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Simplification of Labor Registration in Argentina

Achievements and Pending Issues

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Abstract¹

This paper describes the reforms aimed at simplifying the administrative procedures for labor registration and the payment of social security contributions that were carried out in Argentina in 2005 and 2007. Analysis of the legislation, as well as a survey conducted among accountants, reveals that although the reforms did reduce the administrative burden, the effect was only partial. By using microdata gathered from household surveys conducted quarterly between 2003 and 2009, and the discontinuities according to company size that the legislation engenders, differences-in-differences coefficients have been estimated regarding the impact of the simplification reforms on the labor market. The results indicate that the simplification reforms had a positive, although limited, effect on the labor registration rate (of approximately two percentage points for all workers and nine percentage points for newly-hired workers), but that there was no effect on employment levels. Finally, policy recommendations are put forward aimed at deepening the administrative simplification process and thereby improving its effectiveness as a labor registration promotion mechanism.

JEL Classification: J3, J8, O17

Keywords: simplification, registration, taxes, the labor market, informality, Argentina.

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1 – Introduction

The objectives of this paper are the following: to describe the simplification reforms implemented in Argentina in recent years; to analyze how they have affected the administrative costs of labor registration and the payment of social security contributions; to estimate their impact on labor registration and employment; and to put forward policy recommendations.

The scale of labor registration in Argentina is surprisingly low given the country's level of development. Countries such as Chile, Costa Rica, and Uruguay all display less labor informality than Argentina. The phenomenon of deficient labor registration is not, however, homogenous throughout the entire productive sector. Instead, labor informality is generally most strongly concentrated in small enterprises. In 2004 (before the simplification reforms examined in this paper), 16 percent of workers in enterprises with five or fewer employees were registered, as opposed to 87 percent of workers in enterprises employing more than 40 workers.² Shortcomings in labor registration are clearly more pronounced in smaller companies.

Many factors contribute to high informality levels. According to De Soto's pioneering work (1986), one cause is the administrative complexity encountered when registering an employee, a complexity that becomes particularly costly for the smaller-sized firms. A report by the Asociación de Aseguradoras Privadas and Fundación Novum Millennium (ASAP-FNM) (Private Insurance Association) estimated that, in 1999, the administrative costs from registering workers and paying their social security contributions in Argentina (i.e., to keep them formally employed) represented 1.5 percent of the payroll for the average enterprise. For the small enterprise, however, (with five or less workers) this cost might be as high as 6.3 percent owing to the fixed costs (ASAP-FNM, 1999; Giordano and Torres, 2000).

Additional factors also work in favor of informality, such as the high level of compulsory social security contributions (Colina et al., 2002), ineffective labor inspection (Ronconi, 2010), the rapid increase in openness to trade and subsequent greater external competition (Goldberg and Pavcnik, 2003), unemployment, the workers' own lack of awareness of their rights, and the high level of volatility, especially among the smaller productive units.

From 2005 onwards, a labor registration simplification system was initiated (*Mi simplificación*) and a new system for paying social security contributions inaugurated (*Su*

² Information gathered from the Encuesta Permanente de Hogares Continua (EPHC) (Continuous Permanent Household Survey), which is fully described and analyzed below.

declaración) in 2007. As this working paper demonstrates, both are signs of important, albeit partial, progress towards reducing the administrative costs of formalizing labor, particularly among enterprises with five or fewer employees.

The rate of labor registration increased from 45 percent in 2003 to 57 percent in 2009, which seems to suggest that the simplification reforms had the desired effect of stimulating registration.³ Other factors, however, may have affected labor registration, such as economic growth and falling unemployment experienced during this period. To clearly determine the causal effect of these reforms on the labor market, an identification strategy that eliminates problems of endogeneity must be employed.

Fajnzylber et al. (2009) employ regression discontinuity analysis to estimate the impact of the SIMPLES program on the registration of enterprises and workers in Brazil, and concluded that the reform had indeed contributed to labor formalization.⁴ The authors compare the registration rate among firms set up in the 10 months prior to the reform with the rate calculated for companies created in the 10 months following the reform. In effect, they use the date of reform implementation as a discontinuity and analyze a relatively short period to avoid problems of endogeneity. Nonetheless, given that the SIMPLES program includes both a reduction in administrative complexity for the enterprise and its workers, as well as a decreased tax burden, the authors were unable to isolate the impact of simplification from that of lower taxes.

Bruhn (2008) and Kaplan, et al. (2006) use differences-in-differences estimators to measure the impact of the Rapid Business Opening System (SARE) program in Mexico (which simplified company registration) and also found that the program had the desired effect, albeit on a rather reduced scale. The authors compare the evolution in the rate of registration before and after the reform, among both participating and nonparticipating companies. The latter provide the control group, as the SARE program was implemented only in some municipalities in Mexico, and benefited only certain enterprises.⁵

This paper seeks to contribute to diverse aspects of the growing body of literature dealing with administrative simplification and labor registration in Latin America. The study first examines the case of Argentina, and then concentrates on simplification reforms directed at

³ Information gathered from the EPHC.

⁴ The authors also estimate the impact of labor registration on company performance.

⁵ Djankov, et al. (2002) analyzed start up costs for new enterprises in 85 countries and found that those countries with the highest costs are the ones with the greatest informal economies.

reducing administrative complexity in employee registration and the payment of social security contributions, in contrast with the cases of Brazil and Mexico, where the reforms are fundamentally concerned with company registration simplification processes. The paper goes on to present a methodology that exploits two discontinuities: the date of reform implementation and the eligibility requirements. In March 2007, the *Su Declaracion* program was introduced for firms employing five or fewer employees. This was extended in 2008 to companies with between six and ten employees. This discontinuity according to company size allows changes in labor registration to be compared before and after the reform, as well as between workers employed in enterprises affected by the reform and workers employed in similar, but slightly larger, companies that were unaffected. The results indicate that the reforms reduced the bureaucratic costs of registration and the payment of social security contributions. This had a positive, although minor, effect on labor formalization, but no affect whatsoever on employment levels.

This paper presents a description of the simplification process in the second section; a qualitative analysis based on an opinion survey of accountants in the third section; an econometric impact analysis in the fourth section; an analysis and interpretation of the results in the fifth section; and policy recommendations in the final section.

2 – The Simplification Process

One of the main bureaucratic obstacles that hampers labor formalization in Argentina is the wide range of legal regulations that exist with regard to social protection and income tax. Generally speaking, there are three legal aspects that regulate labor registration: i) social security legislation, which provides coverage for old age, disability and death, unemployment, family support, health care for both active and retired workers, and occupational accident insurance; ii) regulations regarding collective work agreements that stipulate the obligatory contributions payable to the trade unions, irrespective of whether the worker is a union member or not, as well as certain complementary benefits, such as subsidies or life insurance policies;⁶ and iii) the

⁶ In Argentina, the collective bargaining model is corporative, with a single, public trade union. This means that only one trade union has the power (legal capacity) to negotiate a single collective agreement applicable to all workers according to sector, branch of activity, or type of occupation. The union with the highest membership is given this representative power. The companies, however, can be represented by more than one employers' organization. For the employer, negotiation with the sole trade union is obligatory. The collective bargain that arises from this process is applicable to all workers in the sector, branch, or occupation covered by the agreement, irrespective of whether or not the worker is a member of the union. Furthermore, individual agreements cannot be reached with conditions inferior to those agreed in the collective pact, as this is understood to be of a public (state) nature.

advance payment of income tax, which puts the administrative onus on the employer to calculate and withhold income tax.

