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Bertranou, Fabio and Casanova, Luis

International Labour Organization

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# Employment Formalization in Argentina: Recurring and New Challenges for Public Policies<sup>1</sup>

Fabio Bertranou and Luis Casanova<sup>2</sup>

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## Abstract

This article analyzes employment formalization in Argentina from 2003 to 2014 as well as the public policies associated with that process. It identifies the critical segments of informality along with the challenges they pose to a strategy aimed at reducing informality in a labor market that has proven relatively resistant to such reductions in recent years. The results show a decrease in informality for salaried employment, though there has not been a similar decrease among the self-employed. After a significant drop in non-registered salaried employment between 2003 and 2008, slower formal employment growth has offset advances in formalization. Informality affects nearly 44% of all employed individuals. The need to develop specific actions as part of a comprehensive strategy is due to the characteristics of the critical segments of the labor market and the persistence of a heterogeneous productive structure. It can also be attributed to a lower and more volatile rate of economic growth in recent years. In this context, the measures included in the "Law for the Promotion of Registered Employment and Labor Fraud Prevention" passed in 2014 are likely not only to improve working and employment conditions but also to increase productivity. However, in order for these tools to have a true impact on employment formalization, they must be accompanied by other productive, fiscal, social and labor policies, along with a macroeconomic framework that ensures stable economic growth.

Key words: informal employment, non-registered salaried employment, labor policies, Argentina

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<sup>1</sup> This article is based on a series of studies on the formalization of the informal economy drafted by the ILO Country Office for Argentina in the framework of the priorities set in the Decent Work Country Programme, and the Area of Critical Importance "Formalization of the informal economy." These documents include "Independent Workers, the Labor Market and Informality in Argentina" (2011), "Informality, Quality of Employment and Job Segmentation in Argentina" (2013), "Informal Employment in Argentina: Critical Segments and Policies for Employment Formalization" (2014) and "Roads Towards Employment Formalization in Argentina" (2015).

<sup>2</sup> Fabio Bertranou (expert in Labor Market and Social Protection, currently director of the ILO Decent Work Team for the South Cone of Latin America, [bertranou@ilo.org](mailto:bertranou@ilo.org)), Luis Casanova (Decent Work National Officer, ILO Office in Argentina, [casanoval@ilo.org](mailto:casanoval@ilo.org)). The opinions expressed in this article reflect the authors' opinions; they do not necessarily represent those of the ILO.

## **I. Introduction**

Informality has serious consequences for workers, their families and enterprises, as well as society as a whole. On the one hand, informal employment constitutes an obstacle to the recognition of worker rights; it is often associated with poverty. Informal workers are rarely protected against a number of social risks such as workplace accidents, unemployment, and poverty among the elderly. On the other hand, informality can lead to low levels of productivity and a limited capacity for business expansion; this can also create unfair competition for formal firms. On a more aggregate level, informal employment has an impact on equity, efficiency, the State's ability to collect taxes, the reach of social security, productivity and growth (ILO, 2002; ILO, 2013; Jüting and de Laiglesia, 2009; Packard et al., 2012).

The meaning of the term "informality" has changed since it was first introduced in the early 1970s. While it initially referred to subsistence self-employment, it now refers to a wide range of jobs in both the formal and informal economy. This expanded definition of informality represents an attempt to encompass different components of a complex and multidimensional phenomenon.<sup>3</sup> Several factors limit the scope of public policies and reduce their effectiveness, among them the persistence of informality even during periods of economic growth and rising employment; the connection between the formal and informal sectors; the presence of informal employment in the formal economy; and the great variety of jobs affected by informality. Due to these and other aspects, there is now consensus on the need for a comprehensive policy package that take into account all of the characteristics of the informal economy in order to reduce its scope (ILO, 2013).

This article analyzes the process of registered employment formalization in Argentina during the 2000s, particularly the drop in non-registered salaried employment. Non-registered work is one of the main types of informal employment and the target of most relevant public policy measures in Argentina. The article also

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<sup>3</sup> For a review of the different perspectives on informality and its implications for public policies, see Bertranou and Casanova (2013).

identifies the labor segments where precarious work and informality are deeply rooted, as well as the challenges to advancing in the process of formalization. In this description, we present the notable drop in informality (mainly between 2003 and 2008) and the subsequent leveling off of informal employment indicators (particularly since 2011).

