The Labor Supply Side of Informality

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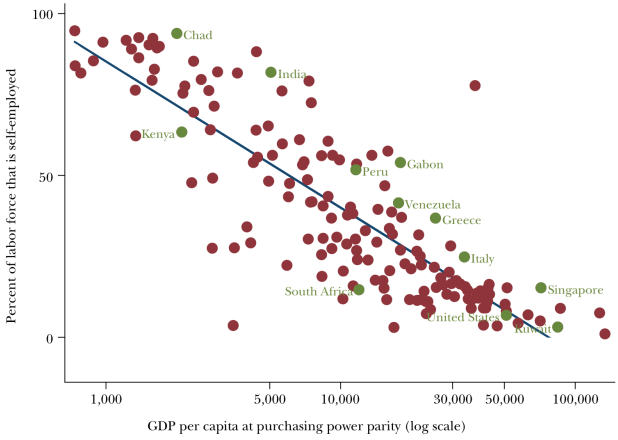
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Conferencia sobre empleo y formalidad, El Colegio de México

Overview

- We know a lot about the **labor demand side**: why firms are informal
- We know much less about the **labor supply side**: what workers want from a job — yet preferences are key to **informality** and to **labor market power**
- Why so much self-employment? Three explanations: **high frictions** · **low skills** · **preferences**
  (Breza & Kaur 2025, Annual Review of Economics)
- Why preferences matter more than ever: **technology** and **Gen Z**
- What **choice experiments** can tell us: Rio de Janeiro
- Preferences and market power · a take-away on firms · open questions

Informality is large, and fades with development only slowly



Self-employment share vs. GDP per capita, 2013

La Porta & Shleifer (2014), Journal of Economic Perspectives 28(3): 109–126, Figure 4.

What we know: the labor demand side — three kinds of informal firm

Brazil's informal firms, by type



Survival (Lewis, Rauch)
Too unproductive ever to be formal

Enforcement ⇒ exit, not formalization

Parasite (Levy, McKinsey)
Could be formal; stay informal to evade

Enforcement ⇒ formalization

De Soto
Entrepreneurs held back by regulation

Cutting entry costs ⇒ formalization

Not competing theories — different firms, responding to different policies.

Ulyssea (2018), American Economic Review 108(8): 2015–2047; La Porta & Shleifer (2014), JEP 28(3); Ulyssea (2020), Annual Review of Economics 12: 525–546.

But what about the labor supply side? Why so much self-employment?

Working-age adults in poor countries hold a wage job only 20–50% of the time. Three families of explanation:

1. High frictions

Workers want wage jobs but cannot get them: rationing, search and information frictions, employer power

2. Low skills

Low productivity limits the expansion of wage jobs; human capital is the binding constraint

3. Preferences

Formal jobs do not look like what people want — at least not the ones on offer

Breza & Kaur (2025), Annual Review of Economics 17: 747–776.

1. Frictions: wages that do not adjust, jobs that are rationed

Rigid, compressed wages

Rural India: wages rise after good rain shocks but do **not fall** after bad ones; when rigidity binds, employment -9%

Prevailing or modal wages: one benchmark wage per task, regardless of the worker; undercutting it is socially sanctioned

Rationing

Odisha, India: hire away 24% of the male casual labor force in the lean season — wages **0**, employment **0**, $\geq$**24%** of self-employment gone

The standard survey question ("wanted work, could not find any") shows **no effect**

Part of self-employment is disguised unemployment.

Kaur (2019), American Economic Review 109(10): 3585–3616; Breza, Kaur & Shamdasani (2018), QJE 133(2); Breza, Kaur & Krishnaswamy (2022), NBER WP 25880; Breza & Kaur (2025), Annual Review of Economics 17; Breza, Kaur & Shamdasani (2021), American Economic Review 111(10): 3184–3224.

1. Frictions: matches that do not last — firms cannot find or keep workers

High turnover everywhere

Exit, job-finding and job-to-job rates **2×** rich-country levels, 49 countries

Bottom earnings decile exits employment at **28%** per quarter in Peru vs. 8% in the UK

Factories: **23%** gone within 3 months (Bangladesh); **77%** within a year (Ethiopia); 60% (Côte d'Ivoire)

Brazil

80% of employers report difficulty filling vacancies (global average 72%)

Legalizing guard outsourcing (1993–94): scale substitutes for experience at hiring — hires from unemployment/informality **+7%**, ages 18–24 **+42%**, wages unchanged

Frictions on both sides of the market — and not only in wages.

