

**From informality to formal employment in Latin America and the Caribbean?!
An essay on the challenges and opportunities of the 21st century**

***Da informalidade à formalidade laboral na América Latina e Caribe?!
Um ensaio sobre os desafios e as oportunidades do século XXI***

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Abstract: The general objective on this essay is to briefly and critically analyze the key challenges and opportunities for overcoming high levels of informal work in Latin America and the Caribbean in the 21st century. It is assumed that informality constitutes a structural and persistent phenomenon, associated with the dual economy, the fragility of social protection, and the institutional obstacles in the region. Drawing on classic and contemporary authors, it is argued that regional inequalities, precarious work, and economic instability keep a large portion of the workforce outside the formal market. Conversely, opportunities for formalization linked to regulated digitalization, tax simplification, the strengthening of collective organizations, the expansion of financial inclusion, and integrated public policies are pointed out. It is concluded that a sustained reduction in informality depends on economic growth articulated with political will, institutional cooperation, and the expansion of citizenship.

Keywords: Dual Economy. Informal Work. Labour Market. Latin America and the Caribbean. Structural Change.

Resumo: O objetivo geral neste ensaio é analisar, de maneira breve e crítica, os principais desafios e oportunidades de superação da alta informalidade laboral na América Latina e Caribe no século XXI. Assume-se que a informalidade constitui um fenômeno estrutural e persistente, associado à economia dual, à fragilidade da proteção social e aos entraves institucionais da região. A partir de autores clássicos e contemporâneos, argumenta-se que desigualdades regionais, precarização do trabalho e instabilidade econômica mantêm grande parcela da força de trabalho fora do mercado de trabalho formal. Em contrapartida, apontam-se oportunidades de formalização ligadas à digitalização regulada, à simplificação tributária, ao fortalecimento de organizações coletivas, à ampliação da inclusão financeira e de políticas públicas integradas. Conclui-se que a redução sustentada da informalidade depende de crescimento econômico articulado com vontade política, cooperação institucional e ampliação da cidadania.

Palavras-chave: Economia Dual. Trabalho Informal. Mercado de Trabalho. América Latina e Caribe. Mudança Estrutural.

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Introduction

Labor informality is one of the most persistent and structural characteristics of the Latin American and Caribbean world of work, significantly affecting economic performance, public policy formulation, and social well-being in the region. This reality compromises the ability of these States to better plan public budgets, restricts the population's access to social security and labor rights, and perpetuates inequalities. It therefore hinders a structural shift toward sovereign, sustainable, and inclusive development models.

It is estimated that, in the first decade of the twenty-first century, between 45% and 55% of the active labor force in Latin America and the Caribbean was engaged in informal occupations, without registration or access to social protection. In 2024, 47.6% of these workers were still informal, a slight decline compared to 48% in 2023 – for comparison purposes, the average informality rate in developed countries is 13.5% (ILO, 2024). This is the historical pattern generally found in most countries of the region, revealing the low quality of employment and the persistence of labor vulnerabilities affecting a large portion of the workforce.

This phenomenon also reveals both the resilience capacity of millions of workers facing these adverse conditions and the institutional limitations that hinder the expansion of formal employment and the respect/consolidation of labor rights. The analysis of the causes, effects, and consequences of informality therefore requires a multidimensional approach capable of integrating historical, economic, and social perspectives.

That said, the general objective on this essay is to briefly and critically analyze the main challenges and opportunities for overcoming high labor informality in Latin America and the Caribbean in the twenty-first century. Beyond this introduction, the text is organized into a concise literature review discussing the persistence of high informality in the region through the theoretical lenses of authors who are references on the subject. Subsequently, in light of the previous section, opportunities for effective and lasting insertion and formalization of workers in the region are considered. In the conclusion, a synthesis of the essay is presented, along with some possible (or at least desirable) paths for the region regarding the object of study.

1 Past and present: the persistent labor informality of Latin America and the Caribbean

The classical literature on labor informality in Latin America and the Caribbean has its roots in the Latin American Structuralist School. Raúl Prebisch (1949), in the work entitled “*El desarrollo económico de la América Latina y algunos de sus principales problemas*”, demonstrated that the unfavorable terms of trade between the center and the periphery of the capitalist system perpetuate low wages and high informality, emphasizing the importance of the State beyond regulation, that is, through the implementation of active policies to correct these asymmetries. Arthur Lewis (1954) and Celso Furtado (1971), each in their own way, broadened and deepened this analysis by emphasizing the coexistence of modern industrial sectors with subsistence activities (mostly informal), proposing development models with important implications for the inclusion of the lower extracts of the population in the formal market.

