



Diverse Economies

A Social Studies and Economics Lesson for Grades 9-12

Developed by Allaire Diamond M.S., M.Ed. as part of the project **People, Plants & Gathering in Northern Maine**, a collaboration between the USDA Forest Service Northern Research Station and the University of Vermont, funded by the Northeastern States Research Cooperative. Principal project investigators: Dr. Marla Emery, USDA Forest Service, and Dr. Clare Ginger, University of Vermont.¹

Topics: Barter, informal economy, livelihood

Maine Learning Results Addressed:

Social Studies C2: Students understand economic aspects of unity and diversity in Maine, the United States, and the world, including Maine Native American communities.

- b. compare a variety of economic systems and the economic development of Maine, the United States, and various regions of the world that are economically diverse.

Objectives:

- Define and explain terms relating to both the formal and the informal economies
- Classify examples of economic interactions in the informal economy
- Apply the economic terms to the stories of real people in northern Maine
- Record their experienced and observed interactions in the informal economy
- Analyze examples from their own lives and others in northern Maine, and in Latin America to explain how the informal economy is important in peoples' lives

Background: In this lesson, students will develop understanding of the multiple ways that people put together livelihoods outside of the *formal economy*. Though interactions in the *informal economy* are not 'tracked' by the formally-recognized and governed economic system, they are substantial contributors to individual and family livelihoods in many parts of the country, including northern Maine. Students learn terms that describe the informal economy, classify economic interactions with a series of examples (including those of gatherers in the **People, Plants & Gathering in Northern Maine** website), and then keep a log of interactions that they or their family members are part of. Their final assessment is a reflective essay based on their logs and a reading on the informal economy of Latin America. *NOTE: Some activity in the informal economy is quasi-legal or illegal. Examples*

¹ Photo by Michelle Baumflek

include drug deals, human trafficking, and smuggling. This lesson is not meant to condone or encourage such activities but merely to explore the ways that activities including bartering, gifting, and self-provisioning can be real contributors to livelihoods as well as ways that people interact with landscapes. We recommend that teachers do not emphasize or focus on the illegal potential of interactions in the informal economy but acknowledge that students may wish to exercise caution in recording activities that fall into legal gray areas. When students are keeping their logs, they do not need to record names or dates and should not worry that this assignment could get them or others in trouble – we include wording to this effect on the student directions for this assignment.

Materials:

- Chalkboard
- Computers with internet access
- Student organizer (included)
- Assignment for log (included)
- Copies of the article *Informal Latin Economy Saves Day* (March 21, 1992) by Nathaniel C. Nash, The New York Times, p. A41. (text included at the end of this lesson)

Time: 40-80 minutes plus homework – to be collected after 7 days

Assessment: Student “alternative economy” logs and final report/analysis.

Activities:

1. **Terms.** Write these terms on the board:
 - a. Livelihood
 - b. Exchange
 - c. Informal economy
 - d. Formal economy
 - e. Barter
 - f. Gifting
 - g. Self-provisioning
2. **Definitions.** Ask students if they know any of these terms and how they would define them. Write answers on the board. After recording some answers, provide these definitions:
 - a. **Livelihood:** A means to support physical or cultural survival.
 - b. **Exchange:** Providing something in return for something else.
 - c. **Informal economy:** Exchange of goods and services that takes place outside the formally recognized and governed economic system. This activity is not recorded in official statistics and taxes generally are not paid.
 - d. **Formal economy:** Exchange of goods and services that takes place inside the formally recognized and governed economic system. Activity is recorded in official statistics, taxes are paid, and laws regarding such things as safety and labor practices may apply. (NOTE: this is not an example of an “alternative economic activity.”)

- e. **Barter:** Exchange of goods or services for other goods or services, instead of money.
 - f. **Giftng:** Transfer of a good or service to another person without the expectation of compensation.
 - g. **Self-provisioning:** Providing directly for some of one's own material needs without any form of exchange.
3. **Comparison.** Ask students what these terms all have in common. Students should say something about how they are different ways for people to get what they need, or some variation – answers will vary.
 4. **Classification.** Provide the following examples of interpersonal interactions and ask students to classify them. This could also be done individually.
 - a. John successfully goes deer hunting in the fall and eats venison all winter.
 - b. Anna mows John's lawn and he gives her some venison.
 - c. John gives venison to his elderly father, Edward.
 - d. Edward buys blackberries from Marie, who is selling them by the side of the road.
 - e. Marie makes blackberry jam for Christmas presents for her family.
 - f. Marie's sister June owns a small shop that caters mostly to seasonal tourists. She charges sales tax and pays it to the state.
 - g. June buys some of Marie's jam to sell in her shop.
 - h. Marie trades jam for bread with a local baker.
 - i. Marie tells a carpenter she doesn't have money for him to fix her porch, but she could give him blackberry pies.
 - j. June's 12-year-old daughter Elise babysits for her neighbor's toddler every Thursday evening.
 5. **Review** the answers above. Ask students to name some examples in their own lives.
 - a. Self-provisioning, livelihood
 - b. Exchange, barter, livelihood
 - c. Giftng, livelihood
 - d. Exchange, purchase, livelihood
 - e. Giftng, self-provisioning
 - f. Exchange, livelihood
 - g. Exchange, purchase, livelihood
 - h. Exchange, barter, livelihood
 - i. Exchange, barter, livelihood
 - j. Exchange
 6. **Context.** Explain that these sorts of alternate economic interactions and arrangements are often not recorded in economic indicators such as GDP, because they don't involve money or the money is not reported as income (roadside stand example). However, they are often very important in the personal economic situations of many individuals and families, including many in northern Maine.