A study conducted in 1999, which set out to reveal and analyze the administrative complexity existing in Argentina with regard to labor registration (ASAP-FNM, 1999; Giordano and Torres, 2000) discovered that the complexity originated in the multiplicity of social security and trade union management bodies. More fundamentally, each management body sought to gather information regarding the employees on its own, using the employer as a data provider. In this way, the company ended up supplying multiple agents with the same information concerning the company itself, its employees, and the families of the employees using various mechanisms, most of which were manual rather than electronic and involved having to move physically from one place to another to complete the formalities. For example, in the case of a single firm, a total of 16 forms had to be filled in and taken to eight different management agencies, which had all solicited the same information. The company thus bore an administrative burden of having to provide roughly 500 pieces of information, of which only 18 were strictly related to the employment contract. The rest was information that had to be transmitted at the beginning of the hiring process, but did not refer to attributes of employment. The operational burden did not stop there, but was repeated monthly for the payment of social security contributions. It was calculated that the monthly costs of this administrative process for an average enterprise was 1.5 percent of its payroll, and that this cost rose to 6.3 percent of payroll for companies with five or fewer employees.⁷

In 2000, the Administración Federal de Ingresos Públicos (AFIP) (Federal Administration for Public Revenue), the tax collection agency responsible for collecting social security resources, created the Clave de Alta Temprana (CAT) (Early Employment Registration

As a single trade union negotiates conditions for all workers (not just those who are union members) from 2003 onwards the practice was established whereby the collective agreements also stipulated *solidarity payments* to be made to the main negotiating union, which were compulsory for *all* workers and *all* enterprises covered by the collective agreement. These payments have parallel rates that range between 2 percent and 3 percent of salary for both employee and employers. The argument used to justify the obligatory nature of this payment is that the better conditions resulting from collective bargaining are applicable to all workers, and thus all workers must pay for it. The company's responsibility to pay arises from the public (state) nature of the collective agreement, which affirms that if the aforesaid agreement is obligatory, then so is the solidarity payment therein expressed. This solidarity payment does not confer the right to use or enjoy the trade union's facilities or benefits. If a worker wishes to use the facilities and receive the benefits, he must voluntarily sign up and pay additional union dues, which must be deducted at source by the employer and paid into the union account. Both types of union contributions, solidarity payments, and voluntary dues make labor registration procedures extraordinarily complex.

⁷ Arruñada (2008), among other authors, deals with the importance of the recurring costs of formality alongside the initial cost of formalization.

Code), a system that required employers to report information about new employees to the agency as soon as they were hired. Before hiring, the employer would be required to send the following data to the AFIP: the Clave Única de Identificación Tributaria (CUIT) (Unique Tax Identification Code, or employer's code); the Clave Única de Identificación Laboral (CUIL) (Unique Worker Identification Code, or employee's code); the date of employment; the conditions of the employment code; and the occupational accident insurance code. The system then provided the CAT, which certified to the controlling authorities that the employee's information had been duly reported to the social security registries, and it was thereafter understood that the worker was legally registered. It was possible to access the system through the AFIP's website, at the AFIP offices by filling in duplicate forms, or via a toll free number. The administering of the CAT, however, soon became just another procedure, as the social security and trade union management agencies did not adopt the aforesaid system as the legitimate labor registration mechanism, which meant it was used only by the tax collection agency.⁸

To improve and simplify the system, a second study made a proposal that called for all administrative procedures (the CAT, social security, and trade union affiliation) to be unified at the national level (JGM, 2000). The procedures would involve registering workers via a single, simple step and for all social security contributions to be made automatically through the banking system, when the employer paid the workers' salaries into their respective bank accounts.⁹ This project fell by the wayside due to the economic, political, and social crisis that struck Argentina in 2001. The idea of simplification, however, remained, and in 2004 Law No. 25,877 was enacted, which stipulated that the registration of workers and employers must be carried out in one step. To this end, in 2005, the AFIP took up the simplification proposal made in 2000, and shouldered responsibility for implementing it. This marked the beginning of a simplification process that has already seen two important achievements: the implementations of *Mi Simplificación* and *Su Declaración*.

⁸ This means that both employers and/or employees—even when they had informed or been informed of their early registration codes—still had to comply with myriad procedures with the social security management agencies to obtain effective affiliation to them. Therefore the CAT, although officially valid, did not in practice represent a simplification, as the social security agencies failed to adopt it as such, and employers and employees had therefore to continue complying with various overlapping procedures.

⁹ In the project, the running of this simplified system was to be entrusted to a database management agency, which would be the sole entity in contact with the companies, and would in turn provide information to the social security, trade union, and tax collection management agencies (JGM, 2000).

Mi Simplificación is an AFIP tool, administered via the Internet, which allows companies to register the hire and termination dates of employees through one step. The system was implemented in July 2005 and surpasses the CAT in two ways: first, because it is an administrative system for current employment agreements given that, along with the date of hire, the termination date must also be entered.¹⁰ Second, the labor registry in *Mi Simplificación* is now considered to be the only valid one with regard to social security rights and obligations. Therefore, all trade union and social security administrations now recognize this procedure as the only legitimate registration method. (Appendix 1 presents the data required by *Mi Simplificación* detail. Clearly, although it is indeed a single procedure, based on the quantity and nature of the information required, the registration process is still far from simple.)

The second milestone was the implementation of the *Su Declaración* system, the tool whereby the smallest companies can automatically obtain their tax returns from the AFIP website in order to make their corresponding social security contributions.¹¹ In this system the tax return is produced using information already registered in the *Mi Simplificación* system. *Su Declaración* is therefore articulated with *Mi Simplificación* in the sense that the tax return governing the payment of social security contributions is automatically generated based on the updated information contained in *Mi simplificación* database. The procedure for payment of social security contributions is simpler, given that the continuous updating of *Mi Simplificación* automatically creates the payment instrument. This system began operating in March 2007 for all companies with five or fewer employees, and from March 2008 it was extended to include companies with between six and ten employees.¹²

The importance of this system as a simplification tool has various facets. First, it articulates labor registration with social security contributions by unifying procedures and maximizing the efficiency of the efforts the employer makes to register an employee. Second, and this is possibly the most attractive aspect of the *Su declaración* system, it helps to simplify administration for small enterprises, which make up a large part of the informal labor market.

