

Conditional Cash Transfers and Labour Informality: The Case of Argentina¹

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The Universal Child Allowance for Social Protection (AUH) is Argentina's main conditional cash transfer (CCT) programme, launched in 2009 by the federal government with ample social and political support. This is a key, massive initiative to broaden the coverage of the welfare state to the entire population and alleviate the typical imbalance of Latin American social protection systems, which are biased toward formal employees.

The AUH is a large initiative, though ultimately simple in its design. It covers around 30 per cent of all children in Argentina, and more than 90 per cent of those in the bottom three deciles of the income distribution. The AUH provides a monthly benefit per child to households whose members are unemployed or working in the informal sector (i.e. unregistered in the national social security system). Since informality is highly correlated with poverty (Gasparini and Tornarolli 2009), the government deemed a more sophisticated targeting mechanism unnecessary. Indeed, the programme is reasonably well targeted: around 80 per cent of the participants belong to the bottom two quintiles of the income distribution (SEDLAC 2015).

The benefit is relatively generous: for a typical beneficiary household with three children, the cash transfer implies an increase of about 50 per cent in total household income. These values place the AUH benefit among the largest in Latin America.

Like other CCT programmes in Latin America, the AUH has had an undeniable positive social impact, which is evident in several dimensions. The programme has helped reduce poverty and inequality, as well as foster schooling, especially at the secondary level. For instance, Cruces and Gasparini (2012) estimate that the AUH is linked to a 30 per cent fall in income poverty (as measured by the Foster-Greer-Thorbecke (FGT) 2 and the USD4 poverty line) and a 13 per cent reduction in income inequality (as measured by the income ratio between deciles 10 and 1). These figures make the AUH one of the most effective Latin American CCTs in terms of its impact on poverty and inequality indicators (Stampini and Tornarolli 2013).

The aforementioned simple design of the AUH may come at a cost. Since the programme is accessible only to those who are not in formal employment, it may

discourage workers from transitioning from self-employment to the formal sector, and it may reduce the bargaining power of informal salaried workers in their negotiations with employers for labour benefits.³ While these theoretical arguments suggest a potential disincentive to formalisation, only empirical evidence can shed light on whether the effect exists and is statistically and economically significant.

The evidence

Unfortunately, the evidence of possible undesired effects of the AUH is very scarce, in part due to a lack of information: microdata from the programme are not publicly available, and the variables related to the AUH in the national household survey are not disclosed. In a recent paper we analyse this issue using the available data (Garganta and Gasparini 2015). Our identification strategy consists of comparing eligible workers (with children) with similar but ineligible workers (without children) over time. This strategy of difference in differences is effective in alleviating several endogeneity problems that arise when comparing heterogeneous observations.

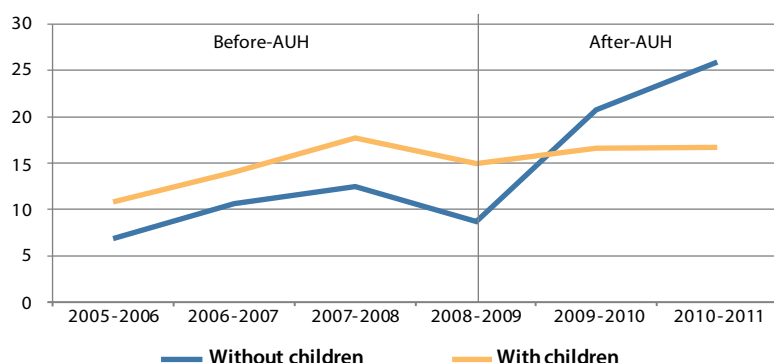
The evidence suggests that while the formalisation (entry rate into registered jobs) of both groups (eligible and ineligible) had followed an almost identical path before the end of 2009, the patterns diverged significantly from that date onwards, which coincides with the implementation of the AUH. While the rate of entry into the registered sector has increased among informal workers without children since 2010—coinciding with an expansion of the Argentinian economy—it remained approximately constant for informal workers with children—i.e. the potential participants in the AUH programme.

Given these results—which we confirm through a conditional econometric analysis—the theoretical reasons to link the programme with labour formality outcomes, and the absence of sensible alternative explanations for divergent



Photo: Nahuel Berger/World bank, Young students in Argentina, 2007 <<https://goo.gl/HYGNPT>> <<https://goo.gl/cefU8>>

FIGURE 1 Proportion of Informal Workers who Transition into Formality



Source: Garganta and Gasparini (2014).

Note: The sample is restricted to informal workers in the first semester of the initial year of each panel, aged 18–70 years old, in non-formal households (i.e. without formal workers), without tertiary education, and belonging to the three poorest deciles of the household per capita income distribution.

behaviour after the implementation of the programme between potential participants and similar workers who were not eligible because they did not have children, we suggest the existence of a significant disincentive to formal labour as a result of the AUH. The impact seems relatively large: we find that the probability of transition into the formal labour market by potential AUH beneficiaries is reduced by between 28 per cent and 43 per cent, compared with what would have happened in the absence of the programme.⁴ The large size of the cash benefit may account for such a sizeable effect.

Heterogeneities

Some interesting results emerge when dividing the sample into different groups. For instance, we find stronger disincentives to formalisation for workers with younger children. This is in accordance with expectations, since the impact of the programme should be larger for those parents with younger children, who could benefit from the programme for a longer period of time.

We also find that the disincentive to participate in the formal sector is relevant for those secondary workers whose household head remains informal, but disappears for those whose household's primary worker becomes formal in the period.⁵ If the primary worker gets a formal job, their family may lose its AUH benefits, and then the employment decision of the

secondary members becomes irrelevant in terms of access to the programme. In contrast, if the primary worker continues to be unregistered, the disincentives towards formalisation remain relevant for secondary workers in the household.

Interestingly, we fail to find sufficient evidence for the existence of a significant incentive for registered workers to become informal. This result suggests an asymmetry in the reaction of formal and informal workers, which could be explained by adjustment and transaction costs under uncertainty.

Concluding remarks

In their introduction for the *Handbook of Income Distribution*, Atkinson and Bourguignon state that "(F)or understandable reasons, much of the analysis of public policy by economists has focused on negative behavioural responses. Understandable, since the toolkit of economists is designed to illuminate these responses and the second-round effects are often missed in the public debate." But then they add: "At the same time, the analysis seems often to lose sight of the purpose for which transfers are paid." They conclude that "... it is not only the aggregate but also the design of spending that matters." (Atkinson and Bourguignon 2015)

The AUH has had an undeniable positive impact on some social outcomes, and it

is important not to lose sight of this very relevant result. But the evidence suggests that it may have some unintended effects on the labour market, some of which may be due to its simple design. The best way to highlight the achievements of the programme is to rigorously analyse these effects and—if they exist and are relevant—work on finding ways to improve the programme. An initial step toward that goal would be to provide more information about the programme to the community to facilitate and encourage more and better impact evaluations. ■

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3. See Galiani and Weinschelbaum (2012) for an example of formal models on these issues.

4. This range of results is determined by different exercises carried out to assess the robustness of the estimated impact: (i) restricting the sample in several dimensions; (ii) applying propensity score matching techniques; and (iii) exploiting the discontinuity of eligibility by looking at those workers with children in a band around 18 years of age.

5. We identify the (self-declared) household head as the primary worker and the spouse of the household head as the secondary worker.