

Employment Preferences of *Favela* Residents

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Motivation

Labor markets in developing countries have **large informal sectors** and substantial **wage-setting power among formal firms**. Why?

- ▶ We know quite a bit about the *demand side* of informality.
- ▶ What about the *supply side*?
 - ▶ What *kinds of jobs* are available for those at margin of informality?
 - ▶ Might self-employment or informality be preferable in this equilibrium?

This paper: A step to understanding the **supply side of informality**.

- ▶ Key insight: Worker preferences link the two phenomena.
- ▶ Goal: Map worker preferences for work in a high-informality context.

Preview of findings

1. Stated priorities: benefits, learning, pay, flexibility.

- ▶ Dream job: ~ Good pay, specific profession, benefits.
- ▶ Complaints: ~ People (boss, clients), schedule.

2. High WTP for some, none for others.

- ▶ WTP ~20–25% for UI/leave/learning; ~0 for notice/commute.
- ▶ Reference-dependence: WTA for UI ~ 40%.

3. Heterogenous preferences by demographics.

- ▶ Women value parental leave highly; men not at all.
- ▶ Might give formal firms wage-setting edge over women.

4. Sorting on preferences. $WTA > WTP$ source of mkt power.

- ▶ Formal value formal benefits most; Self-employed not at all (ex leave); Informal value short commute, UI; Unemployed: UI, learning.

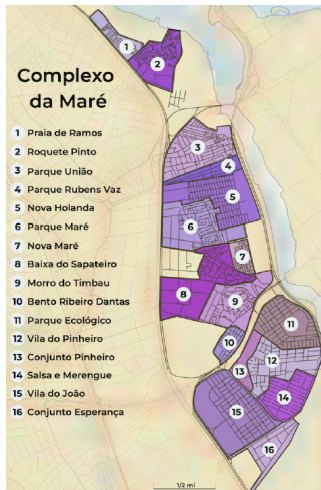
Context: *Complexo da Maré*

About Complexo da Maré:

- ▶ Largest slum conglomerate in Rio de Janeiro
- ▶ Located in the North Zone of Rio
- ▶ Population: 124,832 people 2022 Census
- ▶ Informality: 75.6% of establishments 2015 Business Census of Maré

Photos

Figure: Map of Maré's neighborhoods



Surveyors at *Complexo da Maré*



Door-to-door interviews at *Complexo da Maré*



Method: Open-text questions and survey experiments

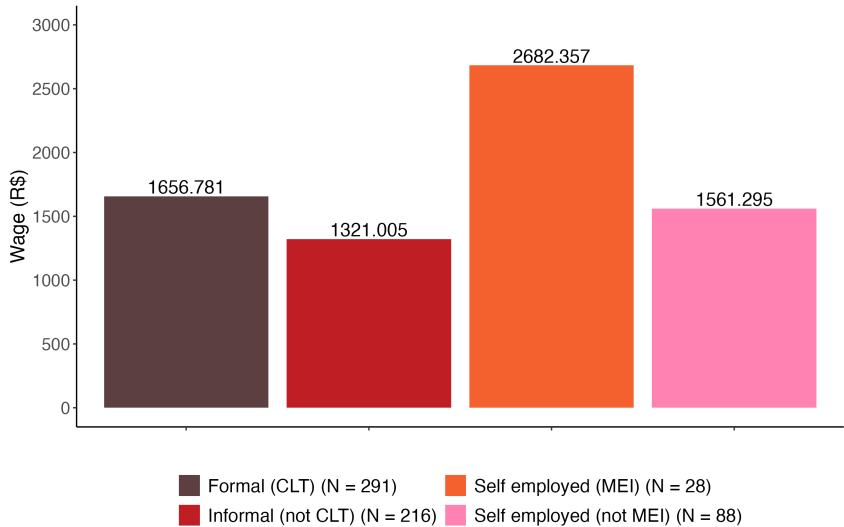
- ▶ Collection timeline (2025): Sept 29 - Nov 26.
- ▶ Target: **Ages 18-30** in the labor force currently working, worked in the past and currently searching for job, or never worked but searching
- ▶ Sampling strategy: household interviews in four selected neighborhoods Parque União, Nova Holanda, Rubens Vaz, and Parque Maré
 - ▶ Territory-based, census-style approach all households on all streets within the four selected territories
 - ▶ Fieldwork scheduled when respondents are most likely to be at home 5 p.m.-8 p.m. on weekdays and 12 p.m.-8 p.m. on weekends
- ▶ Sample size: 700 respondents.

