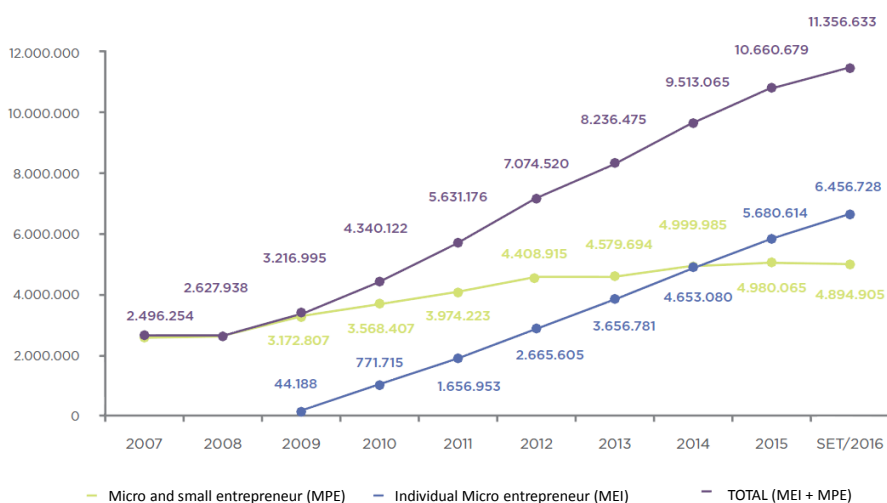
Incentives need to be incorporated to the birth of new businesses: startups
The issue is less the size today but the growth potential in the future

Small is Beautiful?
(or the young are?)

**Formalization Part 2: Possible impacts of MEI on Formality Information about the Law of Micro entrepreneurs (MEI)

- When implemented: since mid-2009
- **What is the benefit:** - cost and – bureaucracy for CNPJ within the *Simple Nacional* and **exempt from federal taxes** (Income Tax, PIS, Cofins, IPI e CSLL) and **Social Security** (5% of 1 minimum wage (were 11% before 2011))
- Who benefits: gross revenue up to R\$ 60 thousand per year and have at most one employee up to one minimum wage (also changed in 2011).
- What is the Objective: Formalize Micro entrepreneurs
- But what are the consequences for economic efficiency

GRÁFICO 1 FORMALIZAÇÃO DOS PEQUENOS NEGÓCIOS - BRASIL



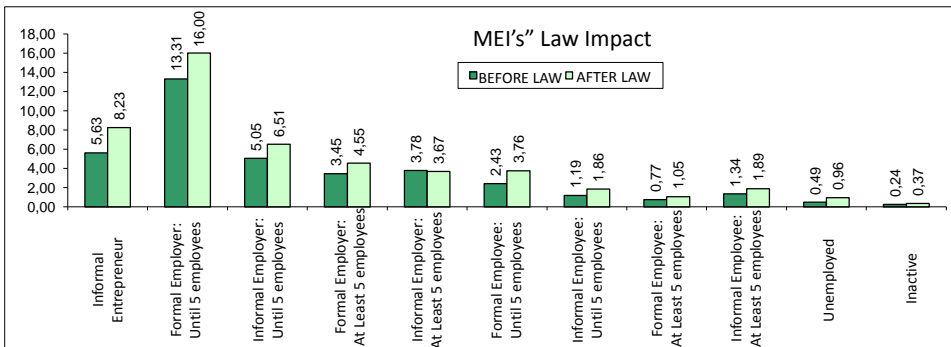
Fonte: Elaboração Sebrae, com dados da Receita Federal / Portal Estatísticas do Simples Nacional e Portal do Empreendedor

Correlation between the measures for formalization by CNPJ and Social Security: Package-Effect

	2009	2011
Self-Employed	0,303---→	0,421
Small Employer	0,398--→	0,487
Other Employers	0,224 =	0,216

The correlation between the measures for formalization as having or not CNPJ and whether or not to contribute to social security actually increased for all categories of entrepreneurs, but more markedly for individual entrepreneurs. This is suggestive that the *MEI* Law may have had an effect on the formalization of micro entrepreneurs.