¹⁰ This form did not previously exist in the case of the CAT, which only required the hire date. In this sense, the CAT was a disorganized accumulation of both current and outdated labor relations.

¹¹ This procedure does not produce the payment voucher for the social contributions payable to the trade unions; the employers must continue to meet these obligations by following a parallel payment procedure that arises from the current collective bargaining agreements.

¹² Businesses not covered by the *Su declaración* system must still follow the procedure known as Formulario 931 (Form 931), which is difficult to use for nonspecialists, given the technical knowledge needed and the software involved.

Therefore, both registration and the payment of social security contributions to the AFIP have been simplified. The latter is possibly the procedure with the greatest fiscal difficulty and the one on which employers place greater importance. From this perspective, simplification has had a positive effect on formalization. However, even when the rest of the social security management agencies recognize the procedure and accept its validity (i.e., they accept a labor relation is registered when it complies with this procedure), it may still be necessary to comply with supplementary procedures. For example, with regard to occupational accident insurance, the employer has to comply with the affiliation procedure. In the case of health care plans (health insurance), the worker must comply with a procedure that also requires the employer's intervention. With regard to the payment of family subsidies, the employer is also required to complete further formalities. Finally, the employer is required to fulfill all procedures demanded by the trade union. From this point of view, *Mi Simplificación* and *Su Declaración* simplify the procedures that employers place most importance on, but these programs do not lessen the other responsibilities involved in employee registration.

3 – Survey of Accountants

To measure the impact of the simplification reforms on costs and the time taken to comply with labor registration administrative procedures and payment of social security contributions, a survey was conducted among accountants based in the Ciudad Autónoma de Buenos Aires (CABA) (Autonomous City of Buenos Aires) and its surrounding areas—greater Buenos Aires. An estimated 13 million people live in this great urban conglomeration, which represents a third of the entire population of Argentina (Census 2010, INDEC).

Given that the aim of the exercise was to seek the opinion of the people who actually carry out labor registration, it seemed necessary at first to interview both employers and the professionals specialized in labor registration and in the administrative procedures for payment of social security contributions. In Argentina, however, small employers usually contract the services of an independent accountant to carry out these tasks. It was suggested that, following the simplification reforms, some small businesses might be able to carry out the procedures themselves. To verify this, the civil servants who deal with the public in the AFIP's centers were interviewed. The majority of those consulted stated that, although some small employers do indeed inquire about how to register a new employee or to comply with their current employees

social security requirements, they all hire independent accountants, due to the complexity of the procedures. This phenomenon is indicative of the fact that labor registration is still far too complicated, due mainly to the fact that, as previously mentioned, although there is now a single procedure, the amount and nature of the information that must be submitted—as well as, a certain complexity inherent in the use of the information tools (the AFIP’s own website)—discourages small businesses from dealing with these procedures on their own. Therefore, the focus of the analysis was shifted towards the independent accountants.

The sample selection of accountants was chosen at random from Argentina’s most complete service provision directory for both businesses and private individuals (<http://www.paginasamarillas.com.ar>). A total of 132 accountants were contacted, and full answers were obtained from 100 of them (76 percent response rate). All interviews were conducted by telephone between August and September 2010, using the questionnaire contained in Appendix 2. Figures 1 and 2 show the accountants’ opinions regarding the impact of these two systems. The majority of accountants believe that both reforms did simplify the task of employee registration and social security contribution payment: 62 percent of the accountants believed that *Mi Simplificación* reduced the bureaucratic burden and 69 percent of them thought that *Su Declaración* did likewise. However, 14 percent and 9 percent respectively held that the system did not reduce bureaucratic red tape, and approximately 20 percent believed that the reforms had made the procedures even more complicated.¹³

¹³ The AFIP experts responsible for implementing these systems argued that both programs, but particularly *Su Declaración*, simplified procedures. They also point out, however, that some system users (accountants) criticize the complexity of *Su Declaración* but fail to understand the cause of said inconvenience. In particular, new system users were not used to linking worker registration with tax returns for the purpose of social security contributions; therefore, when not all workers for whom contributions were to be paid appeared as registered in the tax returns automatically generated by the *Su Declaración* system, the users associated this inconvenience as a defect of the system itself although, conceptually speaking, the inconvenience arises from the fact that not all workers have been previously registered in the *Mi Simplificación registry* system.

Figure 1
Did *Mi Simplificación* make your task easier?

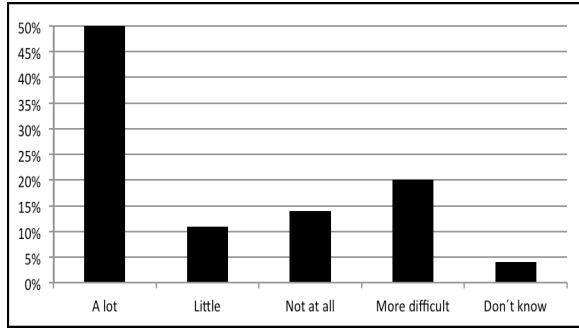
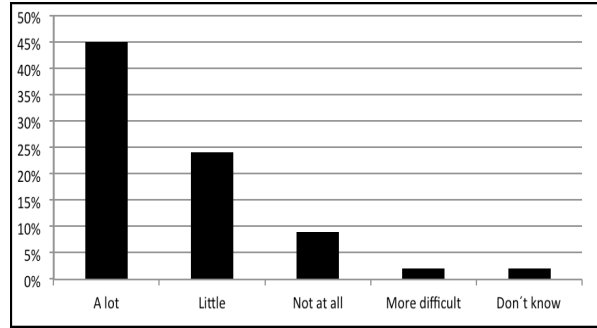


Figure 2
Did *Su Declaración* make your task easier?



The accountants' opinions on the impact of the reforms in terms of the time needed for labor registration suggest that the time it took to register a new worker declined from 72 minutes to 36 minutes. The time needed for social security contributions was reduced from an average of 38 minutes before the reform to 22 minutes afterwards.¹⁴

Finally, and this is a question of vital importance when it comes to designing simplification procedures for tax compliance purposes, 78 percent of the accountants consulted stated that the procedures are still very complex because they are difficult to understand and/or because the rules constantly change (Table 1).

¹⁴ These values possibly underestimate the total time required for worker registration and payment of social security contributions—especially before the reforms were in place—given that the response of some accountants appears to make exclusive reference to the time needed to fill in the forms, leaving aside the time invested in having to physically travel to the place where the paperwork is handed in.

Table 1
How complicated is it to apply the current regulations when registering a new employee or making social security contributions?

Degree of complexity	Percentage
Very complicated, as the rules are difficult to understand and constantly change	28%
Very complicated, as the rules are difficult to understand	23%
Very complicated, as the rules constantly change	27%
Moderately complicated	20%
Easy	2%
Total	100%

An analysis of the data reveals that the simplification reforms (both *Mi Simplificación* and *Su Declaración*) did effectively reduce bureaucracy by simplifying procedures and reducing the time invested in labor registration. It also reveals, however, that the results of simplification have been only partial. The procedures are still difficult to understand and carry out, which means that small businesses usually rely on the assistance of an accountant to complete them.