Responses

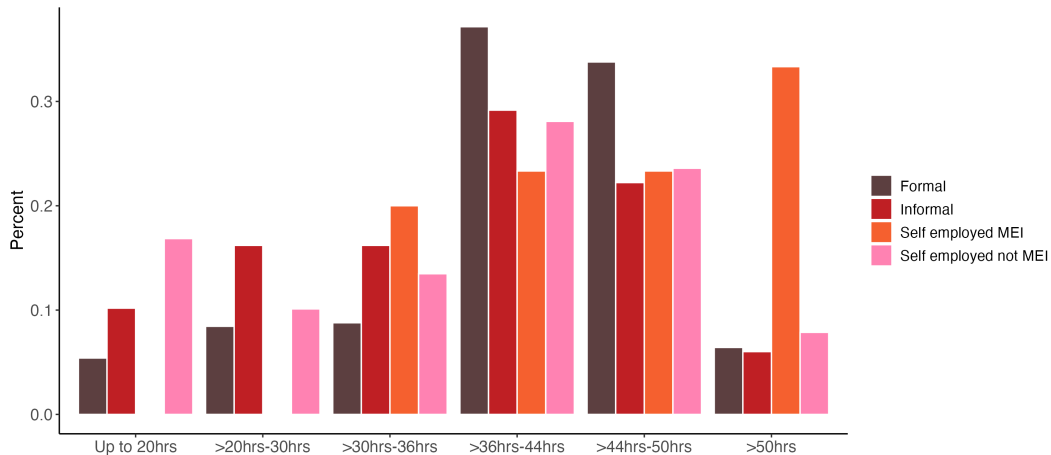
Sample descriptive stats

- ▶ 76% women; Avg age: 24; 56% with children
- ▶ 74% born in Maré; 75% Black or Pardo (mixed race)
- ▶ 61% employed (42% formal, 31% informal, 17% self-employed)
 - ▶ Census 2022: 56%, 18%, 31%.
- ▶ 52% searching for job
- ▶ 65% finished high school
- ▶ 19% receive cash transfer (*Bolsa Família*)