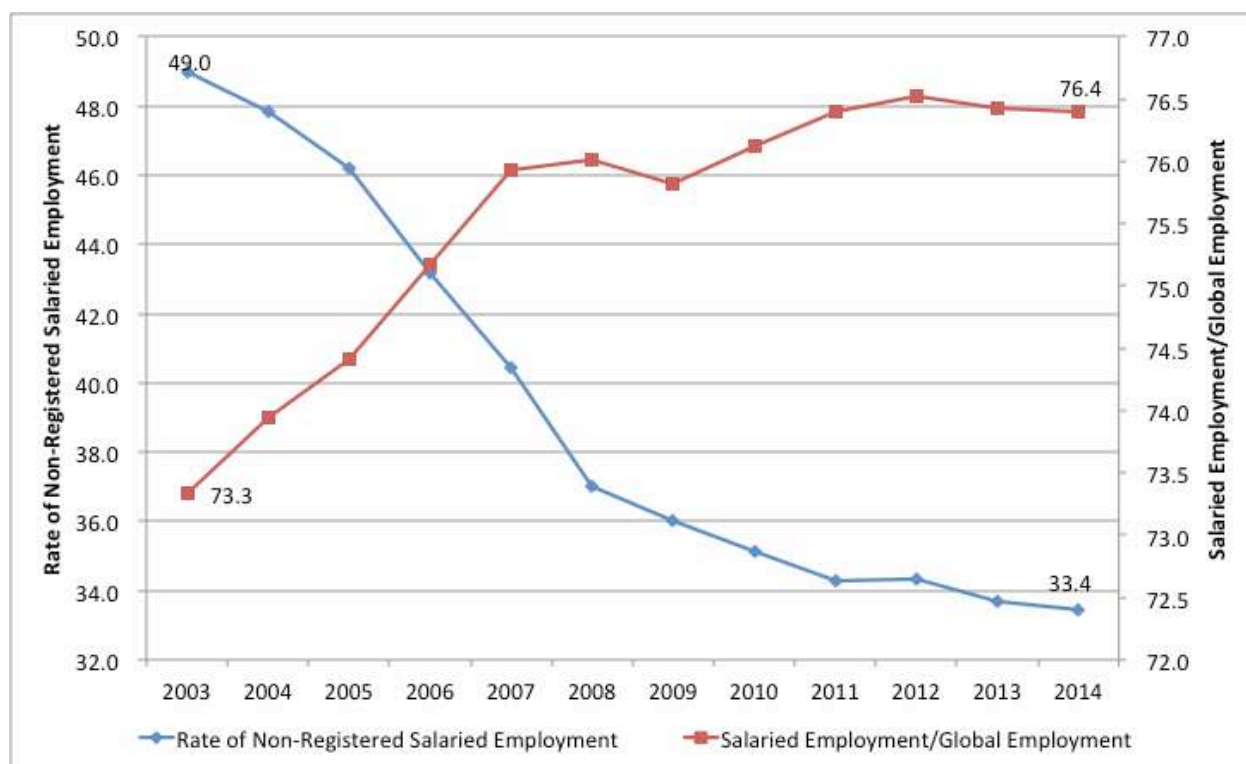
This document is organized as follows. Following the introduction, the second section describes the evolution of non-registered salaried employment along with an estimate of the percentage of informal employment among all employed workers. The third section identifies the critical segments with high levels of informality and/or a high concentration of informal employment. The fourth section describes the implemented policies and presents the general guidelines of the *Ley de promoción del empleo registrado y prevención del fraude laboral* (2014) – Law for the promotion of registered employment and labor fraud prevention. Finally, the fifth section presents closing remarks.

## **II. Trends in Employment Formalization**

The macroeconomic scheme implemented after the economic crisis in 2001-2002 encouraged the creation of formal jobs, reversing the previous trend towards informalization in the 1990s. Between 2003 and 2014, non-registered salaried employment dropped nearly 15 percentage points, from 49.1 to 33.4%. Due to this drop, in addition to the increase in salaried employment (which rose from 73.3 to 76.5% among all employed workers in the same period), the percentage of informality in total employment decreased.

As a result, there was an interruption of the rising trend in non-registered salaried employment, which had increased gradually since the mid-1970s (the first years for which systematic data is available) with more pronounced rises during the 1990s. During that decade, not only did non-registered employment increase, but also a portion of the formal employment created can be considered precarious due to the labor flexibility schemes put into effect during that period (Altimir and Beccaria, 1999; Schleser, 2007; Jiménez, 2013). Despite the significant drop, particularly between 2003 and 2008, the current levels of non-registered employment are still higher than those recorded in Argentina at the beginning of the 1990s.

**Graph 1. Evolution of Non-Registered Salaried Employment and of the Percentage of Salaried Employment in Overall Employment,<sup>1</sup> 2003-2014**



Note: Annual average of quarterly rates. Source: Bertranou and Casanova (2013), based on the Encuesta Permanente de Hogares [Annual Household Survey].

Due to the available information, it is not possible to track changes over time in terms of independent workers (i.e., own account workers and employers) not registered with the social security system; it is possible to track those changes only in the case of salaried employment. However, several studies conducted over the past decade have found that the rate of non-registration in the social security system is higher for the self-employed than it is for salaried workers. Unlike salaried workers, the rate of registration with the social security system has remained stagnant among independent workers at around 60% (Bertranou and Casanova, 2013).

Considering all employed workers (that is, salaried workers, independent workers, and unpaid family workers), informal employment represented 44% of all employment in 2010. On the basis of the distribution of workers between different

types of jobs and their respective informality rates, it can be concluded that two out of three informal workers are salaried workers and one out of three is an independent worker (Bertranou and Casanova, 2013). In terms of production units, 25% of informal salaried workers work at home; 31% in a production unit with some formal employment; 44% in a production unit with no formal employment<sup>4</sup> (MTEySS, 2013a; MTEySS, 2013b).