4 – The Impact of Simplification on Labor Registration

What impact did the simplification reforms have on labor registration? It is first worth pointing out that, given the extensive use of accounting services for the registry, the impact of the reforms on the labor market is indirect. The simplification reforms did reduce costs for the accountants, and this is passed on to employers in the form of lower prices (in real terms) for accounting services. How much of this reduction in costs is passed on depends on the elasticity of supply and demand for accounting services and the degree of competition found in the accountancy market. In Argentina, the market for accountants appears to be highly competitive, and the supply is very elastic, given the large number of professionals in this area that graduate each year with a degree from a free university. On the other hand, given the high inflation rate, it is only to

be expected that any reduction in the administrative costs of registration should be passed on to employers in the form of a lower price, in real terms, for accounting services.¹⁵

Economic theory indicates that employers carry out a cost-benefit analysis before deciding whether or not to fulfill their obligations to register their employees. The simplification reforms analyzed in this paper reduced the administrative costs of registration (and the cost of hiring an accountant to do the paperwork) and it is therefore to be expected that labor registration should increase. But the scope of this effect might be limited for two reasons: first, the reforms only partially reduced the administrative cost of registration because, as mentioned, the procedures are still complicated, and employers need an accountant to deal with them; and second, because administrative cost is just one of the many factors that affect labor registration cost-benefit analysis. Other principal costs of formalizing labor are the social security payments and the trade union contributions established in the collective bargaining agreements. Social security contributions—which vary slightly according to the size of the company, the region, the class of taxpayer and worker, and the economic sector—represent between 47 and 54 percent of the worker’s take-home pay.¹⁶

Furthermore, the solidarity and voluntary fund contributions that are fixed by the collective bargaining agreements represent a further 5 percent of the salary. In this way, what an employer has to pay in terms of social security contributions and payments to the trade unions makes up more than half of the worker’s take-home pay. Given that such contributions provide benefits for formally registered workers (insurance against social risks), it might be assumed that they are a kind of deferred salary rather than a tax on jobs. This argument, however, is only partially true, given that the benefits the workers receive in the form of social security are in general lower in value than the contributions they make.¹⁷ In other words, the simplification

¹⁵ The lower cost for the registration service and the issue of social security payment vouchers might also be attributable to the provision of complementary services. In other words, given that the costs of registration and payment voucher issue is lower, accountants might offer complementary services related to these procedures, such as labor registration plus other taxation and regulatory formalities, to avoid limiting their activity to the provision of a single, poorly-paid service.

¹⁶ Under the general regime, the social security contributions for which the worker is responsible cover 11 percent for pensions, 3 percent for retired workers’ health insurance, and 3 percent for active workers’ health insurance. On top of the worker’s take-home pay, plus the contributions, employers contribute 15 to 19 percent for pensions, unemployment insurance, and family benefits, according to the size of the company, as well as 2 percent for retired workers’ health insurance, 6 percent for active workers’ health insurance, and between 3 and 5 percent for occupational accident insurance.

¹⁷ Furthermore, the rules on social security benefits are lax, which means that when the time comes to receive a pension there are legal and administrative loopholes that allow pensions to be obtained without having paid the

reforms reduced the administrative costs of registration, but their impact on informality might be quite limited, given that there are other components that generate high labor costs, such as social security contributions and payments to the trade unions, which represent, to a large degree, a tax on employment.¹⁸ To fully measure the dimension of these components, it must be remembered that administrative costs—prior to the simplification reforms—represented 6.3 percent of the salary mass for small enterprises.

Likewise, registration brings complementary benefits, such as avoiding fines for noncompliance with employment regulations, helping to avoid conflict with the trade unions, and facilitating access to credit. Ronconi (2010) finds evidence that employers in Argentina are more willing to register their employees when the possibility of being found out by public inspectors is greater. In other words, economic theory suggests that these reforms have had a positive impact on labor registration, but the impact has probably been limited in Argentina given that simplification was only partial and because there are other, possibly more important, factors that affect the decision of whether or not to comply with labor and social security obligations.

As the administrative cost of labor registration goes down, the simplification reforms at first induce the employers to register both the new workers they take on and those workers who were already employed but were not legally registered. However, it is possible that the impact is greatest in the case of new employees. To register a worker who has already worked for some time in the company implies recognizing that there has been noncompliance in the past, which might give rise to the obligation to pay fines and back taxes. The following sections, therefore, estimate the impact of the reforms on workforce registration as a whole and also on the registration of newly employed workers.

4.1 – Data

In order to analyze the impact of the simplification reforms on the labor registration rate, the Encuesta Permanente de Hogares Continua (EPHC) (Permanent Continuous Household Survey) was used, which is the principal source of employment information in Argentina. The EPHC has

contributions. With regard to the other social benefits (health insurance, unemployment, and child allowance) the amount of the benefit, and the quality of service offered, are not much better than those received by people who have never contributed.

¹⁸ Colina et al. (2002) have shown that these are important determining factors in the case of labor registration in Argentina.

been conducted every three months by the Instituto Nacional de Estadísticas y Censos (INDEC) (National Institute for Statistics and Censuses) since the third quarter of 2003 and covers the 28 major urban areas (nearly 70 percent of the country's total population).

The workers are asked in the EPHC whether or not their employers are duly paying the corresponding contributions to the pension system. In accordance with Argentine legislation, an employer is obliged to fulfill this obligation. Based on this variable, an indicator has been constructed here for the registration of workers employed in the private sector: *registro laboral* (labor registration), which adopts the value equal to 1 if the worker receives a contribution to the pension system and 0 if he does not. It is worth mentioning that the *registro laboral* indicator can be incorrect if the workers are not sufficiently informed about the benefits they obtain from their employment situation, or do not tell the truth when responding to the EPHC survey. This, however, does not appear to be the case. Salim and D'Angela (2007) estimate the rate of labor registration by using administrative data regarding contributions to the Sistema Integrado de Jubilaciones y Pensiones (SIJP) (Integrated Retirement and Pensions System) between 2003 and 2006 and, when comparing it to the data obtained from the EPHC, they observe similar levels and evolution.

The lack of labor registration in Argentina is a generalized problem, but it affects some groups more than others. As shown in Figures 3 and 4, the labor registration rate (measured as a percentage of workers receiving pension contributions) is particularly low among unskilled workers and those employed in small enterprises.