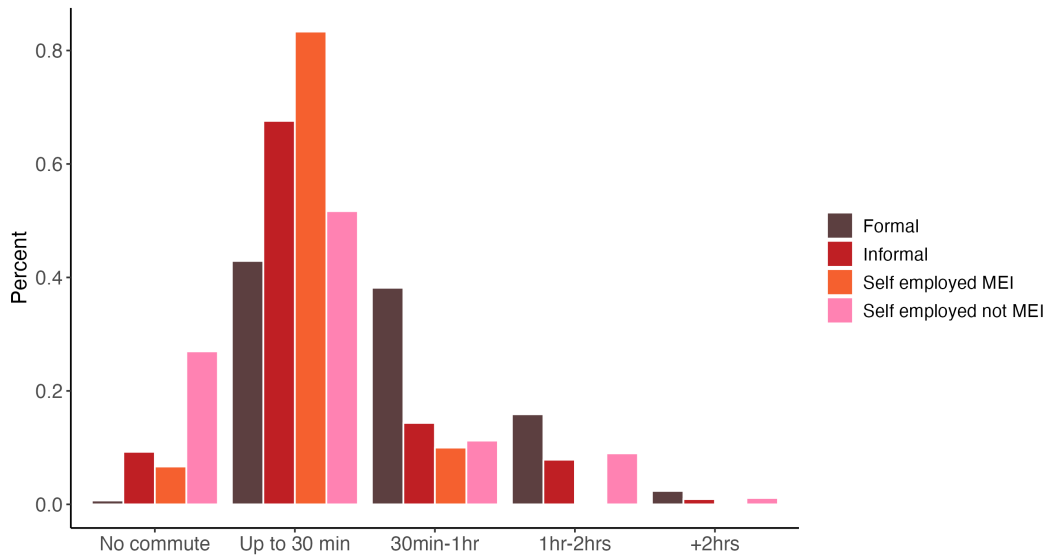
Monthly earnings by formality status



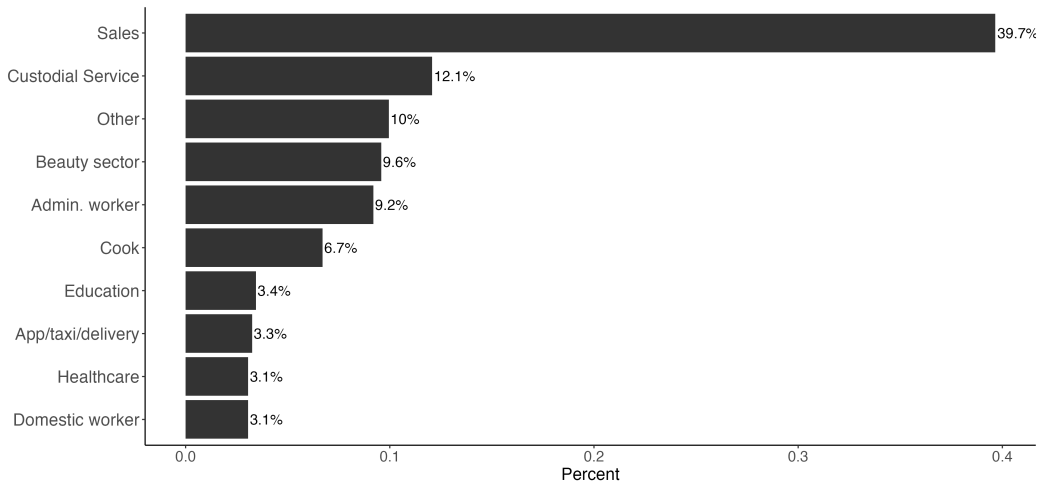
Weekly hours worked



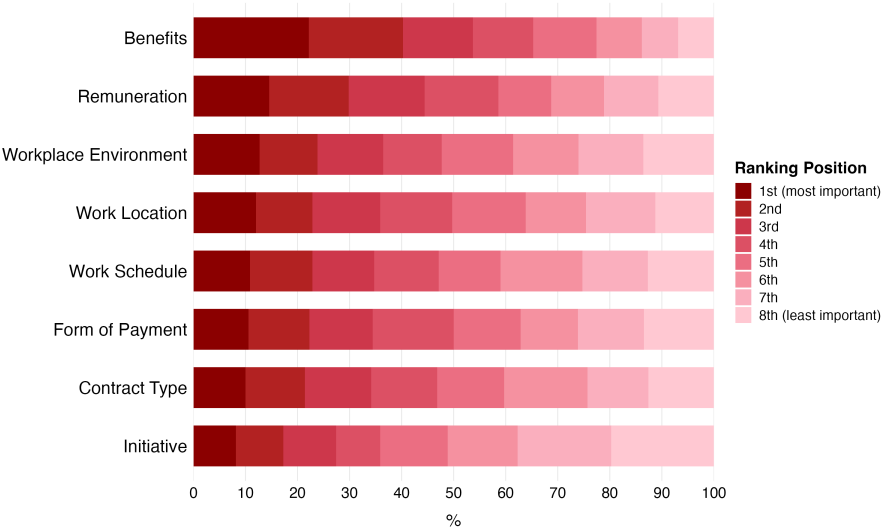
Commuting time from home to work



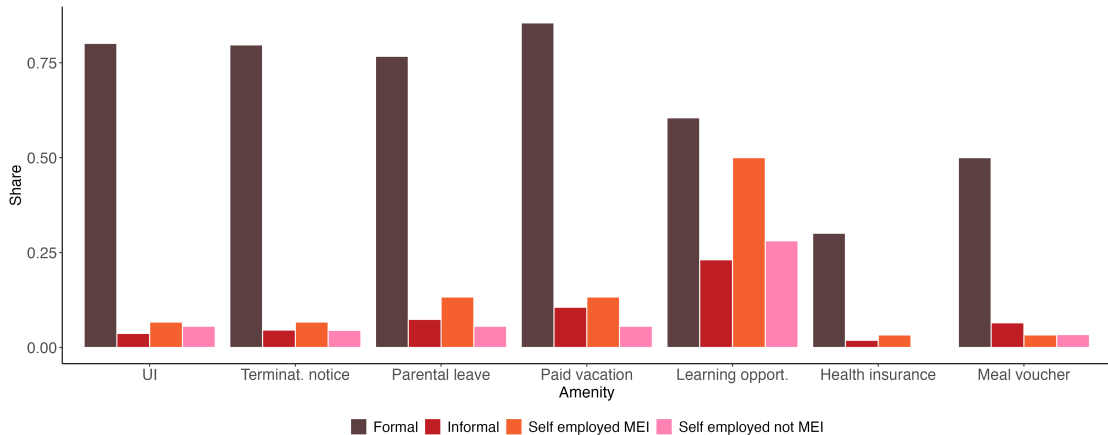
Top 10 occupations among respondents