As in other countries in Latin America, in Argentina informal employment is one of the most visible signs of the heterogeneous productive structure (ECLAC, 2010). In fact, in Argentina the growth of informal employment between the mid-1970s and the early 2000s -and the subsequent slowdown of this trend, mainly between 2003 and 2008- is associated to a certain degree with changes in the productive structure. The first period mentioned (mid-1970s to the early 2000s) coincides with the fragmentation and disintegration of the industrial linkages and the dismantling of industrialization policies and institutions. Both were the result of deregulation and the sudden opening of the domestic market to foreign trade, which tended to increase foreign productivity gaps (in relation to developed countries) as well as domestic gaps. Rather than allowing the market to catch up the economic structure became even more heterogeneous.

The second period (2003 to 2008), though, witnesses a turnaround in terms of the dynamics of the heterogeneous structures (de Miguel and Woyecheszen, 2015; Coatz and Sarabia, 2015). Nevertheless, the most dynamic economic sectors in the 2000s were responsible for only a small portion of the country's economic growth, due to their low impact on the gross domestic product (GDP). Despite significant recent advances, the productive matrix continues to show signs of fragmented industrialization, the result of decades of production fragmentation. All of this restricts the creation of quality employment in Argentina (de Miguel and Woyecheszen, 2015; Coatz and Sarabia, 2015).

Although a few countries in the world have been able to reduce informality as fast as Argentina, the amount of informal employment is still high; it affects over 40%

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<sup>4</sup> This information was taken from the *Encuesta Nacional de Protección y Seguridad Social Security and Protection Survey (ENAPROSS)*.

of employed workers, two-thirds of whom are salaried workers and one-third of whom are independent workers. Due to the persistence of this phenomenon, certain public policies must be analyzed and reconsidered.

### **III. Multidimensional Description of Informal Employment in Argentina: Critical Segments<sup>5</sup>**

The economic sectors to experience the largest reductions in non-registered employment in the 2000s are social and health services,<sup>6</sup> commerce, construction and the manufacturing industry. Due to the structure of salaried employment, these sectors combined with domestic work account for 75% of the total reduction in non-registered salaried employment.

Aggregate reductions in the levels of non-registered employment hide substantial differences by sector, company size, and worker qualification.

In general, the segments with high levels of informal employment in 2003 continue to have high levels in 2014, although the concentration by sector has increased: domestic work, self-employment, agriculture (the rural sector) and salaried employment in construction and commerce. In these last two sectors, micro-enterprises have high rates of informality and in the global amount of non-registered employment in Argentina (Graph 2).

Even in economic sectors where the rate of informal employment is relatively low, it does occur more frequently in certain segments. This is the case of the clothing industry within the manufacturing sector.

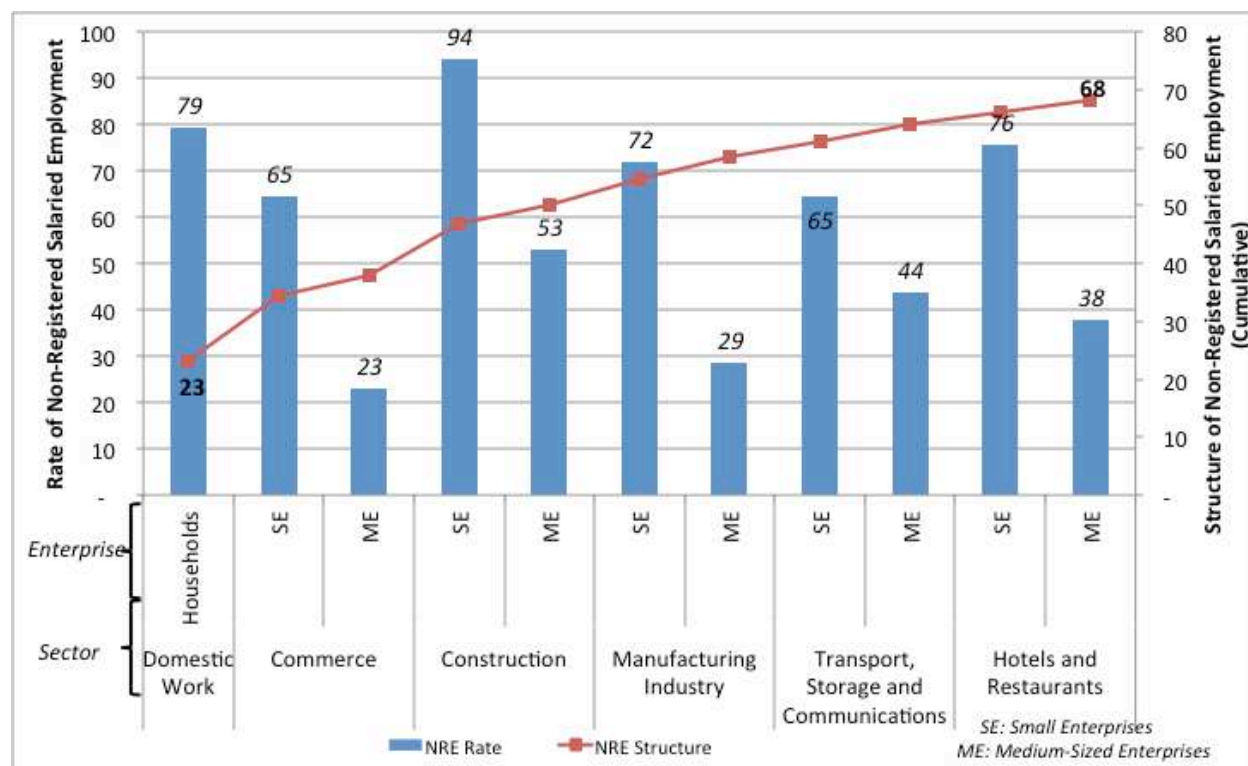
Thus, domestic work along with small and medium-sized enterprises in five sectors (construction, commerce, transport, storage and communications, hotels and restaurants, and industry) accounted for nearly 70% of non-registered employment in 2014 (Graph 2).