From then until this first quarter of the twenty-first century, this situation has changed little structurally; that is, the so-called dual economy described by the classical authors remains in force, although with different contours and with advances here and there. More recently, Solimano (2010) offered a comparative regional perspective, linking late industrialization policies and weak control of entry into services to higher rates of informality, concluding that regional inequalities persistently aggravate this situation. Furthermore, the author demonstrates that rural areas and metropolitan peripheries concentrate the highest rates of informality due to deficient infrastructure – such as damaged highways, intermittent energy supply, and limited connectivity – which hinders formalization and business expansion. The deficit in the administrative capacity of local governments intensifies the lack of oversight and the inadequate promotion of labor qualification programs.

In turn, Lora (2012) relates rent-seeking (groups seeking economic gains not through value creation or productivity increases, but through manipulation of the political, legal, or regulatory environment) to informality, arguing that institutional obstacles to investment coexist with oligopolies in the region, inhibiting the transition of self-employed workers and equivalents into larger companies. The author adds that alternations of political regimes and frequent changes in incentives generate legal uncertainty, discouraging or even preventing voluntary formalization.

Calva and Juarez (2014) mapped the social vulnerability associated with informality, identifying demographic, educational, and regional factors that keep millions of workers outside formal regulation in Latin America and the Caribbean. The authors showed how demand and supply shocks lead formal workers to migrate into informal activities in search of immediate income (essentially subsistence income), thereby suggesting the design of integrated public policies aimed at effectively reducing informality and promoting social inclusion.

In this context, Salazar-Xirinachs and Chacaltana (2018) analyzed the (non-structural) increase in labor formalization that occurred in a particularly dynamic manner at the beginning of the twenty-first century in many countries of Latin America and the Caribbean. Their findings suggest that the observed formalization episode was mainly associated with relatively high rates of economic growth between the mid-2000s and the mid-2010s, compared to those of the 1990s, complemented by deliberate policies whose effects increased over time (although with important nuances among countries). The impacts of growth and changes in the economic structure on formalization tended to be more significant than those of institutional interventions. However, the best results came from experiences in which robust growth and economic transformations were coupled with integrated institutional interventions and public policies geared toward formalization.

Salazar-Xirinachs (2021) extended this study to the COVID-19 pandemic, proposing a “temporary minimum income” to mitigate abrupt migrations resulting from that period. This, among other things, according to him, is because economic crises and unstable cycles, such as the pandemic, reinforce informality beyond the event itself. Kulfas (2022), in turn, adds that, in the specific case of post-2020 Argentina, regulatory uncertainty and the absence of labor transition policies deepened this phenomenon of labor vulnerability. In his research, he analyzed possible survival strategies of post-pandemic informal microentrepreneurs, identifying what he called “peripheral entrepreneurship” or necessity entrepreneurship.

Pastoriza (2023), for his part, highlighted the role of fintechs and digital platforms in the financial inclusion of self-employed workers in the Southern Cone (including Argentina, Chile, Uruguay, Paraguay, and the states of Southern Brazil), pointing to digitalization as a vector of gradual formalization – with different levels of precariousness – in light of the rapid and profound technological advances observed at the beginning of the twenty-first century.

It is noteworthy that the main challenges of labor informality in Latin America and the Caribbean stem, first, from the duality of the economy and, second, from the precariousness of social protection. Regarding the fragmented dual structure of the economy, it hinders the transition of informal workers into the formal sector, perpetuating inequalities and limiting sustained economic development. As for social protection, closely related to the previous point, the absence of formal ties continues to deprive millions of workers of essential benefits (unemployment insurance, paid sick leave, contributory retirement pensions, *etc.*), exposing the most vulnerable people to income shocks and health problems that predominantly burden public systems (Vargas, 2017).

Finally, but no less importantly, methodological fragmentation and underreporting stand out as factors that compromise the formulation and monitoring of public policies. The lack of standardization in definitions and data collection methods regarding informal work prevents accurate evaluations of formalization programs, making it difficult to adjust subsidies, revenue ceilings, bureaucratic requirements, among others.

2 Opportunities for insertion and formalization for workers in Latin America and the Caribbean

From my point of view, the central objective to be pursued to structurally advance toward lower levels of labor informality in the region must be to overcome structural barriers (which can be broken) without treating them as structural limits (which, by definition, cannot be overcome). Thus, while it is true that the twenty-first-century panorama brings new challenges in this area, it also offers opportunities to promote formal work.

Baer (2008), for example, when examining the Brazilian case (which can be adapted and expanded to Latin America and the Caribbean), shows how the growth of the service sector lacking specific regulation, to the detriment of the proportionally more formalized industrial sector, expanded the informal economy. In his study, he emphasized the fiscal implications of this phenomenon: the evasion of social security contributions and income taxes resulting from this sectoral migration of national production reduces the tax base, with the harmful effect, among other things, of constraining governments to resort to regressive consumption taxes. According to the author, this dynamic creates competitive distortions, since informal micro and small enterprises charge lower prices by circumventing labor charges, thereby discouraging investments in qualification and technology, for example. For this reason, the author advocates simplified tax regimes that unify ancillary obligations and establish revenue ceilings for micro and small enterprises, reducing bureaucratic costs and thus tending to favor formal employment.

