

Leaving the Shadows Behind? (Un)intended Consequences of Formal Sector Regulation: The Case of Domestic Workers

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The views expressed are those of the author and not necessarily those of Banco de México.

Summary

Can the fear of losing welfare payments prevent domestic workers from formalizing?

- ▶ Estimate the effect of a reform to encourage formalization of domestic workers in Argentina
 - ▶ Gives higher benefits for domestic workers who formalize
 - ▶ Increases penalties for employers who do not register their workers
 - ▶ Although workers who formalize would not lose access to welfare payments, this was unclear when the reform was implemented
- ▶ Informal workers who receive welfare payments before the reform are less likely to formalize after the reform than those who do not receive welfare payments
- ▶ Unintended consequences of policy reforms that may interact with existing policies

Highlights

- ▶ Always nice to see how rational/behavioral responses to policy changes end up producing unintended outcomes
- ▶ Highlights how hard it is to offer the right incentives to formalize, and how informality may be the optimal choice for workers, even because of subjective beliefs
- ▶ Serious study of policy details and straightforward research design

Comments

1. Relate to labor supply literature

- ▶ A lot of literature on the labor supply effect of the EITC, and how households may not get a job with a certain salary to still receive the EITC. Chetty et al. (2013), Neumark (2019)
- ▶ Also tons of literature on the different labor supply elasticities of women with children. Work by Francine Blau
- ▶ Can we generalize this unintended consequences to another setup, where there supply elasticities within the affected group?

2. Econometrics: Some details need to be clearer (this may have changed for latest version)

- ▶ What exactly is done for the pretrends test? Careful with this: Freyaldenhoven et al. (2019), Roth JMP. Event-study graphs may be more informative.
- ▶ How to address the smaller sample in some panels? Are there representativity issues?
- ▶ Are there enough observations by cluster? Are there enough clusters?
- ▶ Careful treatment of non-linear models?

Comments

3. State clearly how the robustness checks are ruling out an employers' response and how this is likely to be a worker's beliefs story
 - ▶ Many robustness tests, but unclear if they rule out less formalization for workers with lower tenure
 - ▶ How can the wrong beliefs about welfare payments survive in equilibrium?

Interview Cynthia at the AEA meeting!!!