

Trade Liberalization and Labor Informality in Argentina

There is consensus in the literature regarding how changes in the exposure of a country to international trade result in a variation in the distribution of resources. A recent paper by Mariana Viollaz (CEDLAS and CONICET)¹ focuses on a particular aspect of resource allocation: the movement of workers from formality to informality in Greater Buenos Aires industries during the period 1980-2001.

There are several reasons to study the causal relationship between changes in trade policy and the probability of being an informal worker. First, available data indicates that informal employment is a persistent phenomenon in the local labor market. Second, it would be a contribution to better understand how labor markets adjust to trade reforms in developing countries. Finally, only few studies have examined this relationship empirically, and the availability of data for the Argentine case is an opportunity to do so.

The identification of the causal effect of any policy reform is always difficult. The relationship that is studied in this paper requires a valid strategy to isolate the impact of trade policy from other factors, mainly political economy factors, as changes simultaneous to the trade liberalization (monetary reform, privatizations and deregulation of markets), and the industrial reaction to the economic cycle.

The characteristics of trade reforms in Argentina during the period under study provide the main elements of the identification strategy: the episodes of liberalization have not only reduced the tariffs in each industry, but have also altered the structure of protection across them. Thus, it is possible to use industry-level variability of trade policy to identify its impact on informality.

Results found by Viollaz (2010) indicate that, after controlling for characteristics of the individuals and the firms in which they are employed, as well as for other factors that might bias estimations (such as the evolution of informality in each industry), trade liberalization had a positive impact on the probability of informal employment in the manufacturing industries in Greater Buenos Aires, during the analyzed period. This effect supports the theory that, in a context of trade liberalization, firms will seek to reduce costs and one of the possible strategies to do so is to resort to methods that result in an increase in labor informality.

Even though it is not possible to normatively assess these results, there is evidence that suggests that informal workers in Greater Buenos Aires are usually unsatisfied with their jobs and would like to enter formality, but are constrained to do so. As a result, informality would not be reflecting a choice made by workers, making it possible to expect that trade liberalization has played a negative change for them during this period.

¹ "Empleo Informal y Apertura Comercial: Evidencia de 20 años de Reformas en Argentina", by Mariana Viollaz (2010). Working Paper No. 107. Working Paper Series CEDLAS.