

## LABOR ENFORCEMENT AND FORMAL EMPLOYMENT: THE EFFECTS OF COMMUNICATION AND PUNISHMENT

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In this paper, we examine the effects of two components of an initiative launched by the Brazilian federal government to combat informality among salaried workers in the country. One of the components consisted of sending e-mails/letters to registered firms to inform employers about the importance of hiring workers formally and the potential penalties for non-compliance. We call this component the communication component. The other component, which we call the punishment component, was face-to-face inspections of a subset of firms that received the communication component. The program was implemented in 2014 in a set of municipalities with less than 100,000 inhabitants that had high informality rates according to the 2010 census.

To identify the effect of the communication component, we use the regression discontinuity design (RDD), exploiting the program cutoff of 100,000 inhabitants. We do not observe an increase in inspections at the cutoff, so the effect can be attributed solely to the communication component. The results show that during the implementation of the program there was an increase in both hiring and firing of previously undocumented workers. We do not find any effects on regular formal hiring and firing.

To identify the effect of the punishment component, we use the difference-in-difference (DiD) method, comparing municipalities (treated by the communication component) that experienced an increase in the rate of inspections with municipalities that did not. We also attempt to uncover heterogeneous effects of municipalities that had higher increases in the rate of inspections. The results show that during the program there was an increase in both the hiring and firing of previously undocumented workers, but as in the case of the effects of the communication component, we do not find any effects on regular formal hiring and firing. We do not find heterogeneous effects of the punishment component on hiring and firing, either for previously undocumented workers or for regular hires and firings.

All impacts of the program were detected during the semester of program implementation. However, the effects disappeared after implementation, suggesting that employers responded immediately to the program but returned to their usual compliance behavior, a situation consistent with "action and backsliding".