

PEP impact brief

Argentina

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

2013-2014

Project milestones

- May 2013 Participation in intensive PEP training workshop in CGE modeling, South Africa
- June 2013 Selection of project proposal for PEP support
- June 2013 Team is invited to hold consultation meeting with Ministry of Labour and other national policy stakeholders
- Sept. 2013 Creation of two national observatories on minimum wage and social protection
- May 2014 Presentation of research findings and final report at PEP general meeting in Bolivia
- June 2014 Presentation of research findings at ICDD annual conference in Germany
- Nov. 2014 Team organizes a "policy seminar" to share findings with national policy stakeholders, in Buenos Aires
- March 2015 Publication of findings as a PEP working paper and policy brief

Context

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.



Local research team

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PEP mentors and trainers

Jorge Davalos

Guy Lacroix

PEP publications

Working paper 2015-05

Policy brief 120

Producing reliable evidence base to inform ongoing national policy debates

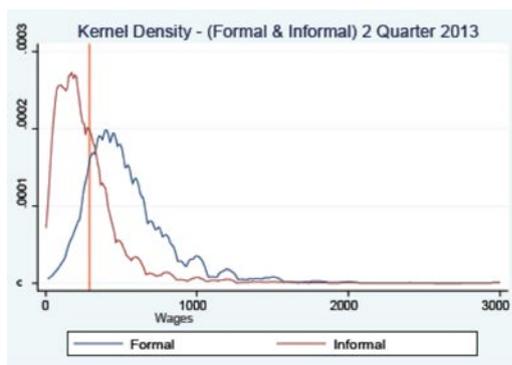
Along with their growing role in public policy agenda, minimum wage and income transfer policies have been surrounded by a persistent controversy in Argentina.



In 2013-2014, a team of local researchers in Argentina was provided financial and technical support, by PEP, to conduct a rigorous analysis of 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.

To achieve 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.



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

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.

...and conclusions

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.

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.

The evidence suggests that increasing the minimum wage level does not reduce employment, nor increase informality, and that conditional cash transfers do not reduce the economic participation of beneficiaries.



Strengthening and promoting local expertise for policy analysis in Argentina

Tools and techniques of micro econometric analysis

In order to produce such evidence, the team members first had to acquire new expertise in the application of cutting-edge methods of micro econometric analysis – from descriptive statistics to various regression techniques and models, as well as STATA and related software tools.

The team was invited to present and discuss their PEP research work and findings with other academics from various universities and research institutions, at home and abroad, as well as during in high-level conferences in Bogota (Colombia), Kassel (Germany) and Geneva (Switzerland).

These opportunities have allowed the team to compare perspectives on the role of minimum wage and income transfer policies in the academic agenda. Several cooperation initiatives have resulted from these discussions, between the research team and groups of scholars at the University of Kassel (Germany), the Free

In addition to funding, all PEP-supported research project teams benefit from intensive training activities (at the onset of the project), access to related resources (recommended readings, training materials, software tools, etc.), a unique international peer-review experience, as well as ongoing mentoring and technical support provided by PEP mentors (world leading experts in relevant research methods/areas) all throughout the project lifecycle.

University of Berlin, the University of Campinas (Brazil) as well as the Friedrich Ebert Foundation (FEF) Office in Buenos Aires.

Moreover, several members of the research team were offered tenures or new positions at the University of Buenos Aires, as well as taken on as regular (permanent) members of various research institutes - including the National Research Council (CONICET). The experience also allowed junior members to obtain scholarships and further research contracts.

“Mr. Barroetaveña, the Ministry of Labor’s Secretary of Employment, was very interested in our work and methods, and we were requested to apply this expertise for processing data coming from the social programme Jóvenes con Más y Mejor Trabajo (Youth with more and better jobs).”
- Fernando Groisman

As described in detail on page 4, the team was called on to participate in several consultation meetings with government agencies and other institutions, at the national level, to inform national policy debates/initiatives. These contacts and discussions have resulted in raising keen interest, amidst the institutions, in the methods and new expertise developed by the research team.

The Ministry of Labour, for example, asked the team to use the same methods to process and ana-

lyze data from a specific youth labor programme, especially in relation to labor performance, in order to measure the impact of a new “labour law” on youth.

The researchers were also invited, by ILO and the University of Kassel (Germany), to contribute to upcoming publications (books) with chapters on minimum wage issues, as well as to participate in special meetings and conferences to discuss more in depth their research findings and ensued implications for policy.

Engaging with key national policy makers, advisors and stakeholders



November 2014
Buenos Aires,
Argentina

In November 2014, the team organized a policy conference to officially present and discuss their PEP research results with relevant policy makers and stakeholders at the national level.

The discussions involved high-level officials from the Ministry of Labor (incl. Secretary of Employment), the Friedrich Ebert Stiftung (Director), as well as senior experts from the International Labor Organization (ILO - Office in Buenos Aires), from national union organizations (Confederación General del Trabajo, Unión Industrial Argentina), universities and other academic institutions.

All throughout the project lifecycle, the research team was called upon to attend periodic consultation meetings with top officials from the Ministry of Labour (including regular interactions with the Minister himself), as well as the International Labour Organization (ILO) Office in Buenos Aires and other relevant institutions. During these consultations, they were asked to provide inputs (based on the evidence produced in this project) to inform discussions and debates regarding the "formulation/revision of the national labour policy" - in order to enhance the quantity and quality of employment in Argentina.

As a result of these consultations, two national observatories were created: the "Minimum Wage Observatory" and the "Social Protection Observatory". Through these Observatories, the PEP researchers are now mandated to produce monthly reports providing information on the evolution, characteristics and scope of the minimum wage and social protection policies. These reports are sent to several institutions (including government agencies, such as the Ministry of Labour, Working Committees of the Senate, but also international agencies, such as ILO, chambers of commerce and trade unions) in order to provide inputs for decision-making.

Finally, the researchers have also been frequently called upon to discuss their project's issues and outcomes by national mass media agencies, resulting in over 15 reports/interviews in the press (or newspapers, including Pagina 12, Revista Veintitres and Tiempo Argentino), television programs (C5N and Metro), and radio newscasts (Radio Nacional and Radio UBA).

Excerpt from the PEP team's technical report, 2015

"Among the most successful actions in terms of the impact generated under the PEP project are the two observatories generated (The Minimum Wage Observatory and The Social Protection Observatory). Under these lines regular reports are produced for the purpose of providing information on the evolution, characteristics and scope of the minimum wage and social protection policies. These reports are sent to policy makers, delegates of international institutions and other stakeholders in order to provide inputs for decision-making. The success has been remarkable. We have held meetings with government officials at the highest levels to discuss the results of research under the PEP project.

It is important to mention among them the regular meetings we have had with the Minister of Labor's Office, Dr. Carlos Tomada. In this context, we have also achieved the auspices of the Ministry of Labor to organize an international call for papers about Minimum Wage. In addition, we have established a cooperation agreement for the development of a research programme on income transfer for youth. It consists of cooperation with Labor Ministry officials to exploit the database of the more than 700,000 young beneficiaries of the employment programs of the ministry."