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<sup>5</sup> This section is based on Bertranou and Casanova (2013; 2015).

<sup>6</sup> Social services play a role in reducing non-registered employment due to the formalization of a large number of beneficiaries of the employment programs created as a response to the 2001-2002 economic crisis.

**Graph 2. Rate and Structure of Non-Registered Employment (NRE) according to Sector and Type of Enterprise, 2014<sup>1</sup>**



Note: (1) Second quarter (latest microdata available).

Source: Own elaboration based on the *Encuesta Permanente de Hogares*.

Precise information and detailed understanding of the many dimensions of informality are necessary to developing a comprehensive policy approach. For this reason, we will now analyze the main characteristics of the critical segments of the job market in terms of their impact on informality (that is, their rates of informal employment) and the concentration of informal employment. The critical segments identified include: domestic work, the textile industry, micro-enterprises in commerce and construction, self-employment and rural employment. (Bertranou and Casanova, 2013)

### **- Domestic Work**

The level of informal employment among domestic workers is more than twice the average for the Argentine economy as a whole (the level was 79% in 2014). In



addition to the high level of informality in this segment, job precariousness in domestic work is a multifaceted phenomenon. It is important to note these workers -more than 90% of whom are women- represent 23% of all the non-registered salaried workers in the country.

The bulk of the demand for domestic workers in Argentina lies in upper middle-class households where both the husband and the wife work outside the home (in most cases they both hold formal jobs); domestic workers allow them to balance their own work and family life. Although a number of tax incentives encourage employers to register their domestic workers, the levels of informality and precariousness in the sector continue to be among the highest in the economy. Other problems that contribute to informality include the difficulties of conducting labor inspections and getting those who hire domestic workers to recognize their status as employers.<sup>7</sup>

Domestic workers are not only subject to exclusion due to non-compliance with employment regulations but also less protected by the law than other employees. At the beginning of 2013, the *Régimen Especial de Contrato de Trabajo para el Personal de Casas* [Special Employment Contract Scheme for Domestic Employees] was passed by Congress to replace the regulations that had been in effect since 1956. The new legislation protects the rights of domestic workers, granting them rights similar to those of other workers. There is still much to be done by the State, including conducting inspections and informing workers of their rights, to ensure that all domestic workers enjoy their rights and due protection.

Another aspect to consider is the number of migrant workers in the sector. Despite the progress made thanks to new legislation and the legal status of immigrants, many have not been able to formalize their employment (Messina, 2015).

### **- The Clothing Industry**

This sector is characterized by informal employment and other forms of precarious work, and even forced labor at illegal sweatshops. In 2014, just 32.6% of all workers in the clothing industry were formally employed and registered with the

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<sup>7</sup> Another characteristic of domestic work is the high mobility of workers who shift between not being employed and non-registered employment (Bertranou and Casanova, 2013).

social security system. The rest consists of informal salaried employees (37.2% of the total) and the self-employed (30.1%).

The 2000s witnessed sharper growth in this sector than in industry as a whole. In terms of new jobs by sector (particularly registered jobs), though, it ranked significantly lower. This is partly due to changes in the industrial organization of the sector, some of which date back to the 1970s and others to the 1990s. Due to these changes, longstanding manufacturers have outsourced production to concentrate on the more profitable facets of the activity. As a result, the business risk has shifted to the sweatshops where the garments are manufactured and, in turn, to the employees themselves.

Within this area, it is essential to differentiate between the textile and clothing sectors. The textile sector is characterized by higher levels of formal employment; and the clothing sector by widespread precarious employment. While 64% of textile manufacturing workers are formal salaried employees, the rate in the clothing sector is 30% lower. The high level of self-employment in the clothing industry (in comparison to the textile industry and to the rest of industry) is due to the concentration in this area of the weakest actors in this production chain, for example, garment outsourcers, the self-employed, and those who work in their homes. While these textile workers may appear to enjoy a degree of autonomy, they are actually subject to a form of precarious employment.

The high levels of non-registered employment in the clothing industry can be explained by an array of technical and production factors that create low entry and exit barriers due to the scarce requirements for physical capital, the relative ease of learning the trade, and the fact that it is not necessary for the entire production process to be carried out at a single location. Due to the sector's lack of competitiveness, manufacturers may resort to subsistence strategies that, in turn, partly explain the high levels of non-registered employment. This sector is also characterized by its informal production units, which explains the high levels of informal employment.