Figure 3
Labor Registration Rate According to Level of Education, 2009

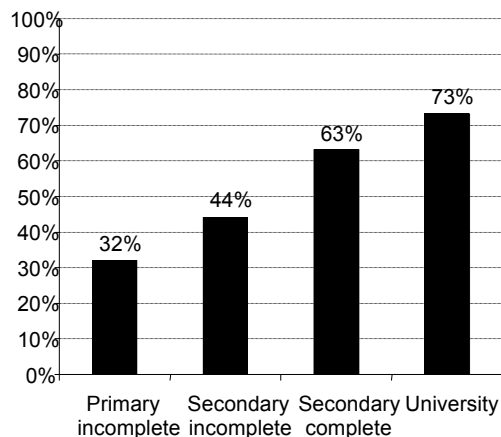


Figure 4
Labor Registration Rate According to Size of Enterprise, 2009
5 or less 6 to 10 11 to 25 26 or more

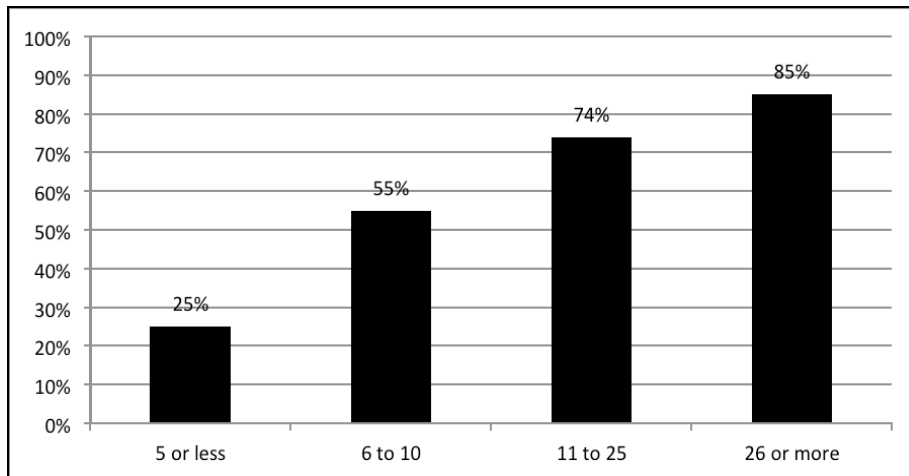
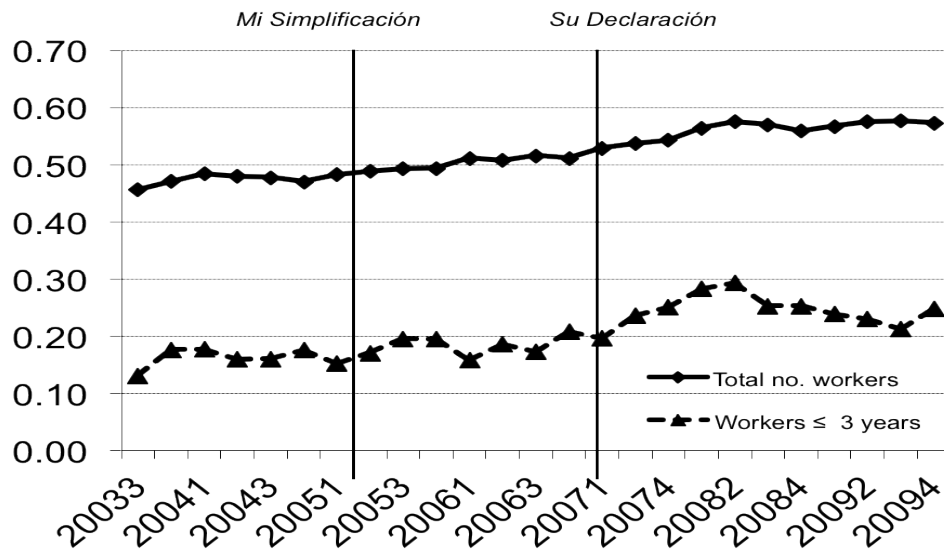


Figure 5 shows the evolution of the labor registration rate between the third quarter of 2003 and the fourth quarter of 2009 for both the workforce as whole and for workers enrolled in the last three months. A vertical line indicates the date on which the simplification reforms were introduced.

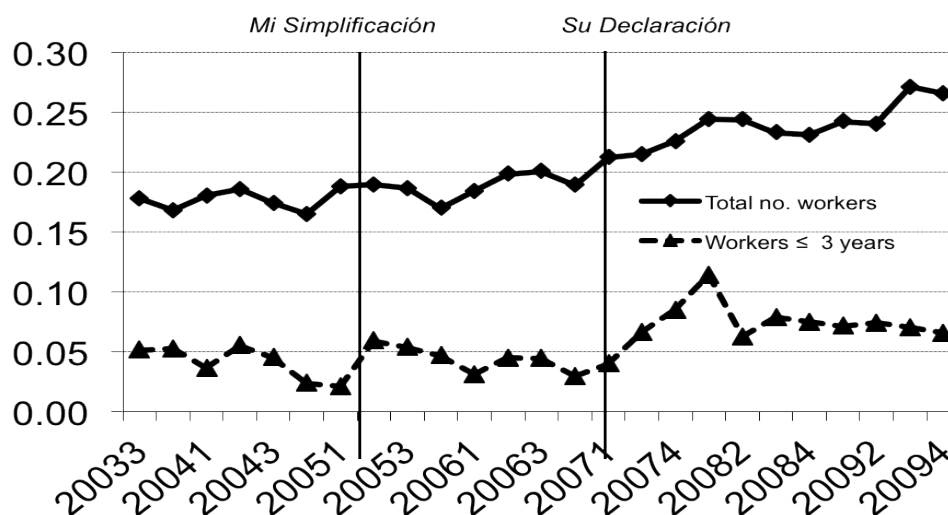
Figure 5. Evolution of the Labor Registration Rate, 2003–2009



During the period in which the reforms were introduced, an increase can be observed in the rate of registration both for the total number of workers, as well as for the group of workers having worked for less than four months. The rate of registration for the workforce as a whole rises from 45 percent in the third quarter of 2003 to 57 percent in the fourth quarter of 2009, and increases from 13 to 25 percent in the case of newly employed workers.

In Figure 6, the analysis is restricted to those persons employed in companies with five or fewer employees, as this is the business sector in which the lack of registration is most pronounced and where *Su Declaración* should have the greatest impact.

Figure 6
Evolution of the Labor Registration Rate in Businesses with 5 or less Employees, 2003–2009



In effect, in the companies with five or fewer employees, a pronounced increase is observed in labor registration during the period immediately following the implementation of *Su Declaración*. The registration rate for the employed workforce as a whole rises from 19 percent in the fourth quarter of 2006 to 23 percent in the fourth quarter of 2007, and from 3 percent to 5 percent in the same period for workers employed for less than four months.