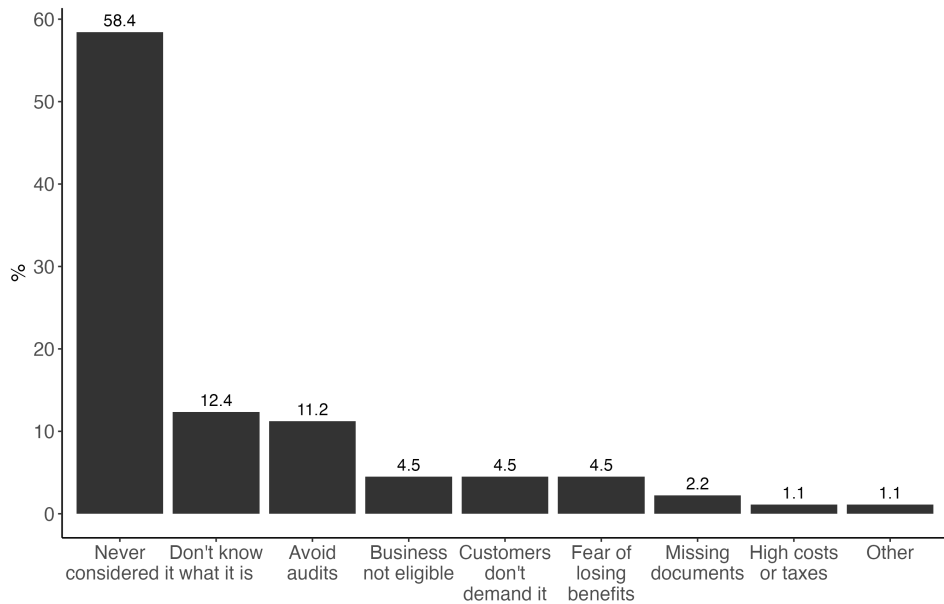
Ranking of job attributes



Presence of job attribute by formality status



Reasons why the self-employed do not formalize (MEI/CNPJ)

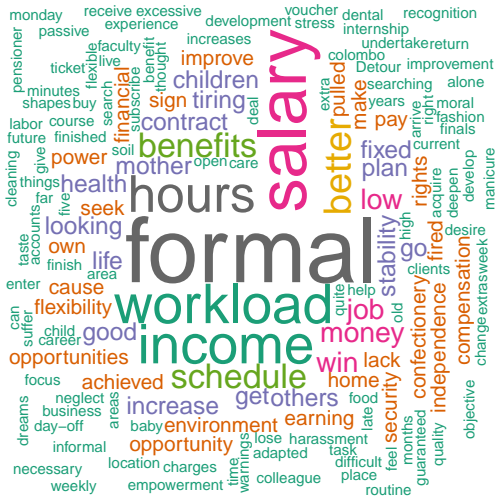


You said you searched for work last week. What kind?