Donovan, Lu & Schoellman (2023), Quarterly Journal of Economics 138(4): 2287–2325; Breza & Kaur (2025), Annual Review of Economics 17; ManpowerGroup, Pesquisa de Escassez de Talentos 2026; Felix & Wong (2026), working paper.

2. Low skills: Brazil's informality fell as its workforce got more skilled

- Informality among salaried workers, six metro areas: **28% → 17%** (2003–12)
- Skilled share of the workforce **+12 pp** — without it, informality would have **risen** 3.4 pp
- The 61% real minimum-wage rise pushed the other way: **+2.3 pp** informality
- Enforcement added only **≈1.3 pp**

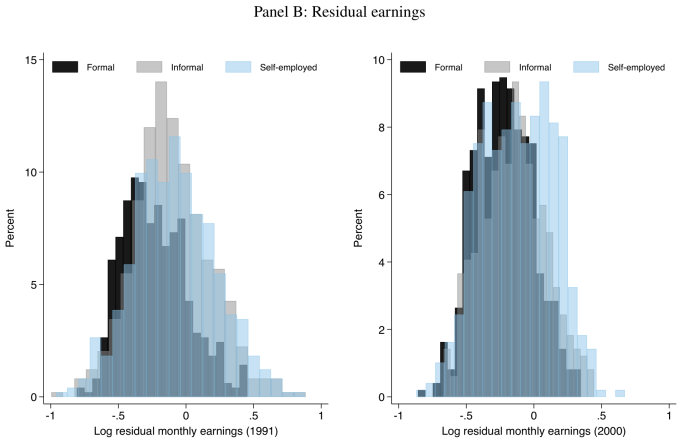
Haanwinckel & Soares (2021), Review of Economic Studies 88(6): 2970–3010.

3. Preferences: formal jobs do not look like what people want

- Côte d'Ivoire: factory jobs at **2×** baseline pay — **25%** take-up, 60% gone within a year
- Ethiopia: one-third of new factory hires leave within a month
- India: only **31.5%** of casual construction workers would accept a full-time local job
- Why? Volatility, kin "social tax", social ties, status — *and* the jobs themselves

Donald & Grosset (2024); Blattman & Dercon (2018), AEJ: Applied Economics 10(3); Cefala, Kaur, Schofield & Shamdasani (2024); Carranza, Donald, Grosset & Kaur (2022); Breza & Kaur (2025), Annual Review of Economics 17.

3. ... and pay differences across sectors are small after controls



Residual earnings by sector, 486 microregions, 1991 and 2000

Felix (2026), NBER WP 35018, Figure C.3(b); Ulyssea (2018), American Economic Review 108(8); Haanwinckel & Soares (2021), Review of Economic Studies 88(6).

Latin America today: platform work

Sell your **hours**: rides, deliveries, errands

Uber | DiDi | 99 | Rappi | iFood | inDrive

Sell to a **market**: goods, content, courses, an audience

Mercado Libre | Shopee | YouTube | Instagram | TikTok | Hotmart

Direct income for hours supplied, and platforms that connect small entrepreneurs to markets.

Illustrative selection; names shown as text, not official logos.

What the press in Mexico and Brazil is reporting

CNN en Español · 26 Jun 2026

“Para la generación Z el salario no lo es todo, así redefinen los jóvenes el trabajo en México”

El Siglo de Torreón · 13 May 2026

“Generación Z cuestiona el empleo tradicional”

ABC Noticias (Monterrey) · 6 May 2026

“Generación influencer: jóvenes priorizan redes sociales frente a carreras universitarias”

Metrópoles · 16 Jun 2025

“Xô, CLT: por que muitos jovens abominam trabalho com carteira assinada”

Correio Braziliense · 6 Jul 2025

“Geração Z não quer mais saber de CLT; entenda o movimento”