Transition Matrix – Where Did They Come From? % Became a Formal Entrepreneur In the Last 12 Months



Formalization Effect – Coming from self-employment themselves

Entry Door Effect – Coming from Unemployed and Inactive

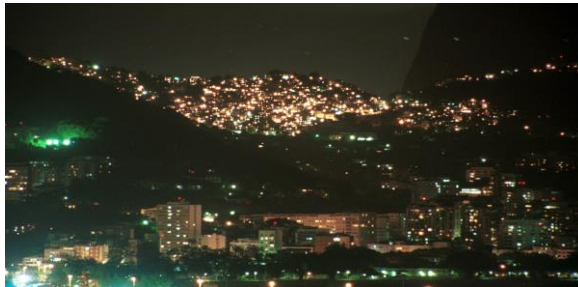
Scaling down Effect – Coming from Employers (to get the fiscal benefits)

Relative reduction in employees share Effect – Coming from Formal or Informal employees

Rio - The Divided City



Rocinha Favela and Gávea an upscale neighborhood in Rio, during the day...



.. And at night: favela more illuminated than luxury apartments during energy shortage in 2001

Various Types of Informality

Electric Informality

Size: Housing is by far the most valued asset in families portfolio. Around 50%

Good Targeting: Most poor living in own houses. Smaller houses have a better rent yield compared to its value. The value of a house among the 25% richest is 149 months of rent against 120 months of the 25% poorest

Structural and Instantaneous: De Soto Effect – Property Rights increase the value of the property: Bring dead capital back to life - More Markets to the Poor

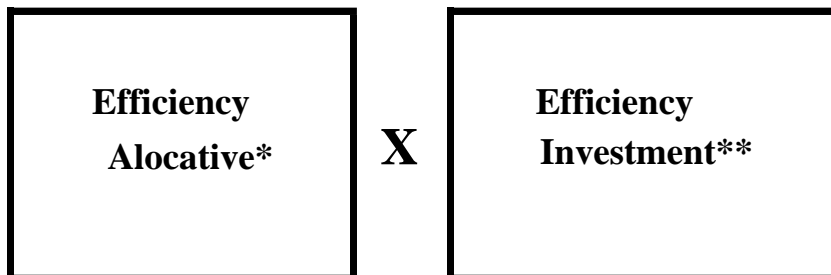
Example Rents Rise in Rio due to UPPs Police Pacification Units (Example: Violence lowers property rights)

Parameter	Estimated Regression Coefficients		t Value	Pr > t	
	Estimate	Standard Error			
Subnormal Especial de aglomerado subnormal	-0.2519130	0.03561993	-7.07	<.0001	
Subnormal zNão Especial	0.0000000	0.00000000	.	.	
Subnormal*ANO Especial de aglomerado subnormal 2009	0.0681114	0.04040914	1.69	0.0920	->UPP-Effect
Subnormal*ANO Especial de aglomerado subnormal z2007	0.0000000	0.00000000	.	.	+6,8% (Diff in Diff)
Subnormal*ANO zNão Especial 2009	0.0000000	0.00000000	.	.	
Subnormal*ANO zNão Especial z2007	0.0000000	0.00000000	.	.	

PRIVATE PROPERTY TRADE-OFF

* Private Property is a monopoly that distorts resources allocation .

** Incentive to invest private in own property.



Radical Markets: Auction mechanism: Owner declares a price for the value of property according to which he pays taxes but anyone can buy for this price (Harberger tax).

It conciliates both types of efficiency - Glen Weyl thought about that looking at Rocinha from Leblon. It increases access to credit in the basis of the economic pyramid.

Does **credit** matter? Rosen et all (1994) showed using US PIT records that the chances of starting a business increases when one receives an inheritance -> sign of **Imperfect Capital Markets**

Main Conclusions and Policy Suggestions:

- **Self-Employment: MEIs Impact:** Package-Effect (Social Security and *CNPJ*)
- MEIs Impacts: Formalization; Opportunities; Scale fall; Employees share fall
- Integrate MEI to the New Social Security Framework, Suit entrepreneurs cash flow
- Tax benefits for small firms & Informality may hinder revenue & productivity growth
- Embody incentives for *innovative startups-connect to growth potential not to size*
- During the boom we had a rise in formal employment (+Less firms, Better business)
- Recognize property rights to boost the wealth stock and access to credit of the poor most living in own houses. Radical markets Harberger tax proposal does that efficiently.
- **Employees** the effects of the minimum wage (and other labor rights) on the informal.
- High labor turn-over hurts specific human capital accumulation.
- The role of labor subsidies (Abono Salarial) and Impacts of reforms on incentives
- **Key-Questions:** During crises is informality a key shock-absorber? Is self-employment a proxy for entrepreneurship? Does it make sense to combine different types of informality? Yes, poverty wise but not policy wise.