Heterogeneous Returns of Informality: Evidence From Brazil

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Publication Date: Friday, 10 of June 2022 Abstract
This paper estimates the marginal treatment effect of informality on wages for Brazil at the individual level using regional data on labor inspectors for identification. The results show that there is significant essential heterogeneity among otherwise identical workers that lead them to self-select into the type of jobs, formal or informal, that better reward their skills. The Average Treatment Effect (ATE) is 22%, but not statistically different from zero. But there are individuals with very low non-observed costs of formality that in fact earn premiums of up to 100% of their wage rate from being formal and workers who would be hurt from switching to formality as they experience very high non-observed costs of being formal. Two policy experiments in which we tighten enforcement of the labor law via hiring more labor inspectors increases the likelihood of workers being formal, but it has, on average, a negative effect on wages for the workers who are induced to switch from informality to formality.

Fuente: https://www.banrep.gov.co/en/heterogeneous-returns-informality-evidence-brazil