

# Informality, Remittances, and Youth Workers

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# Roadmap

Introduction

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Main Results

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# Remittances and Working Conditions

## Labor market outcomes

- **Informal employment**
  - Informal type of employment as one of the main types of employment in developing countries (Bacchetta et al., 2009)

# Remittances and Working Conditions

## Labor market outcomes

- **Informal employment**
  - Informal type of employment as one of the main types of employment in developing countries (Bacchetta et al., 2009)
  - Most of these jobs characterize by long working hours and lack of social benefits (Maloney, 2004; ILO, 2014, La Porta and Shleifer, 2014)

# Remittances and Working Conditions

## Labor market outcomes

- **Informal employment (Sub-Saharan Africa)**
  - By 2014 the share of own-account and unpaid workers in total employment was 76.6% (ILO, 2015)
  - Eight in ten young workers were into the category of self-employment (ILO, 2015)
  - Self-employment accounted for 53% of non-agricultural employment (ILO, 2015)

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# Labor Market Outcomes

## The context

- **Informal employment (Colombia)**
  - Increase in the informal sector during the 1990s
  - The share of informal workers (*work in firms with five or fewer employees, unpaid jobs, domestic workers, self-employed, business owners of firms with five employees or less*) is above 60%
  - Six of every ten new jobs available to youth are informal
  - Informal workers report working around 47 (h/week) and 60% of them report having neither health insurance nor pension contribution

## Labor market outcomes

≈ 8% of total population outside the country; 4th remittance-recipient in Latin America

- **Colombia:** Migrant-sending country
  - **Main destination countries:** The United States, Spain and Venezuela (account for more than 70 %)
  - **Rapid growth:** **US\$1.6bn.**(2000) to peak **US\$4.4bn.**(2008)
  - **Remittances:** 73% of the remittances came from the United States and Spain



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- **International remittance income** relaxes constraints

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  - **Remittances:** 73% of the remittances came from the United States and Spain
- **International remittance income** relaxes constraints
  - **Question:** Remittance income  $\xRightarrow{?}$  hours worked, health insurance

# Labor Market Outcomes

## Data and variables

- **Data:** GEIH Household Dataset, 2008-10
- **Key parameters:**
  - Adult labor participation (intensive)
  - Health insurance coverage

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- **Data:** GEIH Household Dataset, 2008-10
- **Key parameters:**
  - Adult labor participation (intensive)
  - Health insurance coverage
- Addressing endogeneity: **IV estimations**
  - **Historical migration rate** and **macroeconomic shocks** as IV
  - Migration rate **interacted with** unemployment shocks (  $\implies$  region FE)
  - Unobserved regional confounders (  $\implies$  region var)

# Labor Market Outcomes

## Data and variables

- Financial crisis  $\implies$  main host countries
  - **Great recession (2007-2009):** The United States economy contracted by 5 p.p.
  - **Great Spanish Depression (2008-)** The Spanish economy contracted by 3.7 p.p. during 2008-2010

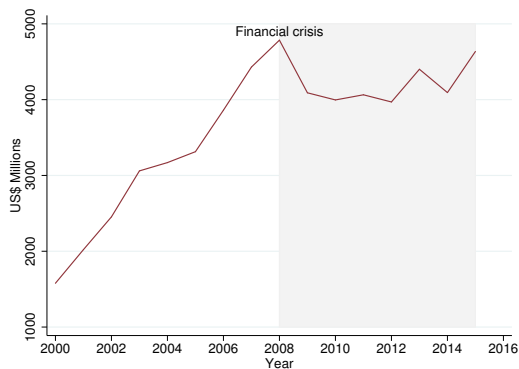
# Labor Market Outcomes

## Data and variables

- Financial crisis  $\implies$  main host countries
  - **Great recession (2007-2009):** The United States economy contracted by 5 p.p.
  - **Great Spanish Depression (2008-)** The Spanish economy contracted by 3.7 p.p. during 2008-2010
- Financial crisis  $\implies$  unemployment rates
  - **The United States:**  $\uparrow$  by 86 percent during (2008-2010)
  - **Spain:**  $\uparrow$  by 125 percent during (2008-2010)

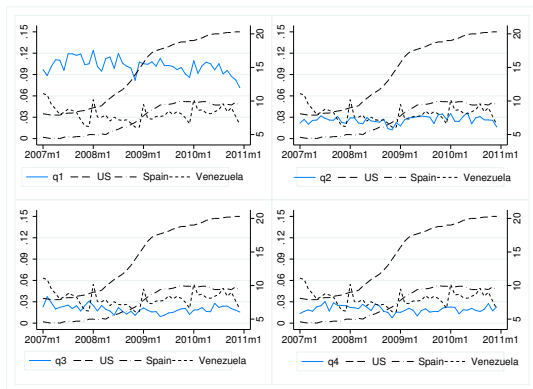
# Labor Market Outcomes

≈ 17% decrease in remittance flows during 2008-2010



# Labor Market Outcomes

Remittance recipients and unemployment rates in host countries





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# Labor Market Outcomes

## Empirical strategy

First stage:  $R_{ht} = \alpha \text{RegionUnempShock}_{rt} + X_{it}\beta + \varphi_t + \psi_r + \mu_{it}$

$$\text{RegionUnempShock}_{rt} = \sum_{j=1}^J s_{rj} \times \text{DestUnempShock}_{jt}$$