7. **Examples from northern Maine.** Students should now spend some time exploring the gatherer profiles on the **People, Plants, and Gathering in Northern Maine** website (http://nrs.fs.fed.us/sustaining_forests/conserves_enhance/special_products/maine_ntfp). They should find and record an example of a person/situation for each of the terms they have just learned.
8. **Assignment and assessment.** For homework, students should keep a log of their “informal” economic interactions (or those of family members) for one week. They will be turning this in. They should also read the article *Informal Latin Economy Saves Day* (March 21, 1992), from The New York Times. Their final assignment is to write a 1-2 page essay about the role of the alternate economy in peoples’ lives, using examples from their own logs, the Latin American examples, and the examples from northern Maine (see student assignment on the next page).

Diverse Economies organizer

<i>Term</i>	Self-provisioning	Gifting	Barter	Formal economy	Informal economy	Exchange	Livelihood
<i>Definition</i>							
<i>Example</i>							
<i>Personal/class example</i>							
<i>Website Example</i>							

Diverse Economies Log and Writing Assignment: For one week, keep a list of all alternative or informal economic interactions that you or your family members have. This includes barter, gifting, being paid informally for work like babysitting, or other interactions like the examples you talked about in class that would qualify as informal economic interactions. You don't need to include names, dates, or anything that might get somebody in trouble. Also, read the article *Informal Latin Economy Saves Day*.

At the end of your week keeping the list, write a 1-2 page reflective essay about the role of the informal economy in the lives of individuals, families, communities, or even whole societies. Reflect on your own list as well as the Maine and Latin American examples or others you might know about. Even though informal economic transactions do not “leave tracks” in terms of taxes or other government institutions, are they still important in the lives of people? How? What are some benefits and drawbacks to operating in the informal economy?

Reading: *Informal Latin Economy Saves Day* (March 21, 1992), Nathaniel C. Cash, The New York Times, p. A41.

Due: _____

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Informal Latin Economy Saves Day

By NATHANIEL C. NASH

The New York Times

Published: March 21, 1992, p. A41

LA PAZ, Bolivia— On every downtown city block here, men and women sit hawking their wares. From Bic lighters to Snickers candy bars to Brut shaving cream to Japanese television sets.

This helter-skelter commerce is only the most visible part of a vast informal economy that includes home building in Brazil, large parts of the bus system in Lima, Peru, and textile manufacturing in Bolivia.

Economists say that in the aftermath of a coup attempt in Venezuela earlier this year that has many politicians wondering how to strengthen the democratic process here, this segment of Latin America's economy, once scorned for evading taxes and fees, has become government's best friend.

The reason: Many Latin governments are in the delicate and lengthy process of reordering their economies, laying off tens of thousands of workers and cutting back on social programs. But that is not resulting in long lines of the unemployed because the informal economy is creating millions of jobs, feeding families and generating some of the most vibrant economic growth on the continent.

In industrialized countries, such marginal business activity might be shut down and outlawed. But not here. More and more politicians are realizing that letting the informal economy alone buys them much-needed time to attract new foreign investment, modernize industry and find new sources of development, without fear of social pressure that might push them back into the days of military government and subversive terrorist groups.

"This part of the economy is one of the most socially stabilizing factors in Latin America," said Grisela Mendoza, an economist with the consulting firm of Muller & Associates in La Paz. "These are some of the most robust segments of our economies."

Businesses in the informal economy often pay no taxes, have no licenses, offer no social security or medical benefits and sometimes deal in smuggled goods. But they also buttress parts of the formal economy -- so much so that governments are increasingly using a hands-off approach in dealing with the unlicensed, tax-free sector.

"Governments are finding that many of these companies over time tend to integrate naturally" with established businesses, said Francisco Leon, an economist with the United Nations Economic Commission for Latin America and the Caribbean.

In Chile, for example, he said many small businesses that do not pay taxes make goods that they then sell to large tax-paying companies. Those transactions separate the informal economy from a pure black market, bolster the industrial sector and help the informal sector to grow and mature.