Though the sector experienced an economic upswing after 2001, the number of illegal sweatshops also rose, with serious infractions of local labor laws. An

important factor is the large number of immigrants working in these sweatshops, many of whom are brought to Argentina through human trafficking networks.

### - Micro-Enterprises: Commerce and Construction

Enterprises with less than forty employees account for the 83.2% of all informal employment. In mid-2014, the rate of non-registered employment among firms with five workers or less was 71.6%, while that figure stood at 8.8% for large firms. With regards to small-firms, the problem is two-fold, since informal workers are often performing their tasks in establishments that do not meet legal requirements. At micro-enterprises in construction, 70% of workers work at informal construction sites. For this reason, public policy challenges are not limited to increasing formal employment, but encompass as well formalizing the economic activity in general.

**Chart 1. Distribution of Informal Salaried Workers at Production Units According to Type of Unit, By Activity and Size of Enterprise, 2011**

	Production Units			
	With Formal Employment (a)	Without Formal Employment (b)	Not specified (c)	Total (a + b + c)
<b>Total</b>	<b>31.5%</b>	<b>46.4%</b>	<b>22.1%</b>	<b>100.0%</b>
<b>Economic Sector</b>				
Primary Sector	22.6%	42.3%	35.2%	100.0%
Manufacturing	33.7%	40.6%	25.7%	100.0%
Construction	12.8%	70.0%	17.3%	100.0%
Commerce	31.6%	51.9%	16.5%	100.0%
Hotels and Restaurants	21.3%	52.1%	26.5%	100.0%
Transport, Storage and Communications	22.5%	55.2%	22.3%	100.0%
Financial Services, Real Estate, Rentals and Companies	48.1%	27.6%	24.3%	100.0%
Public Service and Defense	100.0%	0.0%	0.0%	100.0%
Teaching	48.8%	24.5%	26.7%	100.0%
Social and Healthcare Services	51.3%	19.2%	29.5%	100.0%
Other Community, Social and Personal Services	30.8%	48.4%	20.8%	100.0%
Not specified	30.2%	23.2%	46.6%	100.0%
<b>Size of the Enterprise</b>				
Five employees or less	20.8%	60.7%	18.4%	100.0%
Between six and forty employees	44.8%	35.4%	19.8%	100.0%
Forty-one employees or more	64.8%	12.1%	23.1%	100.0%

Source: Contartese et al. (2015) based on ENAPROSS 2011.

Inspection poses a particular problem for micro-enterprises and, as a result the cost of informality (i.e. fines) is lower for micro-enterprises given how difficult it is for government departments to detect non-compliance with labor and tax legislation at such firms. Furthermore, micro-enterprises face greater difficulties in complying with regulations due to factors such as low levels of productivity.

In the construction sector, workers in economic units employing five people or less generally do not work at construction sites: instead, they perform tasks that generally go unregistered such as home repairs and remodeling, and constructing additions on existing properties. Furthermore, many workers are hired by homeowners, rather than firms, to carry out such repairs. Of the total number of salaried construction workers at small firms, nearly 80% perform their tasks at the client's home or store. Such employment is not stable (many jobs are temporary), which makes it more difficult to get workers registered with social security. The nature of the jobs themselves, which are generally performed solely in interiors, presents difficulties to government inspection offices. The cultural patterns associated with work of this sort (i.e. employment relationships based on preexisting personal ties) are also key to understanding the high level of informality (Bertranou and Casanova, 2013)

In the commerce sector, three out of four workers carry out their tasks at a storefront or office, while the rest perform their tasks at roadside stands or street markets. The highest levels of precarious work (informal salaried work and independent workers) are found in the food, beverage and tobacco sector (for example, neighborhood stores) and in the sale and repair of motor vehicles and motorcycles (for example, small auto shops). Though commerce has its own particular traits, obstacles to formalization are similar for all micro-enterprises: how to formalize employment while maintaining a productive and profitable business. Within commerce, workers at street markets and roadside stands (street vendors) face additional problems like the lack of a physical space for carrying out their

business and the difficulties of advancing from street vendor to market entrepreneur.<sup>8</sup>

As Charts 1 and 2 show, the core issue at many micro-enterprises is informal production units (nearly 60% of employees at micro-enterprises are non-registered). Construction and commerce are jointly responsible for 50% of non-registered employees at production units.

**Chart 2. Distribution of Informal Salaried Workers at Production Units According to Type of Unit, By Activity and Size of Enterprise, 2011**

	Production Units		
	With Formal Employment	Without Formal Employment	Total
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Economic Sector</b>			
Primary Sector	1.9%	2.4%	2.6%
Manufacturing	15.2%	12.5%	14.3%
Construction	6.6%	24.6%	16.3%
Commerce	21.7%	24.3%	21.7%
Hotels and Restaurants	3.9%	6.5%	5.8%
Transport, Storage and Communications	7.1%	11.9%	10.0%
Financial Services, Real Estate, Rentals and Companies	11.5%	4.5%	7.6%
Public Service and Defense	6.2%	0.0%	1.9%
Teaching	8.2%	2.8%	5.3%
Social and Healthcare Services	8.6%	2.2%	5.3%
Other Community, Social and Personal Services	6.6%	7.0%	6.7%
Not specified	2.3%	1.2%	2.4%
<b>Size of the Enterprise</b>			
Five employees of less	36.2%	71.8%	54.8%
Between six and forty employees	43.6%	23.5%	30.7%
Forty-one employees or more	17.8%	2.3%	8.7%
Not specified	2.4%	2.4%	5.8%

Source: Contartese et al. (2015) based on ENAPROSS 2011.

