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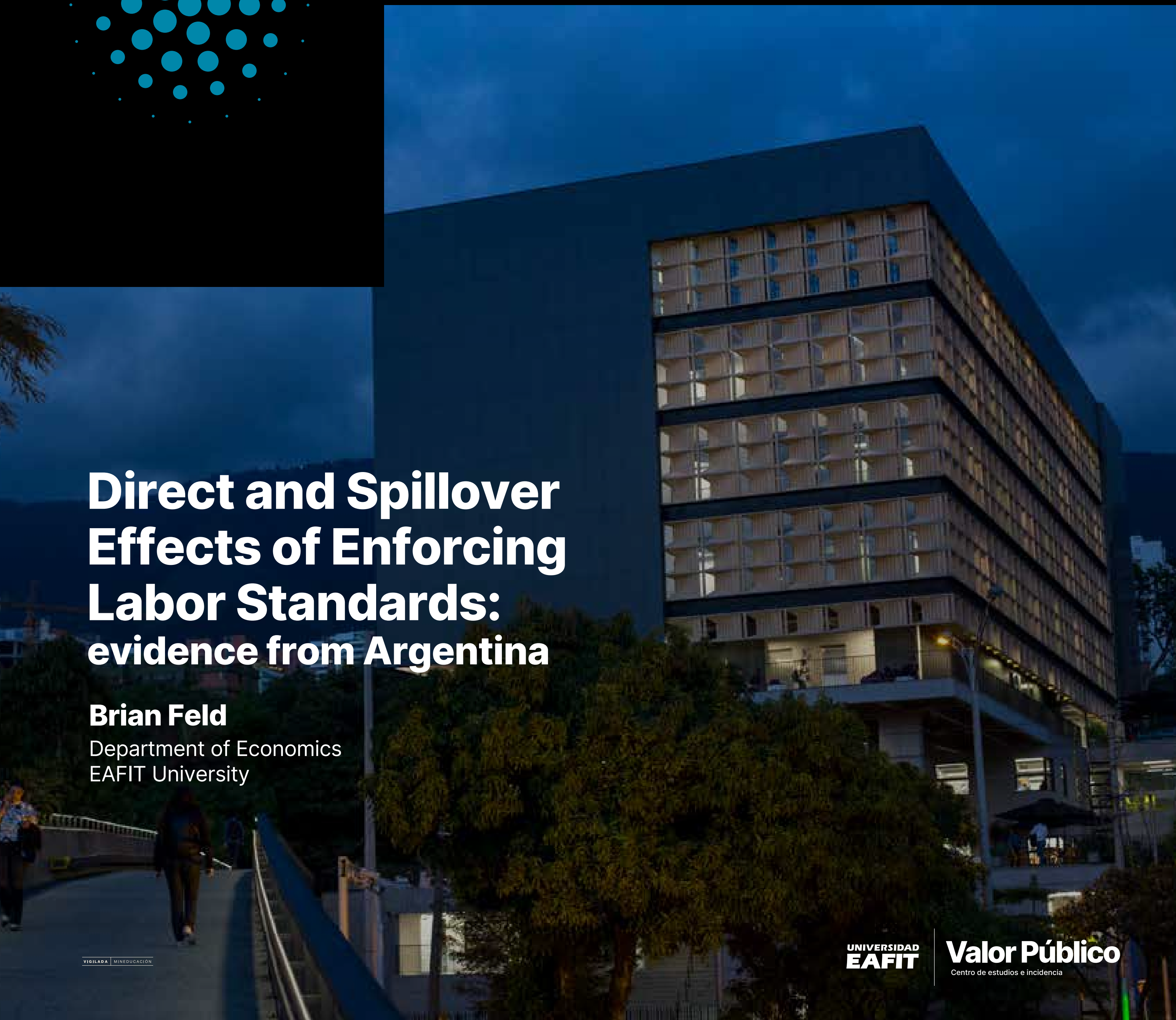

Direct and Spillover Effects of Enforcing Labor Standards:
evidence from Argentina

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Abstract

I study how increases in labor standards and enforcement affect workers and their families. Using a policy in Argentina that targeted domestic workers and their employers, I find a 31% increase in formality rates of domestic workers and an increase in monthly earnings of almost 4%, despite a reduction in hours of work. I also study whether the reform produced changes among other members of domestic workers' families. I find a substantial reduction in labor supply among children of domestic workers (especially women).