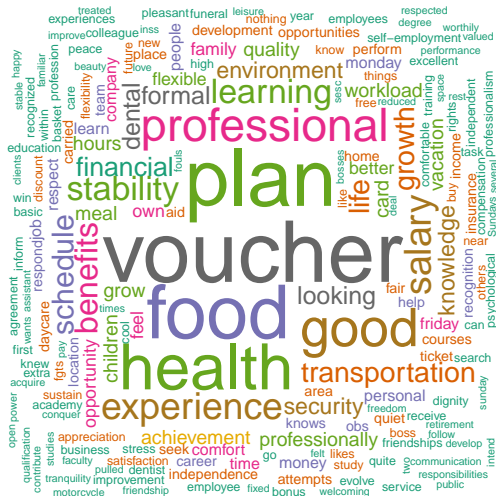
	Formal	Gigs/Self-employment	Informal	Internship	Public sector	Self-employment	Youth apprentice
Formal	75.6	0.0	0.6	7.1	3.2	7.1	6.4
Informal	65.3	0.7	0.0	3.4	4.1	11.6	15.0
Never worked	57.0	0.0	1.3	5.1	2.5	3.8	30.4
Self employed	53.3	0.0	0.0	4.4	4.4	28.9	8.9

Open-text questions

You are employed but searching for a new job. Why?



Other than wages, what do you look for in a job?



You said you'd like to be self-employed. Why?



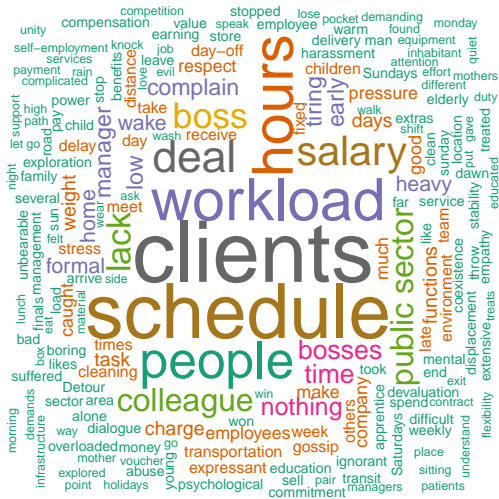
Why aren't you self-employed?



What would your dream job have?



What do you like the least about your current or last job?



You said you quit your last job... Why?



Discrete choice experiment

Discrete choice experiment: Implementation

- ▶ Show participants two job offers with wage and non-wage amenities
 - ▶ Job A (**status quo** or **baseline**): take workers' current job characteristics previous work or reservation wage for never worked
 - ▶ Job B (**experimental offer**): change wage and one amenity, keeping all other amenities the same as Job A
- ▶ Each job offer has a wage and five non-wage attributes
 - ▶ Non-wage attributes were chosen to **evoke formal employment** without explicit labeling UI, termination notice, parental leave, learning opportunity, and commute time
- ▶ We tell participants that the **two jobs are the same** (same tasks and responsibilities), and differ only along the characteristics shown
- ▶ The surveyor passes the tablet to the respondent to alleviate **social desirability bias**

The jobs below are identical, except for salary and unemployment insurance.

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\$ 1145.31
Unemployment insurance	No	Yes
Commute time	I don't commute (work from home)	I don't commute (work from home)
Termination notice	No	No
Maternity leave (4 months)/ Paternity leave (5 consecutive days)	No	No
Learning opportunity	No	No

Remembering that unemployment insurance is a benefit that provides financial assistance for 3 to 5 months for workers with a signed work card who were dismissed without just cause.

