



Interactions between Formal and Informal Labor Dynamics: Revealing Job Flows from Household Surveys

Download Other Working Papers Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Leonardo Fabio Morales Didier Hermida Eleonora Dávalos

The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc).

Publication Date: Wednesday, 4 of September 2019

The opinions contained in this document are the sole responsibility of the authors and do not commit Banco de la República or its Board of Directors.

ABSTRACT

In its characterizations of job creation and job destruction rates, the literature on labor dynamics has largely ignored informal labor markets. The interrelationships between job creation and destruction among informal and formal labor markets are therefore still generally unknown, despite recent developments in the study of labor market dynamics. These interrelationships are important, however, because much of what researchers identify as formal job creation in developing countries involves substitution of informal jobs for formal ones. In this paper, we use an original methodology to derive hires as well as job creation, separation, and destruction flows from standard household surveys. The great advantage of this technique is that it allows measurements of these labor dynamic measures for the informal labor market. We find that informal labor markets are less fluid than formal ones, mainly because informal job-to-job transitions seem to have a low incidence. In addition, we characterize the relationship between informal job destruction and formal job creation. We find that almost 50% of job creation in the formal sector is caused by job destruction in the informal sector, and identify this formalization process as countercyclical. Our findings portray the informal labor market as an inferior segment; in good economic times, it loses importance as a source of formal jobs and as a recipient of jobs from the formal sector.