

Research Initiative Proposal:
Employment Valuation Surveys

Mayara Felix (Yale) and Ieda Matavelli (UNSW)

Context and Motivation. Labor markets in developing countries are characterized by high levels of self-employment and informality. On the one hand, these arrangements can be welfare-improving. For example, self-employment can serve as an income-generating outside option that limits the extent of firms' market power over workers.¹ Similarly, informality can allow workers and firms to enter mutually beneficial employment relationships in times of economic distress, when firms might not be able to comply with often rigid labor laws,² or workers might prefer to be directly paid the part of their earnings that would otherwise be withheld from their paychecks and transferred to the government as taxes. On the other hand, these arrangements can be welfare-reducing. For example, state leniency towards informality is a form of subsidy of low-productivity firms, allowing these to steal business from higher-productivity firms that could have otherwise expanded, employing workers in higher-paying jobs while producing output more efficiently. Similarly, self-employment might trap workers in low-productivity activities of limited learning potential, making it hard for workers to eventually switch to employment within firms. On net, whether governments should or not address self-employment and informality, and how exactly might they do it, depends not only on the root causes and productivity effects of these arrangements, but also on how workers and firms value their existence.

Proposal and Impact. This research initiative proposes to address the latter issue of valuation by generating novel survey data on worker preferences in the context of Brazil, where 39% of the labor force is employed in the informal sector.³ Specifically, we propose to elicit workers' preferences over various characteristics of work arrangements, including aspects of self-employment and of informality within firms, using incentive-compatible preference-elicitation surveying techniques. We propose to survey a geographically representative sample of young people (ages 18-29) residing in Brazil's major metropolitan areas, to be recruited via Instagram, a widely used social network in this context and amongst this demographic. We focus on youth because it helps achieve geographic representativeness given the incubation funds' budget, because youth's preferences are key for future policy, and because higher computer/smartphone literacy in this demographic might ensure more accurate answers. The EGC incubation fund will be used primarily to cover survey recruitment costs charged by Instagram and survey completion incentives provided to participants, and secondarily to support costs associated with survey design and piloting (e.g., incentives for small focus groups to make sure the target population understands the questions, RA support to assist with translations and IRB processes at Yale and Brazil, etc.). In addition to providing direct evidence on young workers' valuation of the characteristics of various work arrangements—speaking directly to policies that aim to address self-employment and informality—this data will also be useful to inform and test between theories of wage-setting in labor markets in developing countries, for which structural parameters governing worker preferences are key, yet are typically estimated using data for formal sector workers only (e.g., Felix (2021)), or using census data that covers all workers but that is limited in its lacking of firm boundaries and of frequency, requiring additional model assumptions (e.g., Amodio, Medina, and Morlacco (2022)). While the incubation fund will help kick-start this new data collection effort, we hope to continue and expand the scope of Employment Valuation Surveys in the future, envisioning it as a publicly available research product that the EGC will become known for.

¹ E.g., see Amodio, Medina, and Morlacco (2022) for evidence from Peru and Felix (2021) for evidence from Brazil.

² E.g., see Ponczek and Ulyseia (2022) for evidence from Brazil's trade liberalization.

³ Pnad Contínua, IBGE (2023).

References

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