☐ I prefer job A

☐ I prefer job B

Discrete choice experiment: Experimental variation

- ▶ **Experimental variation:** randomize Job B's wage $\pm 30\%$ of baseline wage (uniform dist.) and change one amenity at a time ($\pm 60\%$ after Nov. 19)
- ▶ **Remove dominated options** with mild assumptions [Details](#)
- ▶ **Randomize order** in which the five questions are shown to alleviate concerns related to order bias

Discrete choice experiment: Valuation of benefits

Model. Indirect utility from job's wage, amenities, and an idiosyncratic taste shock

Estimation. We stack all choice experiments and estimate via logit:

$$\text{Choose amenity } a_{ij} = \beta \ln \left(\frac{w_{ij^1}}{w_{ij^0}} \right) + \delta_a + \xi_{ij} \quad (1)$$

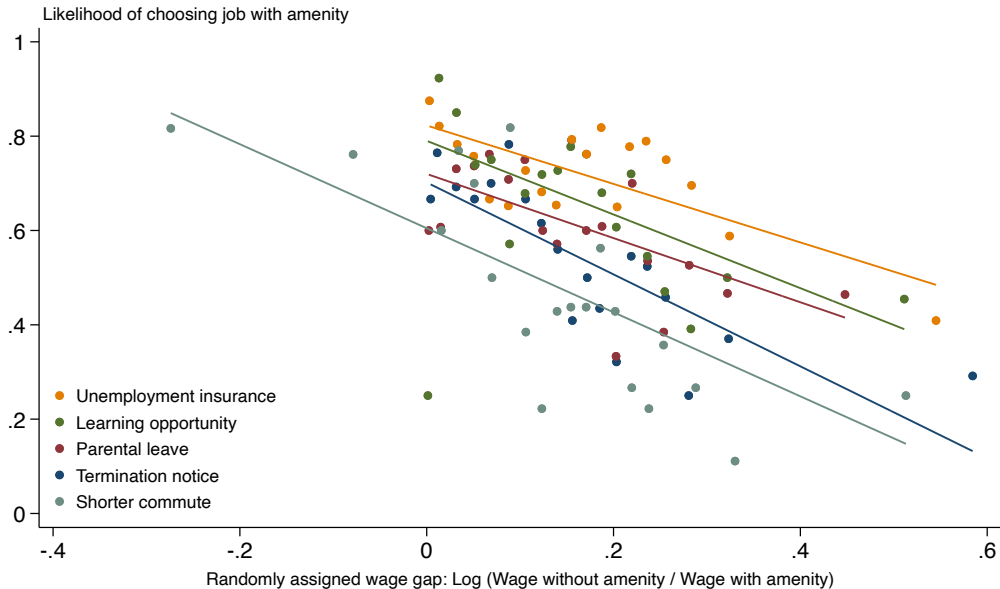
Choose amenity a_{ij} : equals 1 if chooses offer with amenity a (in experiment j varying benefit a and the wage gap), zero otherwise.

w_{ij^0} : wage for job without amenity in experiment j .

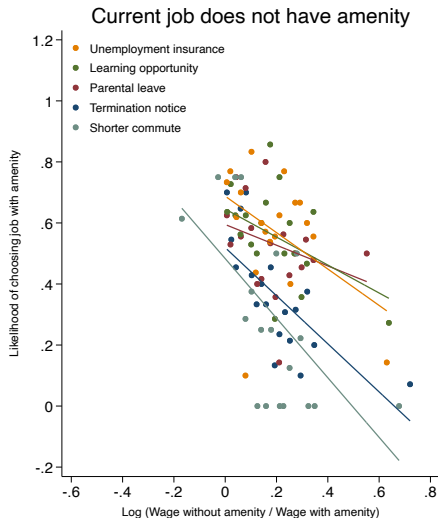
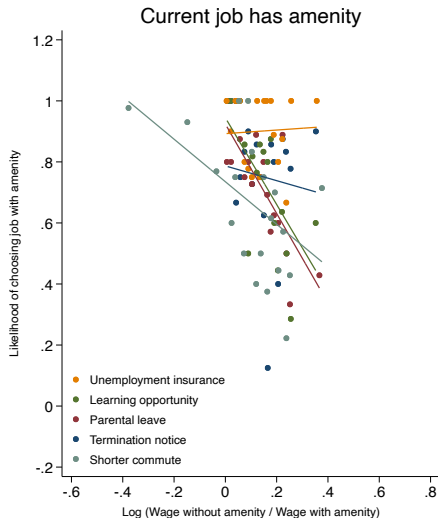
w_{ij^1} : wage for job with amenity in experiment j .