### - Self-Employment

Approximately 60% (or perhaps even more) of independent workers, including employers and own-account workers, are not registered with the social security

<sup>8</sup> Like domestic workers, many workers in the commerce sector move frequently between unemployment and non-registered employment (Bertranou and Casanova, 2013).

system or pay income tax on a regular basis. This is particularly the case among self-employed workers.

Among independent workers, the rate of informal employment is higher for those who perform unskilled work or operational tasks; those with a low education level; those without a full-time job who are underemployed; those who work at enterprises with low levels of capital investments and at single-person companies; those who remain independent because they cannot find salaried employment; and those with low incomes.<sup>9</sup>

According to recent estimates, one out of three informal workers is self-employed. Informal employment among independent workers is concentrated in three sectors: commerce, construction, and industry. Two-thirds of self-employment is concentrated in these three sectors, where skills are relatively low and the incidence of subsistence workers is above 75%. A high percentage of self-employee workers are located in the quintiles with the lowest income. Similar situation is found for non-registered salaried workers. (Contartese, et al., 2015; Bertranou and Casanova, 2013)

In the past 15 years in Argentina, the main instrument for ensuring tax registration and social security coverage for independent workers has been the simplified tax scheme known as *Monotributo*. The number of workers registered in this scheme has grown steadily. However, this instrument needs to be reevaluated not only in terms of its role in formalizing economic activity but also as a means for transitioning to the general tax regime (Cetrángolo et al., 2013).

### **- Rural Employment**

Informal employment is a major problem in the rural sector, including agriculture (which represents 60% of rural employment). In agriculture, non-registered employment is most common among salaried workers: unskilled laborers represent the majority of independent workers in the sector.

It is difficult to detect informal employment and to formalize employment in the rural sectors due to a range of factors. Changes in the job insertion of agricultural

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<sup>9</sup> For more on this topic, see Bertranou and Maurizio (2011).

workers partly accounts for the problem. Technological changes and the restructuring of production in the sector over the past few decades have also contributed to transforming the job market. The level of direct employment has decreased and there have been modifications in workforce requirements. This has led to a decrease in the number of permanent workers and an increase in temporary positions, a change in the skills required, the relocating of the workforce to urban areas, an increase of jobs associated with services for primary production, and the appearance of employment intermediaries (temporary work agencies) for the hire of temporary workers. At the same time, modifications in the production process and in workforce requirements have not only increased the participation of temporary workers, but also altered the profile of these workers, with a higher percentage of youth, urban dwellers, workers with job experience outside agriculture and a greater number of migrant workers.

#### **IV. Measures for Promoting Employment Formalization in Argentina**

Since 2003, policymakers in Argentina have begun gradually approaching informal employment in a new way. This new focus consists of integrating and coordinating programs and a range of social, socio-occupational and economic strategies associated with the different factors that give rise to informal work (Chart 3, Column "Policies and Programs 2003-2014"). (Bertranou and Casanova, 2013; Novick, 2007)

One aspect that merits special attention is the connection between economic growth and the creation of salaried employment. Growth remained steady until 2009, when certain domestic factors and the international financial crisis affected the domestic economy. From 2003-2008, average annual growth was 8.5%, while from 2009-2014, that rate fell to 3.6%, with three years of sluggish economic activity (2009, 2012, and 2014). This suggests that growth is a necessary condition for systematic reduction in informal employment, though it alone does not suffice. In other words, specific public interventions (such as inspections, vocational training and other micro-level policies) geared towards diminishing informality are

less likely to have significant impact in the absence of sustained growth (Beccaria, 2015).

Regardless of the relative success of the efforts that followed the 2001-2002 economic crisis, the combination of persistent high levels of informal employment - seemingly entrenched in certain segment of the labor market- and the drop in economic growth since 2009 requires the consolidation and redesign of the formalization strategy. Beccaria (2015) argues that it is necessary to strengthen policies in three major areas: i) simplified registration processes and lower tax and social security requirements for smaller companies; ii) support for production at small and medium-sized enterprises (since low efficiency is a factor that encourages either total or partial evasion of tax obligations, social security contributions, and so forth); iii) inspections at work sites. Efforts should be coordinated among the different public institutions (and different levels of government) that design and implement formalization policies (for example, in the area of work site inspection, which involves different levels of government and institutions).