Although these figures coincide in showing the positive impact of the simplification reforms on labor registration, the fact that an ascending tendency appears in the registration rate before the reforms (particularly in Figure 5) suggests that other factors played a role. To estimate the effect of the reforms on labor registration, all of the EPHCs were grouped together in a single database, as a pooled, cross section over time. The following model is estimated using the data:

$$Y_{it} = \beta MiSimplificación_{it} + \pi SuDeclaración_{it} + \lambda X_{it} + \varepsilon_{it}, (1)$$

Where Y_{it} is an indicator equal to 1 if the individual i in the third quarter of year t pays pension contributions and 0 if the opposite is true; the two variables that refer to the simplification reforms (i.e., *Mi Simplificación* and *Su Declaración*) adopt a value of 1 following the quarter in which they were implemented and 0 in periods prior to implementation; X is a vector of variables that includes the following workforce characteristics: age, sex (1 male, 0 female), nationality (1

immigrant, 0 native), and education (1 primary incomplete, 0 primary complete or higher).¹⁹ In this preliminary econometric analysis, company size is ignored, although it is considered later.

Table 2 presents estimates of changes in the probability of being registered after the simplification reforms. The results are obtained using a probit model. In Column 1 no controls are included. Column 2 contains the control variables that reflect workforce characteristics, year dummies to control the unobserved changes that occur over time in the demand for labor, and quarter dummies to control possible seasonal effects in registration. Column 3 assumes a linear temporal tendency (according to quarter) instead of dummies by year. In these three columns, the total workforce employed by private sector businesses is used. In Columns 4 to 6, the same specifications are estimated, but only those workers who have less than four months of tenure are included in the sample.

The correlation between the simplification reforms and the probability of a legally registered labor relation is always positive. The estimators of Column 1—which do not include controls—indicate that in the periods following the reforms the probability of being registered was between 3 and 6 percent higher than in previous periods. However, when controlled by time dummies and workforce characteristics, the estimates are reduced to between approximately 1 and 2 percent. In the case of workers contracted during the quarter in which the survey was conducted, the estimators are higher, and oscillate between 3 and 6 percent.²⁰ The greater impact among newly employed workers can be explained by the fact that formalization of workers who have been with the company for some time implies recognition of previous noncompliance by the employer, which might lead to a fine.

¹⁹ The information used to construct these variables was taken from the EPHC.

²⁰ The control variables suggest that immigrant workers, those with lower education levels and the youngest ones are less likely to have a registered job (these results are available for all those who are interested).

Table 2. Estimators of the Impact of Simplification Reforms on Registration

Variable	All workers			Worker employed \leq 3 Months		
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Mi Simplificación</i>	0.033***	0.011***	0.010**	0.026***	0.038***	0.033**
	(0.009)	(0.003)	(0.005)	(0.006)	(0.009)	(0.014)
<i>Su Declaración</i>	0.055***	0.010***	0.024**	0.061***	0.036***	0.065***
	(0.010)	(0.002)	(0.009)	(0.013)	(0.011)	(0.023)
Year dummies	No	Yes	No	No	Yes	No
Quarter dummies	No	Yes	Yes	No	Yes	Yes
Linear time trend	No	No	Yes	No	No	Yes
Number of observations	272,132	272,132	272,132	32,413	32,413	32,413

Notes: The coefficients indicate the change in probability that a worker will be legally registered or not. The robust standard errors are shown in brackets beneath each coefficient. Columns (1) to (3) use the total working population with regard to the private sector, whereas Columns (4) to (6) restrict the sample to those who obtained employment in the previous three months.

** Coefficient is statistically significant at the 5 percent level; *** at the 1 percent level.

The econometric results suggest that the simplification reforms had a positive impact on labor registration—particularly with regard to new employees—but that the effect was limited. For the workforce as a whole, *Mi Simplificación* would explain one percentage point, and *Su Declaración* between one and two percentage points, of the twelve percentage point increase seen in the registration rate between 2003 and 2009 (45 to 57 percent). For newly employed workers, the rate of registration went from 13 percent in 2003 to 25 percent in 2009. *Mi Simplificación* would account for between three and four percentage points of this increase, and *Su Declaración* for between four and six percentage points.

These estimators compare the periods prior to and following the reforms, and although they include time effects and control for workers' characteristics, they might capture the impact of other variables that have also changed over time. There is, however, one reform characteristic that enables additional estimators to be computed. *Su Declaración* was introduced in March 2007 only for those enterprises with five or fewer workers, and extended in March 2008 for firms with

between six and ten employees. This discontinuity according to company size therefore allows not only the changes in pre-and post-reform labor registration to be compared, but also between workers employed in businesses affected by the reforms with those employed in similar, but somewhat larger, firms that were unaffected. In other words, a differences-in-differences analysis can be made, both over time and according to company size. Under the plausible assumption that both groups of businesses suffered similar shocks, an estimator of the causal effect of the reform can thereby be obtained.

The use of differences-in-differences estimators for measuring reform impact has become very popular in recent literature on program evaluation. But as Bertrand, Duflo, and Mullainathan (2004) point out, this methodology can result in inconsistent standard errors whenever there is a serial correlation. To avoid this problem, for the purposes of this study the standard errors were computed by using cluster analysis (year-size of company).

The coefficients of Table 3 are obtained by estimating an equation similar to (1) but where the variable *Su Declaración* takes on a value equal to 1 from March 2007 onwards only for those respondents who are working in firms with five employees or less, and from March 2008 onwards, for those working in firms employing between six and ten workers. On the other hand, only those workers employed in businesses with 25 or fewer employees are included in the analysis, given that the larger businesses might have experienced different shocks and therefore do not represent a valid comparison group. The same controls as before are included, as well as fixed effects according to the following categories of company size: 1 to 5, 6 to 10, and 11 to 25 employees. Again, the results are obtained by way of a probit model, and refer to workers with less than four months employment in the business.

Column 1 includes the year and quarter dummies and fixed effects according to business size. Column 2 adds the workforce characteristics. From Column 3 onwards, the analysis is restricted—in order to limit the presence of omitted variables—to the period ranging from the fourth quarter of 2006 to the fourth quarter of 2008, given that it was during this interlude that the changes in *Su Declaración* took place. Column 4 includes the interaction between quarter and year and, finally, in Column 5 a different linear temporal tendency is assumed for each business size category to control the possible existence of economic shocks that had differing impacts on small- and medium-sized enterprises (SMEs).

Table 3. Estimators of the Impact of *Su Declaración*: Enterprises with Between 1 and 25 Workers.

Variable	Workers employed for ≤ 3 months				
	(1)	(2)	(3)	(4)	(5)
<i>Su Declaración</i>	0.035***	0.032***	0.063***	0.056***	0.063***
	(0.008)	(0.008)	(0.020)	(0.016)	(0.020)
Fixed effects: firm size	Yes	Yes	Yes	Yes	Yes
Quarter dummies	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	No
Quarter-year dummies	No	No	No	Yes	No
Linear time trend – firm size	No	No	No	No	Yes
Number of observations	21,763	21,763	7,484	7,484	7,484

Notes: The coefficients indicate the change in probability that a worker will be legally registered or not. The robust standard errors are shown in brackets beneath each coefficient and are obtained by using a cluster for the year/firm size. Columns (1) and (2) use all available surveys (from the third quarter 2003 till the fourth quarter 2009, whereas Columns (3), (4) and (5) are restricted to the period ranging from the fourth quarter in 2006 till the fourth quarter in 2008. The sample refers to workers employed in the private sector who were taken on in the previous three months, and work in businesses that have 25 or less employees.