In developing countries, informal employment accounts for 60% of total employment (ILO, 2018). Labor informality poses a great challenge to governments because it hinders tax collection (Ulyssea, 2018) and identify the beneficiaries of welfare spending (Gerard and Gonzaga, 2021). Yet the enforcement of labor regulations has ambiguous effects on workers. On the one hand, formal jobs are associated with higher wages, job security, and social benefits (Camacho et al., 2013). On the other hand, researchers point out that the costs incurred by firms to comply with labor regulations and workers' preferences for informal jobs are the reasons why a large informal sector exists (Djankov et al., 2002; Maloney, 2004). The problem of whether labor regulations are desirable becomes even more complex when one considers how these regulations affect the decisions of other members of the targeted worker's household, in terms of their labor supply and sector of employment.

In this paper, I study how labor regulations and their enforcement affects workers and their families. I evaluate a policy introduced in Argentina that strengthened the labor standards of domestic workers (individuals whose employer is a household instead of a firm) and increased the cost of noncompliance for their employers. Until 2013, labor standards granted domestic workers fewer rights than other workers, and employers faced lesser sanctions if they did not comply with these regulations. The policy removed most of these differences, increasing workers' rights and employer's penalties in cases of noncompliance; it also increased the probability of detecting noncompliers. The government actively publicized the reform, raising awareness among employers about domestic workers' rights and the costs of noncompliance.

To study the effects of this policy change, I use individuallevel data between 2010 and 2015 from the Permanent Household Survey (EPH), a household survey representative of the largest urban areas of the country. Using this survey, I compare the labor market outcomes of domestic workers with those of similar workers (women employed in lowwage occupations in the service sector) before and after the reform, in a differenceindifferences (DID) framework.

I find that two years after the reform was implemented formality rates of domestic workers increased by 30 percent. Compared to other studies surveyed recently by Jessen and Kluve (2021), the percent increase in formality is large, mainly because only 15 percent of domestic workers were registered when the reform was introduced. On the other hand, I find a reduction of almost 5 percent in hours of work per week among domestic workers, but no significant changes in unemployment rates, suggesting that at least in the short run labor demand in the sector is inelastic along the extensive margin and all the impact of higher costs of hiring a worker was channeled through the intensive margin. Despite the reduction in work time, I find an increase of hourly wages of more than 8 percent, which implies that monthly earnings increased almost 4 percent after the reform.

When I analyze the heterogeneous effects of the reform, I find that effects are concentrated among domestic workers with the highest earnings. Assuming that the earnings of domestic workers are positively correlated with those of their employers, this result provides further evidence that the higher enforcement of labor standards was the driver to the increase in formality rates, and that employers who began to comply with the regulations partially offset the increase in cost by reducing labor demand along the intensive margin.

Restricting the study of the effects of the policy to targeted workers alone may fail to account for the full effects of the policy. Collective household models (Chiappori, 1992) predict that other household members might reduce their labor supply as a consequence of the increase in earnings and the reduction in domestic workers' hours of work. Additionally, because other family members can enjoy some of the benefits received by a registered worker, they may have fewer incentives to participate in the formal sector themselves (Galiani and Weinschelbaum, 2012).

I first look at the effects of the reform on labor market outcomes aggregated at the household level. While I do not observe any significant impacts on average, I find reductions in labor force participation but increases in earnings among lowerincome households. This could mean that these families benefited the most from the reform, and as a result of the increase in earnings among domestic workers, other household members with low labor market attachment decided to drop out of the market.

I then use the same differenceindifferences framework to separately compare the outcomes of male spouses and children of domestic workers with those of the spouses and children of women employed in lowwage occupations in the service sector, respectively. I find a significant reduction in labor force participation among children of domestic workers: after the reform, they are 7.2 percent less likely to be in the labor force, an effect mainly driven by a reduction of 11.2 percent among female children. In contrast, I do not observe changes in the labor market outcomes of spouses of domestic workers.

My findings on the spillover effects of the policy suggest that analyzing how labor regulations affect workers directly targeted by them alone can underestimate the total impact of these regulations. This would in turn lead to mistaken conclusions about their benefits and desirability. While the reform was welfareimproving for domestic workers and their families, a backoftheenvelope calculation also suggests that the overall costs of the new regulations for the government (given by the cost of enforcement and the increase in future pension claims) are not significantly higher than the benefits (in terms of tax revenue). Hence, when assessing the impact of changes in labor regulations, researchers should also consider the effects on individuals indirectly affected by them.

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