The digitalization of on-demand services may be another promising vector for labor formalization in the region. Solimano (2010) observes that transportation, delivery, and service apps standardize electronic contracts and introduce collective insurance, expanding protection for self-employed workers. It is worth emphasizing that I assume that, even at the moment in which I write this essay, there remain many deficiencies in the regulation and inspection of work mediated by digital platforms, but this is an inescapable reality that must be legally and socially pressured to fully comply with labor rights.

Assuming this, strengthening collective organizations of formal and, above all, informal workers is also fundamental. Lora (2012) documents how unions, cooperatives, and associations of street vendors, waste pickers, and service providers expanded their bargaining power – negotiating support policies, jointly acquiring equipment, and participating in public procurement processes. The solidarity economy and fair-trade networks internalize standards of quality and shared management, creating bridges between traditional informality and opportunity-based structured entrepreneurship.

Integrated formalization programs combining technical training, accounting assistance, and microcredit have also proven effective. Calva and Juarez (2014) highlight that partnerships among governments, social organizations, and financial institutions to identify value-added niches – handicrafts, family agroindustry, among others – and provide credit for equipment and licenses mitigate risks and serve as a springboard for formalization.

Sicsú (2015), based on the combination of household survey data and sectoral analyses, emphasized the fragility of informal occupations in the face of economic shocks, underscoring the relevance of flexible social protection systems. For example: i) systems with contributory mechanisms proportional to effective income and digital automatic savings tools that allocate part of each payment to retirement and health insurance funds; ii) labor transition programs that preserve contribution time during informal periods, encouraging formalization without imposing immediate financial barriers.

Additionally, Salazar-Xirinachs (2021) argues in favor of reducing bureaucracy as a promising path to reduce informality. According to him, the adoption of electronic platforms for business registration and tax assessment, integrated with a “temporary minimum income,” can cushion shocks and encourage gradual formalization. Pastoriza (2023), in turn, adds banking democratization as a pillar of this process. He argues that fintechs can extend digital accounts, microcredit, and microinsurance to informal providers, using alternative data for risk analysis and fostering formal financial inclusion.

Therefore, given the opportunities listed above (and there are many others possible), it is evident that the true challenge in rethinking how to deal with the issue of structural labor informality lies in treating it as an emergency through the channels of citizen social demand and the political will to raise the level of citizenship in Latin America and the Caribbean. This may even eventually provide support for later becoming proposals for (supra)national institutions. From my point of view, this would be a promising path, allowing for a structural assessment of the current situation and the suggestion of viable alternatives more aligned with the political and social actions demanded and/or expected by the Latin American and Caribbean population.

Conclusion

The general objective on this essay was to briefly and critically analyze the main challenges and opportunities for overcoming high labor informality in Latin America and the Caribbean in the twenty-first century. In its title – From Labor Informality to Labor Formality in Latin America and the Caribbean?! – a question mark and an exclamation mark coexist. The first appears because of the persistence of high informality in the region, which remains a historical challenge to be overcome; the second because this reality can indeed be overcome: there are no insurmountable limits in this area, but rather structural barriers that can and must be broken.

The fact is that, in the region, a tension persists between the need to formally employ people in order to develop and the urgency of ensuring basic rights with social stability. The challenges – precarious social protection, fiscal limitations, regional inequalities, technological gaps, vulnerability to crises, and the lack of reliable data – point to the structural complexity of the phenomenon.

Labor informality in the region is the result of a dual economy, insufficient social protection, and institutional obstacles that keep about half of the workforce away from formal registration. This combination generates tragically rooted inequalities, makes workers vulnerable and subjects them to diverse adverse shocks, in addition to compromising the State's ability to better plan its public budget in order to implement effective and efficient public policies.

However, the advancement of simplified regulatory instruments, the (regulated) diffusion of digital technologies, the strengthening of collective organizations, and social protection models adapted to current realities offer promising opportunities to expand formalization. Their success will depend on long-term interinstitutional cooperation, coordination among levels of government, and the effective engagement of the private sector and civil society. By aligning some flexibility with security and strengthening the tax base, the region may move toward a social pact that integrates formal work, well-being, and innovation. These initiatives, if combined with economic growth, have the potential to reduce informality gradually and sustainably.

Thus, it will be possible to (continue nurturing the hope of) definitively overcoming the structural character of informality and building a sovereign, inclusive, and stable development model in “*Nuestra América*”.

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