### Chart 3. Policy Strategies and New Measures within the Framework of the “Law for the Promotion of Registered Employment and Labor Fraud Prevention” (2014)

Pillar	Outstanding Programs and Policies (2003-2014)	Law for the Promotion of Registered Employment and Labor Fraud Prevention
<b>Macroeconomic Scheme</b>	Characteristics of the macroeconomic policies (tax, monetary and exchange rate) that foster the demand for decent work. Improvements to the tax administration. Coordination with labor institutions (wage negotiations and minimum wage). Active role of the state.	
<b>Regulation of Informal Activities</b>	Simplification of rules and procedures, reductions of entry costs and mechanisms for accessing formality. Tax simplification programs, e-government and one-stop window at the municipal and provincial levels.	Strengthening work site inspections. Specific interventions in critical sectors (creation of the Special Auditing Unit for Job Irregularities).
<b>Actions Targeting Informal Workers at Formal Companies</b>	<p>Regime for the Promotion of Legal Employment and Registered Work. The reduction of social security contributions and flexible payment plans for old debts (Law 26,476). These measures were designed to be counter-cyclical and continued even after the international crisis.</p> <p>National Plan for Employment Regularization In effect since 2003. Strengthening of the State's auditing and inspection capacities. Significant increase in the number of inspectors and regular reporting on the process.</p> <p>Government estimates or presumptions on the social security contributions and payments a firm should be making. Sectors include construction, the textile industry and domestic work.</p> <p>Perfecting the payment methods of employer obligations. The Joint Trade Union-Employer Agreements (CCG) in rural production, by which employers can differ monthly social security payments until a more favorable moment of the production process.</p>	<p>Economic incentives to formalize workers at micro-enterprises. Creation of a permanent scheme of social security contributions for micro-employers (permanent reduction of employer contributions). Re-adaptation of the Regime for the Promotion of Legal Employment and Registered Work: temporary reductions of employer contributions will vary according to company size (and limited to firms with 80 workers or less).</p> <p>Strengthening of work site inspections, particularly the role of the Ministry of Labor. Creation of a Special Labor Fraud Investigative Unit (indicators by sector, monitoring of value chains, etc.).</p> <p>Expansion of the CCG. Additional benefits (temporary reduction of employer contributions).</p> <p>Creation of a public registry of employer who have been sanctioned for labor offenses (REPSAL). Once listed in the registry, companies are barred from accessing other government assistance programs for business.</p>
<b>Formalization of Ambiguous Employment Relationships and Employment Relationships at Informal Enterprises</b>	<p>Social security regime for domestic workers. Reductions of the income tax for employers. Presumption--unless evidence is provided to the contrary--that any individual earning a certain income or owning certain assets employs a domestic worker (application of the presumed number of workers indicator to domestic work).</p> <p>Modifications to the immigrations policy. The new Immigrations Law (Law 25,871) and measures aimed at providing documentation to immigrants.</p> <p>New labor regime for domestic workers. Domestic workers enjoy the same rights as other workers.</p> <p>New regime for work in agriculture. Creation of the RENATEA.</p> <p>Joint Trade Union-Employer Agreements (CCG)</p> <p>Modification of the regime of temporary employment companies. Adaptation of the regulations to the concept of decent work, new guidelines established.</p>	Strengthening of work site inspections. Specific interventions in critical sectors (creation of the Special Auditing Unit for Job Irregularities).
<b>Improvements to Employability</b>	Measures for vocational training. Programs for professional training, completion of education programs, registry of labor qualification norms and worker certification.	
<b>Social Awareness of the Issue</b>	Systematic media awareness campaign on the advantages of complying with labor and tax obligations and the social protection associated with these. Through the Corporate Social Responsibility Plan, major enterprises inform clients and suppliers about the need and obligation to comply with labor regulations.	
<b>Protection for Formal Employment</b>	Protection of formal employment. The Preventive Crisis Programs and the Production Recovery Program.	
<b>Social Protection for Informal Workers and their Families</b>	Income transfer programs with components for fostering employability. Extension of social security to informal workers. Social Security Inclusion Plan, Universal Cash Transfer for under 18 and pregnant women in the informal economy, and Simplified Tax Scheme for workers in cooperatives.	

Source: Own elaboration based on Bertranou and Casanova (2013).

In the context of slower economic growth, and the concentration of informality in segments that current policy struggles to reach, the Integral Plan to Combat Non-Registered Work was announced in September 2013. Before the plan was announced, a process of social dialogue on informality took place between the government and key actors from the world of labor. Although the plan adheres to strategies in place since 2003, it establishes new policies to further that strategy and to make progress in terms of job formalization. After congressional debate on the plan, the Argentine Congress Approved Law No. 26,940 entitled the Promoción del Trabajo Registrado y Prevención del Fraude Laboral strategy [Promotion of Registered Employment and Labor Fraud Prevention] (See Chart 3, Column "Law for the Promotion of Registered Employment...").

This new law includes a series of measures to create formal employment and to formalize informal employment in both the "formal sector" and in the "partly formal/partly informal sector." The measures aimed at the formal sector include a plan to consolidate work site inspection and thus dissuade informality. To that end, there is a plan to increase the national government's role in inspections and to create a public registry of offenders (*Registro Público de Empleadores con Sanciones Laborales – REPSAL*). The names of employers registered as offenders will be made public. Offenders will have to pay the corresponding fines and be subject to a set of sanctions such as the loss of public subsidies and ineligibility for loans from public banks or the federal government's economic stimulus programs (such as temporary or permanent reductions in social security contributions). The hope is that these measures will help reduce evasion.<sup>10</sup>

In the formal sector, measures to promote the hiring of formal workers include both temporary and permanent reductions (in the case of micro-employers) of employer contributions to social security.

