



“Carlo Dell’Aringa” Young Labor Economists Award 2020

“Compliance with Labour Legislation in Informal Labour Markets”

Clemente Pignatti

The paper by Clemente Pignatti evaluates whether an increase in labor law enforcement in Colombia affected compliance with the labor law and the labor market equilibrium. Colombia has indeed undertaken extensive efforts in the last decades to reaffirm the role of the institutions. This is the first paper providing evidence on the effectiveness of one of such efforts aimed at reinforcing law compliance in the labor market.

For the approval of the US-Colombia Trade Promotion Agreement, the US requested the Colombian government to largely increase the number of labor inspectors between 2011 and 2014. In the different hiring rounds, the inspectors were allocated across departments using a scoring rule characterized by discontinuities, which generated variations in the number of inspectors operating in otherwise similar departments. Clemente exploited these exogenous discontinuities and administrative data on labor inspections to provide credible answers to interesting research and economic policy questions. More in detail, Clemente matched the administrative dataset on inspections to the repeated cross sections of the Colombian Integrated Household Survey. While the former contains detailed information over time on the number of inspectors, which is a measure of public enforcement, and the score computed by the central government to allocate the new inspectors, the latter is exploited to build the outcome variables. A first group of outcome variables measures the labor law compliance, such as having a written employment contract, being entitled to a series of mandated benefits and being covered by social security for pension and health. A second group measures changes in the labor market equilibrium: overall employment levels, the distribution of employment between the formal and the informal economy and wages in the formal and informal sectors.

Clemente finds that the increase in the number of labor inspectors had a significantly positive impact on the probability of having a written contract, severance payments, health social security and pension social security. Concerning the status in the labor market, results show an increase in formal employment, due to both the formalization of workers who were already in the formal sector but kept off-the-books and the expansion of the formal sector, a decrease of wages in the formal sector and an increase of wages in the informal one.

The AIEL executive board believes that this paper is highly deserving of the “Carlo Dell’Aringa” Young Labor Economists Award. It adopts a convincing identification strategy of the effectiveness of a policy intervention designed to reinforce law compliance in the labor market. Policy implications of Clemente’s contribution are especially relevant since the paper focuses on a country where a large part of the population works in the informal sector and does not enjoy the provision of mandated benefits nor has access to basic rights at work.