### Estimation strategy

- **2SLS** for **extensive margins** and **adults hours worked**

# Labor Market Outcomes

## Empirical strategy

- **Other observables:**
  - **Individuals:** gender, age, years of education, relationship with the HH
  - **Household:** % of members in the household younger than six years old and older than sixty-five years old, total labor and non-labor income
  - **Regional controls:** Gini coefficient and regional domestic product growth
  - Time/month FE

# Labor Market Outcomes

## Empirical strategy

- **Data:** *Gran Encuesta Integrada de Hogares*, **2008-2010**
  - Repeated cross-sections
  - 284,371 observations of informal workers

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# Labor Market Outcomes (Hours-Informal Workers)

25% increase at the mean of remit.  $\implies$  6 hours  $\downarrow$  & 10 hours  $\downarrow$

|                             | Informal jobs<br>(1) | Self-employment<br>(2) |
|-----------------------------|----------------------|------------------------|
| Remittances                 | -5.45<br>(2.61)**    | -9.69<br>(4.67)***     |
| Kleibergen-Paap F statistic | 7.22                 | 5.59                   |
| Anderson-Rubin Test         | [-14.04,-2.41]       | [-25.03, -4.88]        |
| Observations                | 284,371              | 181,820                |

## Labor Market Outcomes (Health-Informal Workers)

25% increase at the mean of remit.  $\implies$  27 p.p.  $\uparrow$  likelihood of having health insurance

|                             | Informal jobs<br>(1) | Self-employment<br>(2) |
|-----------------------------|----------------------|------------------------|
| Remittances                 | 0.27<br>(0.11)**     | 0.27<br>(0.13)**       |
| Kleibergen-Paap F statistic | 7.22                 | 5.59                   |
| Anderson-Rubin Test         | [0.16, 0.64]         | [0.14, 0.68]           |
| Observations                | 284,371              | 181,820                |

# Labor Market Outcomes (Hours-Informal Workers)

Heterogeneous effects by gender

|             | Informal jobs     |                     | Self-employment |                     |
|-------------|-------------------|---------------------|-----------------|---------------------|
|             | Men               | Women               | Men             | Women               |
| Remittances | 11.25<br>(5.24)** | -20.71<br>(4.94)*** | 7.12<br>(8.94)  | -33.60<br>(7.63)*** |



# Labor Market Outcomes (Health-Informal Workers)

Heterogeneous effects by gender

|             | Informal jobs    |                 | Self-employment  |                |
|-------------|------------------|-----------------|------------------|----------------|
|             | Men              | Women           | Men              | Women          |
| Remittances | 0.39<br>(0.11)** | 0.17<br>(0.10)* | 0.38<br>(0.13)** | 0.12<br>(0.11) |

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# Labor Market Outcomes

## Heterogeneous effects by gender

- Disruptive effect of migration  $\uparrow$  labor supply (Amuedo-Dorantes and Pozo, 2006)
  - Barriers to work in the formal sector
  - Migration patterns in Colombia have been dominated by women

# Labor Market Outcomes

## Heterogeneous effects by gender

- Disruptive effect of migration  $\uparrow$  labor supply (Amuedo-Dorantes and Pozo, 2006)
  - Barriers to work in the formal sector
  - Migration patterns in Colombia have been dominated by women
- Men benefit the most in terms of health insurance
  - Informal jobs are associated with poor health status (Giatti et al., 2008)
  - Healthcare access  $\downarrow$  the probability of depression and  $\uparrow$  the use of many preventing services (Baicker et al., 2013)

# Labor Market Outcomes

## Heterogeneous effects by age

- **Youth workers** (less than 25 years old)
  - Group of population as the most vulnerable to being informally employed (ILO, 2015)

# Labor Market Outcomes

## Heterogeneous effects by age

- **Youth workers** (less than 25 years old)
  - Group of population as the most vulnerable to being informally employed (ILO, 2015)
    - Six of every ten new jobs available to youth are informal
    - Lack of access to formal credit
    - More likely to remain informal

# Labor Market Outcomes (Hours-Informal Workers)

heterogeneous effects by age

|             | Informal jobs       |                 | Self-employment    |                    |
|-------------|---------------------|-----------------|--------------------|--------------------|
|             | Youth               | Old             | Youth              | Old                |
| Remittances | -25.73<br>(5.98)*** | -3.85<br>(4.71) | -20.66<br>(5.03)** | -10.97<br>(5.03)** |

# Labor Market Outcomes (Health-Informal Workers)

heterogeneous effects by age

|             | Informal jobs    |                   | Self-employment  |                  |
|-------------|------------------|-------------------|------------------|------------------|
|             | Youth            | Old               | Youth            | Old              |
| Remittances | - 0.01<br>(0.06) | 0.30<br>(0.09)*** | 0.0004<br>(0.05) | 0.24<br>(0.10)** |



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## Conclusions

- Remittance income provides an important means to relax liquidity constraints for households. By relaxing budget constraints:
  1. It reduces the amount of informal labor effort and increases the likelihood of having health insurance which may have positive consequences in terms of well-being.
  2. It reduces the amount of labor effort for youth workers, which may have positive long term consequences.

THANK YOU  
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