The Permanent Scheme of Social Security Contributions for Micro-Employers enacts a permanent 50% reduction in employer contribution to social security (the

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<sup>10</sup> Data from the *Plan Nacional de Regularización del Trabajo* (National Job Regularization Program, PNRT) reveals that at 58% of the companies where irregularities were detected at an initial inspection, such irregularities were shown to continue by a follow-up inspection. Furthermore, most of the fines ordered by the PNRT go unpaid. Thus, it could be argued that the sanctions associated with work site inspections have not produced the dissuasive effect hoped for.

employer still has to pay social health insurance contributions). This new scheme applies to nearly 60% of employers registered in Argentina. The new law also redefines the Scheme for the Promotion of Legal Employment and Registered Work, establishing a limit on the temporary social security reductions for companies with as many as eighty workers and an extended limit for smaller enterprises.<sup>11</sup> These changes in the law are aimed at avoiding the undesirable effects of this type of policy (such as substitution and deadweight loss effects) through impact-assessment studies. Studies have revealed that the largest companies had the greatest number of workers hired under the former scheme (which imposed no limits on the basis of number of employees), but that the policy had the greatest impact on smaller firms (Casanova et al., 2015).

For the "partly formal/partly informal sector," the plan is to expand the scope of the new permanent scheme of social security contributions for micro-employers (which offers a reduction in workplace accident insurance payments) and to expand the Joint Trade Union-Employer Agreements (*Convenios de Corresponsabilidad Gremial*) to other sectors. The *Convenios de Corresponsabilidad Gremial* (CCG, for their Spanish acronym) were first implemented in 2008 to facilitate compliance with labor and social security regulations in rural employment. These agreements are signed by workers' associations (unions) and rural employers organizations; they allow the employer to replace monthly social security payments with deferred payments, known as a "substitute rate," (in Spanish, *tarifa sustitutiva*) that can be paid at a more favorable moment in the production process.

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<sup>11</sup> For enterprises with fifteen workers or less, the reduction is 100% during the first year after hire and 75% during the second year of employment. Employers at companies with eighteen to eighty workers receive a 50% reduction during the first two years after hire for all new employees. This scheme is compatible with that of micro-employers.

## **V. Final Considerations: What Type of Strategy Is Most Likely to Reduce Informality?**

Argentina's experience in the past few years shows that a comprehensive strategy is necessary to effect important reductions in informal employment. The strategy has covered a wide range of policy areas, from macroeconomic policies to more specific measures such as the National Work Regularization Program, the economic policies that generate decent employment, and programs to sustain employment during times of crisis. These measures have contributed to preventing workers from falling into informality, as well as - albeit to a lesser extent- unemployment.

After an important drop in non-registered employment from 2003-2008, particular circumstances have made it difficult to further decrease informality. Economic growth has slowed and informality is currently concentrated in certain entrenched sectors that, due to their economic characteristics (i.e. small informal or partly formal enterprises) and social characteristics (for example, unskilled work), are difficult to formalize. Despite advances in reducing some productivity gaps (across sectors and firms), the economic structure continues to be critical to expanding production and to creating quality employment. Regional differences, not only in relation to productive structure but also in institutional terms, are also a necessary condition for formalization. Other factors include social tolerance to informal employment and lack of awareness of the consequences of informality, which may lead many to believe that informality is normal or acceptable in various segments of the labor market. All of this points to a need for consolidating and redesigning the formalization strategy (Bertranou et al., 2015).

Future strategies must take into account the heterogeneous nature of informality, seeking formal employment while fostering economic activity. During the transition to formality, these strategies must also provide social protection for the sectors where informality is entrenched. While the role of

the State is fundamental to carrying out this difficult task, the involvement of worker organizations, employer associations, and other relevant actors is also critical.

To create decent work, macroeconomic policies must allow for a return to sustained, stable growth. This will not only combat informality, but also foster investment and increase productivity, contributing to the transformation of production. To achieve that last goal, it is necessary to consolidate existing production policies and to design new ones. The goal is to develop a strategy aimed at increasing the economy's overall productivity in the medium and long terms while reducing gaps between different sectors and types of enterprises.

Another critical factor in formalization is the implementation of specific measures that target segments where informality is entrenched or where, due to the nature of the work or the economic activity, it is particularly difficult for traditional formalization instruments to have an effect. This must be done within the framework of a broader strategy. Law No. 26,940 for the promotion of registered employment and labor fraud prevention, passed in 2014, puts into effect a series of consolidated labor and job-market policies that have been redefined in order to have greater impact on certain critical segments of the job market, such as small and micro-enterprises.

Finally, to formalize employment in certain critical segments where traditional instruments such as inspection and incentives often prove unsuccessful, it may be necessary to reinforce strategies to communicate information about the issue of informality. The aim would be not only to raise awareness of the need for regularization and of the sanctions associated with non-compliance, but also to support workers if they decide to come forward and report non-registered work. The information should also indicate what tools and measures the State offers companies to facilitate the transition to formality (Bertranou et al., 2015).

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