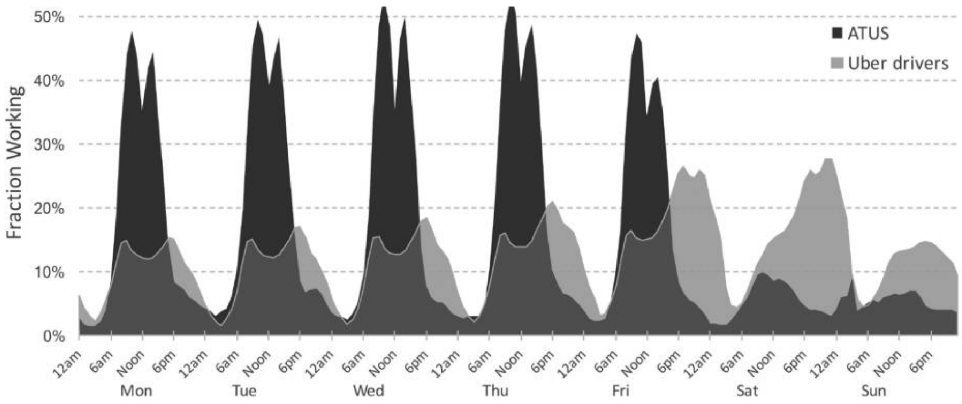
g1 (Globo) · 24 May 2025

“ ‘Se tudo der errado, viro CLT’: o que está por trás da aversão dos jovens ao trabalho com carteira assinada”

Success is rare — fewer than 4% of content creators live from it — but the aspiration is widely reported.

Headlines reproduced verbatim from the outlets and dates shown; links in the notes.

Technology: when a million Uber drivers work



Share working by hour of the week: ATUS men (dark) vs. Uber drivers (light)

Chen, Chevalier, Rossi & Oehlsen (2019), Journal of Political Economy 127(6): 2735–2794, Figure 2.

Platforms: regulation is being written now

Mexico, 2025

Full IMSS in any month with net income ≥ 1 minimum wage

1.59 million registered · **247,900** above threshold

Couriers' survey: 74% report lower income

Brazil, 2026

App entry: more self-employed drivers, late adopters lose

STF Tema 1291: $\approx$**10,000** cases suspended, vote postponed 4×

PLP 12/2024 stalled

Two designs; little evidence on how the affected workers value the components.

Reforma a la Ley Federal del Trabajo (2025); Ámbito (11 Aug. 2026); Xataka (16 Jan. 2026); Bloomberg Línea (18 Dec. 2025); Gesteira de Souza, Pero, Razafindrakoto & Roubaud (2025), EconomiA 26(2); STF, Tema 1291; Câmara dos Deputados, PLP 12/2024.

So: what do workers value — and are traditional firms keeping up?

- **Informal wage work $\neq$ self-employment.** Different outside options, different bundles, different people
- **What do workers value in a job — in general?** Pay, protection, learning, schedule, autonomy: which parts, at what price?
- **Are traditional firms keeping up?** Platforms shifted the outside option; have firms' job offers changed?

Next: a way to measure this, and what it showed in one place.

Felix (2026), NBER WP 35018; Amodio, Medina & Morlacco (2025), American Economic Review 115(9); Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161.

Choice experiments: Complexo da Maré, Rio de Janeiro

- Brazil's largest favela complex: **130,000** people
- Income per capita **R$395** vs. R$1,376 outside favelas
- **700** residents aged 18–30, working or searching
- Door to door, building by building, Sept.–Nov. 2025

Who they are

76% women · age 24 · 56% have children

30% formal · **17%** informal · **14%** self-employed · **39%** unemployed

Monthly earnings R$1,573 $\approx$ reservation wage R$1,606

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161; 2010 Census.

What kind of job are they looking for?

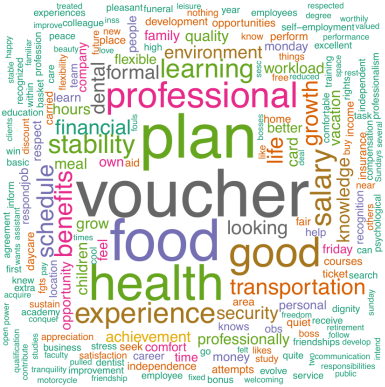
Job seekers, by current employment: type of job sought (row %)

	Formal	Informal	Internship	Public sector	Self-employment	Youth apprentice
Formal	**77.1**	0.0	4.2	4.2	6.2	8.3
Informal	**84.2**	0.0	0.0	0.0	10.5	5.3
Self-employed	**55.6**	0.0	5.6	5.6	**27.8**	5.6
Unemployed	**63.2**	0.9	5.9	3.7	9.9	**16.4**

Most job seekers look for formal jobs; more than a quarter of the self-employed look for another self-employment opportunity.

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161, online appendix Table A.4.

“Besides salary, what else do you look for in a job?”