*** Coefficient is statistically significant at the 1 percent level.

All estimators are positive and statistically significant. They suggest that the introduction of *Su Declaración* produced an increase of approximately six percentage points in the probability that new workers contracted by small enterprises were duly registered. An additional strategy consists in calculating estimators for each company size category using a short evaluation window, for example of just one year, and conducting a falsification analysis. In this case, if it is true that the simplification reform did have an impact, then there should be a noticeable increase in registration between the fourth quarter in 2006 and the fourth quarter in 2007, solely among those workers employed in enterprises with between one and five employees, given that the simplification implemented in March 2007 only covered this particular group. On the other hand, during this same period, there should be no noticeable increase in registration among workers in firms with more than five employees. Likewise, there should be greater registration of workers in companies employing between six and ten employees between the fourth quarter in 2007 and the

fourth quarter in 2008 (given that the March 2008 reform applied only to this group), but no changes should be appreciable for either larger or smaller enterprises.

Table 4. Estimators of the Impact of *Su Declaración*, Falsification Method

Company size	4th quarter 2006 to the 4th quarter 2007	4th quarter 2007 to the 4th quarter 2008
	(1)	(2)
Workers in companies with between 1 and 5 employees	0.037**	-0.034*
	(0.018)	(0.018)
Workers in companies with between 6 and 10 employees	0.045	0.094**
	(0.039)	(0.046)
Workers in companies with between 11 and 25 employees	0.104	-0.030
	(0.068)	(0.071)

Notes: The coefficients indicate the change in probability that a worker will be legally registered or not depending on a change in the explanatory variable from 0 to 1. The explanatory variable used in Column 1 adopts a value of 0 until March 2007 and a value of 1 thereafter, whereas in Column 2 it equals 0 up until March 2008 and has a value of 1 thereafter. The simplification reform was implemented in March 2007 for enterprises with five or less employees and in March 2008 affected companies with between six and ten employees. The fixed effects by year and the same controls as in Table 3 are maintained. The robust standard errors are shown in brackets beneath each coefficient.

* Coefficient is statistically significant at the 10 percent level; ** at the 5 percent level; no asterisk means the coefficient is not statistically different from zero.

In effect, the falsification analysis does indeed produce the expected results (Table 4). When the analysis is restricted to the period that ranges from the fourth quarter of 2006 to the fourth quarter of 2007, a statistically significant increase is only observable in the registration of workers at companies employing from one to five people (see Column 1), whereas a statistically significant rise can only be detected in the registration of workers at companies with between 6 and ten employees when the analysis is restricted to the period ranging from the fourth quarter of 2007 to the fourth quarter of 2008 (Column 2).

5 – The Impact of Simplification on Employment

In theory, reducing the administrative costs of labor registration might positively influence not only compliance with labor regulations, but also, in general, the level of employment, given that the aforesaid reduction diminishes the relative costs of labor in comparison with other inputs of production. However, the impact is possibly rather small. As previously mentioned, administrative simplification is only one of many factors that influence the business decision of whether to employ a worker formally or informally. There are other more important factors (such as reducing taxes on employment), and the process instigated in Argentina has been only partial up to now. When the firm decides how many workers it needs to employ and which labor/capital relation it wishes to use, the number of factors it analyzes is even greater and it is therefore to be expected that the impact of administrative simplification on employment will be less than its impact on labor registration.

Table 5 reproduces the differences-in-differences analysis according to company size. The table is divided into two panels. Panel A represents the estimators of the impact of reform on the probability of having a registered job and Panel B on the probability of having a nonregistered job. If the reform had a positive impact on the level of employment, then it should be noticeable that the increase in registered employment surpasses in absolute terms the reduction in nonregistered employment.

The results suggest that *Su Declaración* had a positive impact of approximately 0.3 percentage points on the probability of having a registered job in small enterprises, but it produced a reduction of a similar magnitude (although the results are very imprecise) on the probability of having an unregistered job. In other words, the simplification reform had no net effect on the level of employment in general, but affected only the rate of labor registration.

Table 5. Impact of *Su Declaración* on Employment, for Enterprises with between 1 and 25 Employees

Variable	Workers employed for ≤ 3 months				
	(1)	(2)	(3)	(4)	(5)
	Panel A: registered employment				
<i>Su Declaración</i>	0.004***	0.003***	0.003***	0.002	0.002*
	(0.001)	(0.001)	(0.001)	(0.003)	(0.001)
	Panel B: nonregistered employment				
<i>Su Declaración</i>	-0.001	-0.001	-0.007**	-0.008	-0.004**
	(0.003)	(0.003)	(0.003)	(0.010)	(0.002)
Fixed effects: firm size	Yes	Yes	Yes	Yes	Yes
Quarter dummies	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	No
Quarter-year dummies	No	No	No	Yes	No
Linear time trend – firm size	No	No	No	No	Yes
Number of observations	495,817	495,817	173,557	173,557	173,557

Note: The coefficients indicate the change in probability that a worker had obtained a registered job in the last three months in Panel A and a nonregistered job in Panel B. The robust standard errors are shown in brackets beneath each coefficient and are obtained by using a cluster for the year/company size. All columns include workforce characteristics except (1). Columns (1) and (2) use all available surveys (from the third quarter of 2003 till the fourth quarter of 2009) and Columns (3) (4) and (5) are restricted to the period ranging from the fourth quarter of 2006 to the fourth quarter of 2008. The sample excludes those employed in the public sector and those working in enterprises with more than 26 employees.

* Coefficient is statistically significant at the 10 percent level; ** at the 5 percent level; * at the 1 percent level; no asterisk means the coefficient is not different from zero with statistical significance.

6 – Analysis of the Results

The systems *Mi Simplificación* and *Su Declaración* are innovative management tools designed to simplify labor registration procedures and the issuance of social security payment vouchers for smaller enterprises, which encounter the greatest difficulty in complying with the bureaucratic requirements of labor registration. The evidence that arises from the accountants' surveys shows that, according to the majority of system users, the administrative procedures were indeed made

simpler. On the other hand, the evidence from the econometric analysis suggests there was a positive impact in terms of both systems contributing to a greater number of registered workers (although without any impact on the general level of employment). When the total working population is analyzed, it turns out that each of the simplification reforms is associated with an increase of between one and two percentage points in the probability of a worker being registered. When this analysis is restricted to newly employed workers, the impact becomes somewhat greater. *Su Declaración* produced an increment of approximately six percentage points in the probability of workers employed in small enterprises being duly registered.