δ_a : dummy for experiment varying amenity a .

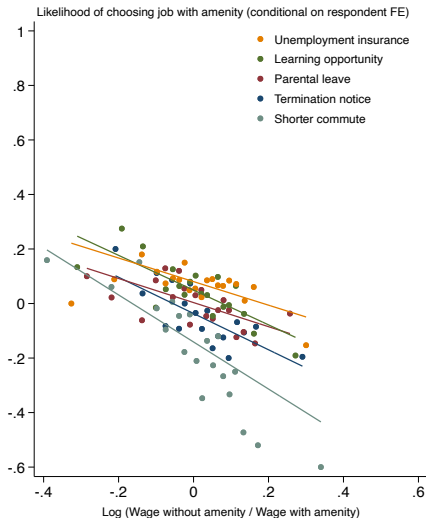
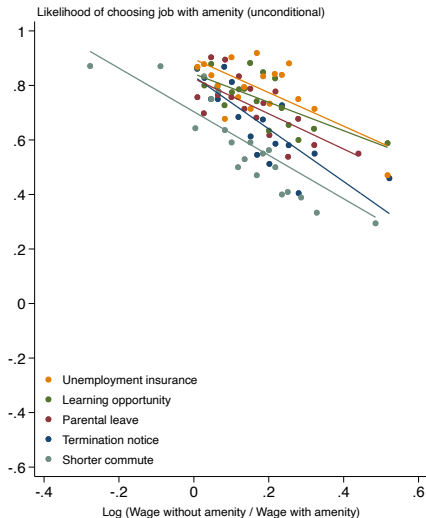
Note: **By design**, $w_{ij^1} < w_{ij^0}$ **always**.



Reference-dependent demand by amenity status in current job



Within-respondent demand for job amenities



Discrete choice experiment: Main metrics

Relative monetary value: the monetary value (MV) of amenity a^* that makes respondents **indifferent** between a job with amenity a that pays $w_{j^1} = w_{j^0} - MV_{a^*}$ and a job that does not have amenity a^* and pays $w_{j^0} = w_{j^1} + MV_{a^*}$, as a (positive) fraction of w_j^0 :

$$RMV_{a^*} = 1 - \exp\left(-\frac{\delta_a^*}{\beta}\right). \quad (2)$$

- Absence of reference-dependence $\implies RMV_{a^*} = WTP_{a^*} = WTA_{a^*}$.

Discrete choice experiment: Main metrics

Accounting for reference-dependence and sorting in preferences:

Estimate conditional logit regressions that interacts the wage gap and amenity dummies with indicators for having the amenity in the baseline job, with respondent fixed effects.

- ▶ Metrics interpreted *relative to the omitted amenity* a^o
- ▶ WTP_{a^*/a^o} : willingness to pay for amenity a^* , in a job that offers neither a^* nor a^o , relative to their willingness to pay amenity a^o
- ▶ WTA_{a^*/a^o} : willingness to accept a job without the amenity a^* , in a job that offers a^* but not a^o , relative to their willingness to accept a job without amenity a^o