(a) Value in job

Open-ended answers, 700 respondents

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161, online appendix Figure B.1(a).

“What would your dream job offer you?”

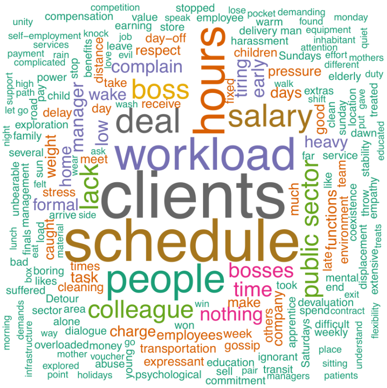


(b) Dream job

Open-ended answers, 700 respondents

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161, online appendix Figure B.1(b).

“What do you like least in your current or last job?”



(c) Dislike in job

Open-ended answers, 631 respondents with work experience

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161, online appendix Figure B.1(c).

What they dislike: bosses, customers, schedules — not pay

- Management and organization **16%**
- Difficult customers, clients, patients **16%**
- Inflexible schedules **13%** · long hours **12%** · exhaustion 8%
- Compensation: **6%**

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161, Figure 1(c).

Putting a price on each part of the formal bundle

The jobs below are identical, except for salary and termination notice.

Carefully analyze the information below and indicate whether you would prefer Job A or Job B.

	Job A	Job B
Total monthly salary	**R$ 2200.00**	**R$ 2174.30**
Unemployment insurance	No	No
Commute time	I don't commute (work from home)	I don't commute (work from home)
Termination notice	**No**	**Yes**
Maternity leave (4 months) / Paternity leave (5 consecutive days)	No	No
Learning opportunity	No	No

Remembering that termination notice is when the employer communicates in advance to the employee about the intention to terminate the employment relationship.

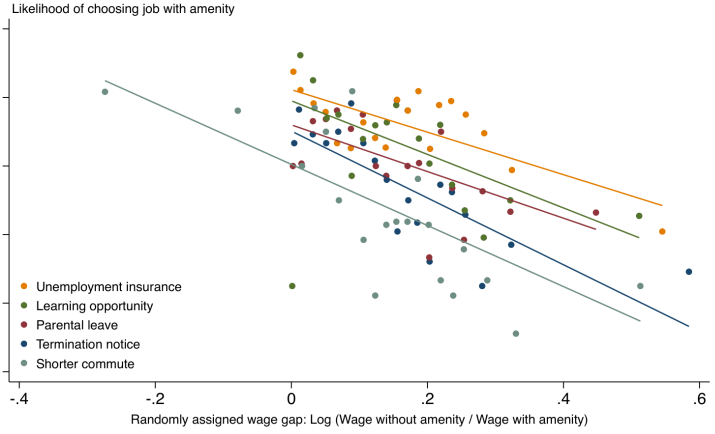
◯ I prefer Job A

◯ I prefer Job B

The choice screen: two identical jobs; one amenity and the salary differ (gap randomized, -30% to $+30\%$)

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161, online appendix Figure B.3.

High willingness to pay for formal-sector amenities



Share choosing the job with the amenity vs. randomized wage gap (attention sample)

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161, online appendix Figure B.2 and Table 1.

Heterogeneity by sector: consistent with sorting

Willingness to pay, % of wage, by current employment (bootstrapped s.e. in parentheses)

	Formal	Informal	Self-employed	Unemployed
Unemployment insurance	**37.5** (4.0)	33.8 (6.4)	**9.7** (6.9)	39.3 (4.2)
Termination notice	**26.0** (3.5)	10.8 (7.1)	**1.4** (8.6)	18.9 (3.9)
Parental leave	21.0 (3.2)	30.2 (5.6)	18.5 (5.3)	26.7 (3.8)
Learning opportunities	21.2 (3.1)	21.5 (5.7)	28.6 (5.7)	**39.3** (4.1)
Shorter commute	12.5 (3.2)	21.8 (7.4)	15.8 (6.3)	2.8 (4.9)

The self-employed put little or no value on the formal bundle (UI, notice: n.s.)

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161, Table 1.

Preferences may not be fixed: learning and endowment effects

- Self-employed who **once held a formal job** value parental leave at 28%; those who never did, 12%
- Willingness to **accept** $>$ willingness to **pay**, every amenity: UI 45 vs. 25 · notice 31 vs. $\approx$0
- Women value parental leave at **31%**, men 7.5%; little other demographic heterogeneity
- Rationing *and* sorting coexist; "the self-employed" are not one group

Felix, Marcoje, Matavelli & Rodrigues (2026), AEA Papers and Proceedings 116: 156–161, online appendix Tables A.6–A.8.

