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The regularization of non-registered waged employment: an analysis of post-inspection labor trajectories

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Non-registered employment exposes waged and salaried workers to a condition of serious vulnerability, as it does not allow the access to social security benefits, such as health and workplace risk coverage, family allowances, pension funds, severance packages, unemployment benefits and others. In Argentina, non-registered employment accounts for approximately 35 per cent of all waged workers.

According to ILO Recommendation No. 204, an efficient and effective labor inspection is one of the measures to promote the transition from the informal to the formal economy. Under the assumption that not only it is important to detect unregistered employment, but also to foster its enduring formalization, this study analyzes the regularization trajectories of labor relations detected as non-registered in inspections performed by the Ministry of Labour and Social Security (Ministerio de Trabajo y Seguridad Social, MTySS), Argentina. The rates of regularization that tend to guide the actions undertaken by labor inspection offices do not report on how the waged worker’s labor trajectory continues after the inspection-induced regularization. Indeed, an employer can regularize a labor relation for a short period in order to avoid or reduce the amount of the corresponding fine.

In order to solve this problem, information on a set of labor relations inspected in 2015 and 2016 was collected in a dataset obtained by merging administrative records from the Sistema de Inspección of the MTySS (Inspection System), the Sistema Integrado Previsional Argentino de la Administración Federal de Ingresos Públicos (Integrated Argentine Social Security System - Federal Administration of Public Revenues, SIPA-AFIP), and the Simplificación Registral (Registration Simplification - Federal Administration of Public Revenues, SR-AFIP). On the basis of the data collected, it is possible to track the status of each labor relation along a period of twelve months following the inspection.

To analyze post-inspection regularization trajectories, the sequence analysis technique was implemented. This technique allows the construction of the labor trajectory as a unit of analysis, in the form of an ordered sequence of
labor statuses over a defined lapse of time. In each of the months observed, a labor relation can take on different status, namely registered, non-registered, replaced (i.e. one worker for another), or displaced (i.e. the worker moves to another firm). The sequence of these statuses in the twelve months after the inspection builds a trajectory than can be studied transversally and longitudinally using specific techniques and measures.

On that basis, this study has the following three objectives: 1) describing the reaction to labor inspections, 2) analyzing the quality of the regularization process in terms of the duration of post-inspection registration, and 3) constructing a classification of labor trajectories on the basis of the different regularization patterns that can be identified.

The main methodological weakness of the study was the absence of a control group (non-inspected and registered labor relations) for a comparison, due to the lack of adequate micro-data in Argentina. The source of information used for the monitoring of labor relations, namely the SIPA, does not distinguish between non-registered status and the end of the employment relation. Therefore, in the absence of a control group the findings of the study must be interpreted with caution. In order to overcome the described difficulty, the indicators used to observe labor trajectories were compared to a sample of non-inspected (registered) labor relations.

The analysis of post-inspection trajectories evidences four different results. First, the comparison of non-registered and registered labor relations – both the inspected and the non-inspected – shows that the non-registered cases are more heterogeneous that the registered, as no single sequence encompasses more than half of all cases. Of all the non-registered labor relations inspected, 23 per cent reacted immediately to the inspection with workers remaining registered in the social security system for twelve months, the 19.6 percent showed no change in response to the inspection; and the rest displayed a range of different reactions in terms of the duration of post-inspection registration.

Second, the study revealed that the impact of the inspection is immediate but wanes over time. In the month of the inspection, 66 per cent of the labor relations detected as non-registered were subject to registration. In the following month, 28 per cent of the inspected labor relations that remained as non-registered were regularized; and from the second month onwards, the likelihood of the regularization was much lower. Women and young workers
were the most likely to be regularized, although in the case of adult workers the rate of relapse was lower, regardless of sex. Firms with tax domicile in Rosario Metropolitan Area were more likely to regularize labor relations after inspection and less likely to repeat the offense than their counterparts in Santa Fe Metropolitan Area. In addition, while the likelihood of regularizing workers after inspection was similar in firms working in commercial, industrial, and agricultural activities, relapse was higher in the latter two activities.

Third, post-inspection regularization lasted on average less than six months, although major differences exist depending on specific characteristics of the worker and the company. Regularization lasted longer among women, workers aged between 25 and 59, in small and medium enterprises (SMEs), at companies established as legal entities, in firms located in Region IV (i.e., Gran Rosario) and in companies operating in industrial and commercial sectors.

Lastly, the study finds that the formal labor trajectory pattern of non-registered workers was shorter than that of their registered counterparts (less than six months, namely less than half the number of months in the observation window).

Insofar as these findings shed light on the reaction to inspection and the duration of the resulting regularization, they can contribute to improve labor inspection planning. The results reveal the paradox, namely that focusing inspection on activities with higher levels of non-registered employment might have an immediate impact, but its lasting effects are meager, largely because those activities are characterized by seasonal work and/or a high turnover. In these cases, it is essential to review the contractual framework so as to better reflect the nature of the economic activity.

It is important to remember that the aims of an inspection policy are not limited to the regularization of non-registered labor relations, but also include preventing registered employment from being informalized and supporting cultural changes in favor of decent work. Inspections also have indirect effects, resulting in a greater sense of the risk of having non-registered labor relations. In addition, information about variations in the length of labor relations depending on the characteristics of workers and companies could contribute to design differentiated inspection strategies with respect to whether their objective is immediate (intensive strategy) or more durable (extensive strategy).
Furthermore, identifying different times of reaction to inspection can help to better schedule inspectors’ visits and can act as an indicator of the degree of unawareness of the current incentive system, which reduces fines according to the speed of reaction. Additionally, it can be useful to review the characteristics of companies and workers that take the longest to regularize non-registered labor relations in order to understand the underlying reasons of the delays and to raise awareness of the existing fine-reduction incentive system.

Full document (PDF)