



Why Is Coronavirus Now Exploding In Latin America? It's The Informal Economy, Stupid

By [TIM PADGETT](#) · 21 MAY 2020

COMMENTARY

We know one likely reason Brazil's coronavirus emergency is in full meltdown. Brazilian President Jair Bolsonaro calls the pandemic a "media hoax" and has done everything in his power, like hosting a large pro-Bolsonaro street rally last weekend, to undermine social distancing.

But you can't blame dimwitted demagoguery for the social-distancing breakdown next door in Peru – whose number of COVID-19 infections cleared 100,000 this week, including more than 3,000 deaths, and is suddenly second to Brazil's in Latin America and the Caribbean. So what's causing Peru's corona-crisis? The same thing that's wreaking corona-havoc in other Latin American countries. It's the informal economy, stupid.

Fittingly, the guy who saw this sort of thing coming is Peruvian: economist Hernando de Soto, author of "The Other Path" and "The Mystery of Capital."

In those seminal treatises, De Soto pinpoints a key factor in Latin America's dismal cycle of poverty and inequality: most of its people are trapped in – rather, shoved into – the underground economy. Their jobs, their homes – their lives, really – have little or no legal standing in the eyes of the above-ground establishment. So they can't count on that establishment for a helping hand when a plague like this descends.

Meaning: unlike the laid-off waiter in South Florida who may have gotten a federal stimulus check after being told to quarantine, two-thirds or more of the workforce in countries like Peru, Ecuador, Honduras or Haiti *can't afford* to quarantine. To keep their families sheltered, clothed and fed they have no choice but to hit the street markets and other infection hothouses, to hawk the

smartphone earbuds and fry the sidewalk empanadas. If they stay at home, pretty soon they won't have a home.

As the world's so-called second wave of COVID-19 pestilence now takes off in Latin America and the Caribbean, the region is paying for not tackling what De Soto has long urged: a campaign to hoist the hoi polloi into the formal, legal economy by issuing property titles for their tin-and-cinderblock houses and business licenses for their makeshift minibuses.



Hernando de Soto talking with workers in Peru's informal economy.

Once out of the shadows, they can better avail themselves of the real economy's benefits, like bank credit. With their expanded assets they can then contribute to the creation of more robust tax bases – which spawn the kind of social safety nets developed countries deploy during epidemiological horror shows like this. That is, which helps folks feel it's feasible to stay at home during epidemiological horror shows like this.

There are several reasons Ecuador was the first Latin American country to show the world COVID-19 images reminiscent of medieval plague scenes – residents crying for help to bury loved ones whose corpses lined the streets. One was the unfortunate timing of infected emigrants and exchange students returning home from Europe for vacation. Another was simply the country's overwhelmed public health system.

CORONA-CONFLAGRATION

But doctors, officials and everyone else there will tell you the big match that ignited Ecuador's corona-conflagration, especially in the ravaged port city of Guayaquil, was sheer public disregard for whatever social-distancing measures the government had issued. And that match was struck largely by economic necessity: according to the U.N.'s International Labour Organization, the share of Ecuador's workforce working and dwelling in the informal economy is one of the highest in the western hemisphere.

By the same token, there are several reasons Costa Rica has so far so successfully confronted COVID-19. One is its high degree of spending on public health, which has resulted in a well



trained, well organized medical infrastructure capable of the kind of efficient virus testing and contact tracing that's helped nip community transmission in the bud.

But experts also acknowledge another big COVID fire extinguisher for Costa Rica: the social-distancing vigilance of *los Ticos* – the Costa Ricans. They *have* largely stayed at home with remarkable discipline. Or maybe not so remarkable. The share of Costa Rica's population crammed into the clandestine economy is one of the hemisphere's smallest – and its larger share of persons inhabiting the legit economy has yielded one of Latin America's more reliable tax bases-cum-social safety nets.

De Soto, oft mentioned as a Nobel Prize candidate, has been borne out in other ways before. A pilot project he led in Peru gave legal title to a quarter million underground businesses, generating more than \$1 billion in new tax revenue. The coronavirus tragedy seems another – as well as another compelling reason the U.S. should help its hemispheric neighbors put De Soto's theories into effect. Before the next conflagration breaks out.

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