



Social protection to the informal sector in Argentina : the role of minimum wage and income transfer policies

By Fernando Groisman

In 2012, with the support of UK Department for international Development (DfID or UK Aid) and the International Development Research Centre (IDRC) of Canada, PEP launched a new program to support and build capacities for "Policy Analyses on Growth and Employment" (PAGE) in developing countries.

This brief summarizes the main features and outcomes of one of the projects selected for support under the 1st round of PAGE funding (2013-2014).

A team of local PEP researchers analyzes the effects of minimum wage and income transfer policies on the labour market in Argentina, with particular emphasis on the informal sector.

Minimum wage and income transfer policies in Argentina

In recent years, the implementation and use of minimum wage policies has intensified in Latin America. Argentina is a paradigmatic case, because the minimum wage level was modified repeatedly (24 times) and increased ten fold (in nominal terms) between 2002 and 2014, while the country's purchasing power has almost tripled. Meanwhile, an important cash transfer program, the Universal Child Allowance (AUH), was implemented in 2009 and currently benefits about 40% of Argentina's children.

Along with their growing role in public policy agenda, both initiatives have been surrounded by a persistent controversy. On the one hand, the debates regarding minimum wage relate mainly to the level at which it is set, and potential impact on informality in the labor market. Regarding the AUH, the main issues relate to the potential contractive effects of cash transfers on labor supply – as it is often considered that such transfers encourage beneficiaries to moderate or stop job-seeking activities, explained by a decrease in the income gap between the situations of inactivity / unemployment and informality.

A team of local researchers in Argentina thus sought PEP support to examine the effects that such regulations (minimum wage and income transfers) have had on the labor market in the country, with particular emphasis on the informal sector.

Methodology and data

To conduct this analysis, the team used microdata collected through the Permanent Household Surveys (by the National Institute of Statistics and Census, INDEC). In terms of methodology, a series of econometric analytical techniques were applied on the available datasets – including multinomial logistic regressions, as well as the difference in difference estimator.

As a first step, the researchers proceeded to estimate whether the changes in the minimum wage contracted the demand for employment and/or stimulated labor informality. Then they evaluated whether cash transfers from the AUH program generated incentives for informality and/or economic inactivity.

Key findings

The results obtained for the Argentine case suggest that modifications on the minimum wage did not produce negative effects on employment, nor did it have substantial impact on the probabilities of losing a formal job and enter informality.

As for the conditional cash transfers of the AUH program, the researchers found that it did not encourage economic inactivity. Conversely, the evidence suggests that it would have favored the inclusion in the economic activity of adult men from beneficiary households.

Policy implications

The whole of the evidence produced from the research team's analysis clearly supports the continuity of both initiatives.

The research initiative also draws attention to the share of informality in the Argentine labor market as a distinctive context for policy recommendations. The absence of social protection and the lack of protective mechanisms regulating informal labor relations lead to informal workers suffering from economic insecurity and job instability.

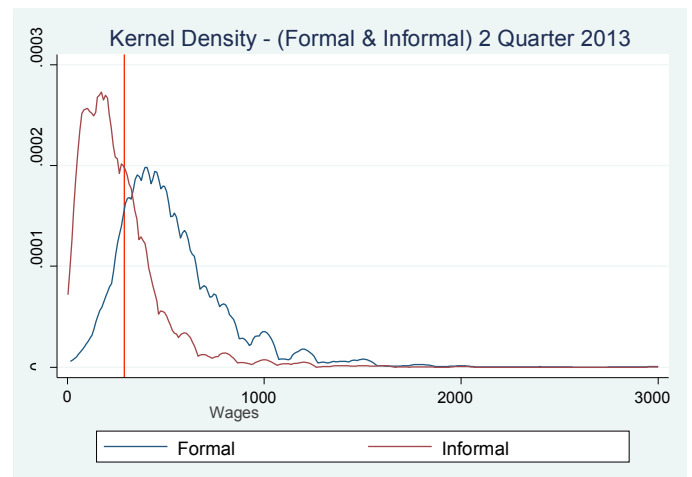


Figure: Kernel Estimation formal and informal wages
Red line is minimum wage level (2013).

Therefore, the implementation of specific policies to achieve higher levels of labor formalization, in order to mitigate the welfare losses resulting from the disadvantages associated with informality of jobs, emerges as a corollary.

This would ultimately result in more effective policies helping to achieve increasing levels of equity and social integration.



This policy brief is based on the PEP project [PMMA-12367](#), carried out with scientific support from PEP and financial support from UK Aid and Canada's IDRC.

To find out more about the research methods and findings, read the [PEP working paper 2015-05](#)