Sharp Recent Growth

The informal sector, though long a part of Latin American commerce, has grown sharply in the last decade. In Bolivia, economists calculate that if the informal economy did not exist, the country's unemployment rate of 7 percent would jump to 35 percent.

"I think it's safe to say that if you didn't have the informals you would have riots in the street in many capitals," said Hernando de Soto, a Peruvian economist and former adviser to President Alberto Fujimori.

A recent study by the United Nations Regional Program for Employment in Latin America and the Caribbean found that employment in the informal sector had risen to almost 35 percent of total urban employment, from 20 percent at the end of the 1970's. At the same time, urban unemployment fell to about 5 percent, from a peak of nearly 10 percent in 1983.

The informal economy represents up to 40 percent of urban employment in many countries, and in Peru economists say the figure is closer to 70 percent. This implies total employment at close to 40 million. Exact numbers are next to impossible to calculate by the very nature of this sector.

"You can't afford to crack down on these people," Mr. de Soto said. "They are in the informal sector because they have no choice. They have no access to credit. They cannot get their business application approved. Or they are just prohibited from opening such a business. They have nowhere else to go. If you start to crack down on them, they are bound to explode into political or violent opposition."

How It's Defined

How economists define the informal sector varies widely. Most include only companies engaged in legal activities but not registered with the government because of excessive red tape, that do not pay taxes and fees, and do not provide their workers with required social security benefits and health coverage.

Still others include those involved in contraband trade and even drug trafficking and money laundering. Some economists say contraband trafficking -- excluding the cocaine trade -- accounts for only 11 percent of the sector's economic activity.

Many companies try to show at least some form of adherence to the laws. The United Nations study, for example, found that in Mexico only 27 percent of its small, informal-sector companies had not at least tried to register with the Government.

It is precisely the slowness with which government agencies move that leads many companies to work outside the law.

Long Waits Are Common

In Ecuador, for example, it takes 180 to 240 days for a manufacturing company to register with the Government. In Venezuela, it takes up to 310 days; in Guatemala, up to 525 days.

Brazil, Mexico and Chile all require more than 20 applications before a company can be approved for business. This leads to tremendous start up costs, which make it nearly impossible for small entrepreneurs to follow the rules.

Moreover, complying with government regulations can be prohibitive. The United Nations labor group found that the cost of running a business in a number of Latin American countries could be as high as 70 percent of the company's annual revenues.

So businessmen skirt the law.

In Uruguay, a common practice is getting permission to manufacture, say, cosmetics, a license relatively easy to obtain. The business then manufactures a broad range of industrial chemicals, which it can argue are either integral to cosmetics or an offshoot of that business. 'License Pending'

In Venezuela, small entrepreneurs often apply for a license to do business and then put in their windows a sign that reads "License Pending."

"They just make the application once and do nothing more," said Victor E. Tokman, executive director of the United Nations Regional Employment Program. "So when the inspector comes around they point to the application."

While some have argued that informal sectors are bound to disintegrate because they pay low wages, that contention has been disputed by some economists. Mr. Tokman says that on average, informal-economy wages are roughly comparable to minimum wages in Latin countries. Muller & Associates found that in comparing worker wages in the formal sector with those of the informal sector, the informal-sector workers often earned as much as \$7 a month more.

"In one poll we found that 38 percent of those interviewed said that they preferred the independent work of the micro-entrepreneur," the firm said. "The informality offers a flexibility and independence that the formal companies cannot match." Formal employment relationships do provide health care, vacation and other benefits, but government clinics provide low-cost health care to all people.

Challenge for Governments

The challenge for Latin governments, as they grow, is to incorporate the informal sectors into the mainstream of their economies, reducing tax evasion and enabling governments to crack down on illegal activities.

Mr. de Soto argues that while the informal economy offers governments a breathing space, sooner or later these entrepreneurs will get tired of not having legal title to land and businesses and of being locked out of credit.

"These people are getting very politically active and they are not taking things so easily any more," he said. "If over time they still cannot get a loan, or title to their land, you will find them moving toward guerrilla groups, to the side of certain military factions, to downright criminal activity."

Photo: Businesses that make up the informal economy of many Latin American countries, including selling candy bars and building homes, have been a stabilizing force, economists say. A worker in a street market in La Paz, Bolivia, carried television sets to the warehouse at the end of the day. (S. Rickey Rogers for The New York Times) (pg. 37) Graph: 'Unofficial' Growth," tracks employment as a percentage of total urban employment in Latin America, 1980-1992 (1992, estimate) (pg. 41) Table: "Red Tape," lists number of administrative procedures needed to register new businesses in various Latin American countries (Source: United National Regional Program for Employment in Latin America and the Caribbean) (pg. 41)