Preferences are also the key to labor market power

- Employers have wage-setting power: workers at the median firm keep ≈**43 cents** per dollar of marginal product (82 countries); ≈**50 cents** in Brazil before liberalization
- Where self-employment is common, employer power is **lower** (Peru: small, insignificant markdown where self-employment is common)
- What disciplines employers is workers' willingness to move — to another firm, or into **self-employment**
- That willingness is a **preference parameter**: how workers trade wages against autonomy, schedule, benefits
- Policies that remove the self-employment outside option can **raise** employer power

Felix (2026), NBER WP 35018; Amodio, Medina & Morlacco (2025), American Economic Review 115(9): 3014–3057; Amodio, Brancati, Brummund, de Roux & Di Maio (2026), working paper.

What we get wrong when we ignore preferences — and why now

- **Bundling**: the parts of formality are valued differently, and are already being unbundled
  Felix, Marcoje, Matavelli & Rodrigues (2026); Ulyssea (2018); Haanwinckel & Soares (2021)
- **Enforcement** is less effective if we ignore what workers want
- **Market power**: the outside option matters
  Amodio, Medina & Morlacco (2025); Felix (2026)

Why now

Technology is vastly changing work; contracts can be written over hours and components; rules are being written now (Mexico 2025; Brazil STF).

A take-away on firms: productivity, not registration costs

- Value added per worker in informal firms $\approx$**15%** of formal firms (median country); 7% vs. 76% college-educated managers; **91%** of registered firms started registered
- Cutting registration costs: $\approx$**0** formalization (Mexico, Brazil, Sri Lanka…); cutting ongoing taxes: **+11%**, not cost-effective
- Enforcement raises registration (+21–27 pp per inspection) — but **half** of Brazil's informal firms are survival firms that would exit, not formalize
- Formality grows where firms and jobs become **more productive** — and reach scale

La Porta & Shleifer (2014), Journal of Economic Perspectives 28(3): 109–126; Ulyssea (2018), American Economic Review 108(8); Ulyssea (2020), Annual Review of Economics 12: 525–546; VoxDevLit 6 (2025), Informality, Ulyssea (ed.).

... and occupation-specific scale draws young workers into formal jobs

Panel A: All occupations

	(1) Outside RAIS	(2) Ever formal	(3) Age	(4) Education	(5) Log wage
Log number of employees in occupation o at firm z in region m at end of year t	0.0071***	-0.0134***	-0.8914***	-0.1265***	-0.0317***
	(0.0002)	(0.0001)	(0.0041)	(0.0015)	(0.0003)
Log number of employees at firm z in region m at end of year t	-0.0152***	0.0064***	0.3151***	0.0330***	0.0391***
	(0.0004)	(0.0002)	(0.0055)	(0.0024)	(0.0006)
Occ×MMC×Year FE	Yes	Yes	Yes	Yes	Yes
Firm FE	Yes	Yes	Yes	Yes	Yes
Observations	22161387	22161387	22039063	21970115	22101204
Adj. R^2	0.138	0.221	0.288	0.585	0.691
Mean of outcome	0.7394	0.6266	29.6964	7.5503	6.9571

New hires into occupation *o* at firm *z*, region *m*: occupation-specific scale (row 1) vs. firm scale (row 2), Brazil 1986–2000

Felix & Wong (2026), working paper, Table 8, Panel A.

Some open questions for Latin America

- **Rationing or preference?** Experiments that estimate stated *and* actual choices together
- **Which parts of the formal bundle** are worth their cost — can they be priced separately?
- **Are preferences stable?** Learning on the job, endowment effects, a generation raised on platforms
- **Do firms adapt?** Do unfilled vacancies and turnover reflect bundles workers do not value?
- **Informal wage work vs. self-employment**: which outside option disciplines employer power, for whom?

The labor demand side explains why firms are informal. The labor supply side can tell us what workers want from a job.

Breza & Kaur (2025), Annual Review of Economics 17; Felix (2026), NBER WP 35018; Amodio, Medina & Morlacco (2025), AER 115(9); Felix, Marcoje, Matavelli & Rodrigues (2026), AEA P&P 116; ManpowerGroup (2026).