RMV, WTP, and WTA to forgo job amenities

	Within-respondent					
	Has in current job? (0/1)			Has in current job? (0/1)		
	(1) RMV_{a^*}	(2) WTP_{a^*}	(3) WTA_{a^*}	(4) RMV_{a^*/a^0}	(5) WTP_{a^*/a^0}	(6) WTA_{a^*/a^0}
Unemployment insurance	0.323*** (0.0230)	0.248*** (0.0350)	0.447*** (0.0382)	0.188*** (0.0308)	0.281*** (0.0480)	0.420*** (0.0400)
Parental leave	0.243*** (0.0229)	0.207*** (0.0392)	0.279*** (0.0293)	0.113*** (0.0336)	0.253*** (0.0478)	0.292*** (0.0390)
Termination notice	0.168*** (0.0220)	0.00515 (0.0494)	0.309*** (0.0342)	0.0365 (0.0360)	0.0780 (0.0566)	0.318*** (0.0422)
Learning opportunity	0.266*** (0.0221)	0.232*** (0.0389)	0.297*** (0.0321)	0.136*** (0.0321)	0.295*** (0.0461)	0.296*** (0.0387)
Shorter commute	0.146*** (0.0250)	-0.0479 (0.0675)	0.223*** (0.0315)	-	-	0.242*** (0.0434)
Respondend FE	No	No	No	Yes	Yes	Yes
Observations	1980	1980	1980	1980	1980	1980

Demographic heterogeneity in WTP for job amenities

	(1) All	(2) Women	(3) Men	(4) Black	(5) Not Black
Unemployment insurance	0.248*** (0.0350)	0.270*** (0.0411)	0.185*** (0.0552)	0.243*** (0.0357)	0.276 (1.365)
Parental leave	0.207*** (0.0392)	0.282*** (0.0379)	-0.0312 (0.0880)	0.233*** (0.0343)	0.0347 (0.847)
Termination notice	0.00515 (0.0494)	0.0275 (0.0577)	-0.0616 (0.113)	0.0545 (0.0500)	-0.300 (10.75)
Learning opportunity	0.232*** (0.0389)	0.297*** (0.0409)	-0.00857 (0.107)	0.193*** (0.0370)	0.407* (0.241)
Shorter commute	-0.0479 (0.0675)	-0.0481 (0.0545)	-0.0501 (0.1000)	-0.0302 (0.0613)	-0.166 (1.211)
Observations	1980	1450	530	1450	530

RMV by respondent employment status

	(1) All	(2) Formal	(3) Informal	(4) Self-employed	(5) Unemployed
Unemployment insurance	0.336*** (0.0222)	0.408*** (0.0435)	0.347*** (0.0439)	0.0887 (0.0599)	0.468*** (0.109)
Parental leave	0.243*** (0.0226)	0.245*** (0.0298)	0.283*** (0.0414)	0.164*** (0.0578)	0.243*** (0.0677)
Termination notice	0.183*** (0.0179)	0.258*** (0.0302)	0.0912* (0.0470)	0.0227 (0.0719)	0.322*** (0.0920)
Learning opportunity	0.285*** (0.0192)	0.270*** (0.0299)	0.259*** (0.0476)	0.270*** (0.0534)	0.509*** (0.112)
Shorter commute	0.118*** (0.0245)	0.121*** (0.0335)	0.173*** (0.0510)	0.169*** (0.0563)	-0.209 (0.389)
Observations	2170	885	705	390	190

Conclusion

1. **Workers value formal amenities, but not all and not equally.**
 - ▶ Next: contrast with cost + what's a better formal bundle?
2. **Preferences are reference-dependent**
 - ▶ WTA losses is \gg WTP for gains, creating scope for wage markdowns.
3. **Evidence consistent with sorting on preferences**
 - ▶ What workers at margin of informality value is key. Complex welfare.

Appendix

Discrete choice variation: Removing dominated offers

Table: Experimental variation w/o dominated offers

a Unemployment insurance

	Negative	Positive
No -> Yes	357	0
Yes -> No	0	300

c Maternal leave

	Negative	Positive
No -> Yes	358	0
Yes -> No	0	299

b Termination notice

	Negative	Positive
No -> Yes	359	0
Yes -> No	0	298

d Learning opportunity

	Negative	Positive
No -> Yes	341	0
Yes -> No	0	316



Sources: Censo de Empreendimentos Maré, 2014.

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