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The impact of labor inspections and Labor Sanctions on registered employment. Empirical evidence for Argentina using administrative data.

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Labor inspection and fines when non-compliance is detected are two key components of the State's efforts to prevent violation of labor regulations. Neither of those components on its own, however, is necessarily an effective way to elevate levels of compliance with labor law. If fines are increased but businesses notice that the State has no ability to discover non-compliance, the effect of that increase on compliance is likely to be very small or nonexistent. The same holds true if more inspections are carried out but businesses notice that the sanction applied by the State is economically insignificant or not significant at all. In recent years, Argentina has redoubled its efforts regarding both components by introducing a series of changes in inspection policy and in sanctions for non-compliance. For that reason, the Argentine experience is particularly interesting as a case study.

In late 2003, the National Job Regularization Program (henceforth PNRT for the acronym in Spanish) was implemented. The Program, which is still in effect, consists of onsite visits to different businesses by national inspectors who verify whether the workers actually working coincide with the workers registered by the business in the relevant public agencies and, if they don't, impose fines. The PNRT is complemented by an awareness campaign that consists of sending material to employers and to workers that explain norms and procedures and, hopefully, create willingness on the part of each to assume their respective responsibilities.

Starting in late 2014, efforts along those lines were furthered by the creation of the Public Register of Employers with Labor Sanctions (REPSAL for the acronym in Spanish), a list of businesses published on a website that, pursuant to the PNRT inspections, have been sanctioned for employing non-registered workers. The list, which is updated on a daily basis, includes employers that on the day of the consultation are subject to sanctions for infractions of registration requirements; those who are now in compliance with the law remain on the list for a period that varies from sixty days to three years, depending on the severity of the infraction, after the moment the situation has been remedied and the fine paid. The REPSAL implies greater sanctions for non-complying businesses first because the businesses in it cannot receive any subsidy, contract, or credit from a national public agency, and second because the image of the business may be affected, leading to a drop in sales.

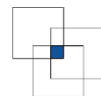
In that context, this document presents an empirical analysis of the impact of the PNRT and the REPSAL on the labor market and, more specifically, on registered work. It makes use of a novel databank that combines administrative information from a number of sources on: (i) the universe of businesses registered in the *Base para el Análisis de la Dinámica del Empleo* (Databank for the Analysis of Employment Dynamics) developed by the *Observatorio de Empleo y Dinámica Empresarial* (Observatory on Work and Business Dynamics) on the basis of the administrative records of the *Sistema Integrado Previsional Argentino* (Integrated Argentine Social Security System); (ii) the universe of companies inspected in the framework of the national labor inspection program (PNRT); and (iii) the universe of businesses sanctioned by the REPSAL and on its list. This study is unique due to the richness of that data; it is the first assessment of the impact of policies to enact labor regulations based on administrative data that encompasses all registered companies. The combination of administrative databases examined not only makes it possible to follow businesses over a long period of time, but also to do so at a considerable frequency, which in turn facilitates immediate, short- and long-term impact estimates. That is highly useful for public policy, since it provides information on the durability of the effects of inspection.

In methodological terms, we analyzed how registered employment evolved in inspected businesses (treatment group) versus how it evolved in a group of non-inspected businesses (control group) selected using the propensity score matching (PSM) method. This method makes it possible to select among non-inspected companies those that have characteristics similar to the characteristics found in the treatment group. One of the strengths of this study lies in the fact that it has access to a broad set of characteristics of the businesses that explains how they were selected by the inspection agency (that is, selection for the treatment group), among them sector, size, geographic location, and economic evolution of the business in previous years. That is fundamental to being able to construct a valid comparison group. This impact analysis is carried out for the period when only the PNRT was in effect (that is, from 2003 to 2014), and for the period when both the PNRT and the REPSAL were in effect (that is, from 2014 onwards). In both cases, the window of analysis is the period that goes from twenty-four months prior to inspection to twenty-four months after inspection. The method used, therefore, combines the PSM with the difference in the change experienced over time by inspected and non-inspected businesses. That has the added advantage of further mitigating the unconfoundedness assumption since it is possible to eliminate non-observable differences between inspected and non-inspected companies that are invariant over time.

The results indicate that both the PNRT and the REPSAL, but the REPSAL in particular, have a high level of immediate success. Ten days after inspection, one of every two non-registered workers inspected is registered, or twenty-two new registered workers for every one hundred registered workers detected. Another significant aspect is the intensification of that immediate impact with the introduction of the REPSAL. Whereas in the period from 2010 to 2014, 41.3% of non-registered workers were immediately enrolled pursuant to inspection, that figure jumped by over ten percentage points pursuant to the introduction of the REPSAL, reaching 52.4%. That result is congruent with expectations: the increase in sanctions associated with the incorporation of the REPSAL, as a complement to the PNRT, heightens immediate impact on registration of non-registered workers detected. Impact tends to diminish over time, though. One year after inspection, only two new workers are registered for every one hundred registered workers, and after two and three years the impact is statistically indistinguishable from zero. That holds true for both PNRT and PNRT+REPSAL.

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