Nevertheless, both the qualitative and the quantitative evidence suggest that the achievements were only partial (or small). For that reason this section presents a critical analysis of the shortcomings of the reform, or those aspects insufficiently dealt with, in order to put forward policy recommendations to improve and perfect the progress made so far. A concise analysis of political economy is also offered that explains how the play of interests between the different actors involved in managing social and trade union benefits stands in the way of using technical solutions to achieve greater simplification.

Beginning with the technical questions, the agility, fluidity, and user-friendliness of the technological format are not trivial matters when it comes to simplification. There is a tendency to directly associate simplicity with an Internet support function, but in order for the system to enjoy widespread use, the management software must be highly user-friendly. From this perspective, the AFIP's management software is anything but user-friendly. For security reasons, the formality of obtaining a tax code calls for a personal visit to an AFIP office. Thereafter, the procedure for validating the code on the AFIP website is complicated, and the website itself is not particularly easy to access due to the difficulty of the procedures and the security requirements called for at each step of the visit. Also, users must have high-speed access and the latest hardware to navigate through the site with relative continuity.²¹ Filling in the form, which at first seems to require quite simple information, becomes complicated when it comes to the legal aspects (conditions of employment codes, social security management codes, etc.), as the user is suddenly required to possess a high degree of awareness of regulatory and legal aspects. In order to guarantee the quality of registration, there are numerous stages where the website

²¹ It is often the case that, during critical periods when the deadline for filing major taxes approaches, the AFIP website crashes, further complicating compliance with the procedure.

does not allow the user to continue until the relevant field is complete with the pertinent data, at which point the small employer cannot progress any further without the help of an accountant. The accountant's fee thereby becomes unavoidable, which represents the first cost to the employer of the, albeit simplified, procedure.

To this complexity is added the frustration of having to report an excessive amount of information at the point of registration (as described in Appendix 1). Some information—such as personal details of the employee's family members—is not available to the employer and leads to abandoning the registration process. During conversations with AFIP system managers, it was pointed out that this complexity is to some extent unavoidable. In part, owing to the requirements of both the employment and social security legislation, but also because the system aspires to provide a single procedure and the information requirements of all the social security management agencies are therefore incorporated (the social provision entity, health insurance, occupational accident insurance, other agencies, etc.). Even when each agency asks for a reasonable amount of information, the total requirement multiplies and creates an additional burden on the employer.

One mitigating factor of this shortcoming is that *Mi Simplificación* requires the information about each worker (however vast and complex) to be submitted just once, and then only requires occasional updates in order to issue the payment voucher for social security contributions. As changes in small enterprises tend to be minor and infrequent (generally speaking, the data concerning the few workers employed is repeated), the system gains a certain amount of automatization, and is therefore an improvement on manual and paper-based systems, in which the same data has to be reintroduced every month. Clearly, a first lesson to be drawn is that, for legal and institutional motives, the administrative simplification is not easy from the technical point of view, even when the procedure is accessible on an Internet platform. The users are saved the trouble of visiting various offices, or of tedious manual form filling, but it is still a complex procedure due to the quantity and the nature of the data required—a factor that, due to its institutional origin, is difficult to solve from a purely technical angle.

Beyond merely technical considerations, the second vitally important aspect concerns the interests involved in managing the information engendered by simplification. These interests block the creation of an authentic single procedure and it is here that completely contradictory facts come to the fore.

The most obvious of the interests opposed to the concept of the “single procedure” can be found in the figure of the trade unions. These institutions administer health care plan contributions (health insurance policies), as well as the solidarity and voluntary contributions arising from the collective bargaining agreements, which go directly towards financing the unions themselves. With regard to the first—health care plan contributions—the unions accepted the simplification mechanisms because the collection of social security contributions has been undertaken by the State for the last 18 years. Initially, there was resistance to accepting the single procedure, as demonstrated by the fact that they still required employers for a long time to comply with a parallel, overlapping procedure alongside the first steps of the simplified mechanism.

This resistance was eliminated with the introduction of *Mi Simplificación*. But it still exists with regard to the payment of union contributions. The unions are reluctant to accept that registration, and payment for it, are carried out via official channels, possibly to protect confidentiality about the solidarity funds they receive. This is a very clear case of the political economy of simplification. In Argentina, the trade unions are important wielders of political pressure, and enjoy lax control regarding the way they manage these funds (which are, in fact, *public*, bearing in mind they arise from the obligatory nature of the solidarity contributions stipulated by the collective bargaining agreements). This is a consequence of the political influence that the unions traditionally exercise on the Argentine authorities.

An initiative of a merely administrative nature, which seeks to simplify procedures for small enterprises, thus arose against a backdrop of historical political resistance to institutionalization and transparency in trade union management. Without denying that the unions took kindly to the reform—after all, reform does help the most vulnerable segment of the productive sector—in practice, the incorporation of union procedure into the simplification process has played into the hands of the central philosophy of trade union attitudes: to keep the procedure from being conducted via a State mechanism. This is an example of how simplification, which would seem on the surface to present a merely technical challenge, can run up against difficult political obstacles.

Even when there are no complicated political interests—such as the trade unions—the private sector social security operators may not support simplification. An example of this is offered by the occupational accident insurance companies, which are the private insurers that pay

out the benefits associated with insurance against accidents in the workplace covered by the social security. Labor relation registration in *Mi Simplificación* is complicated by the data requirements for reporting a possible inability to perform ones duties and the accidents a worker might suffer as a consequence of his occupational activity—information necessary to enable payment by the insurance companies lost salary by workers who have suffered accidents. Among the larger enterprises, which have the scale to afford entire departments specialized in human resources and can count on the assistance of consultants specialized in employment legislation and personnel management, producing this data probably is not as complicated and may even constitute the most practical way of paying the wages lost by workers who suffer a workplace accident. However, for a company with five or fewer employees, gathering and providing the data adds complexity to the labor registration procedure without offering any added value for the company. If the bureaucratic burden for the smaller enterprises is to be reduced, the private sector administrators of social security benefits must take the attitude that when it comes to registering an employee, the procedure must be as simple as possible, and that data pertaining to benefit administration must be managed by direct contact systems or call centers, and not when the company decides to register an employee for the first time.

The same can be said of the health insurance affiliation procedure for families. The health care plans (and the prepaid health care companies, which are the private operators responsible for providing health insurance policies to workers) are accustomed to using the employer as a means of obtaining information for social benefit administration. The same applies to the Administración Nacional de la Seguridad Social (ANSES) (National Administration for Social Security), which frequently has recourse to company records in order to administer payment of family allowance benefits (a monthly payment per child).

In this way, administrative simplification of the labor registration act never really makes it a simple, one-off action for the employer. In Argentina, labor registration always triggers a series of administrative formalities that, although not difficult to fulfill, add extra costs. From this perspective, although it is not necessarily a deep problem of political economy—in the sense that it does not involve the conflict of economic interests—the fact that all social security benefit providers seek economies in the simplification system procedures (in order to reduce their own internal costs) leads to the paradoxical situation where the “simplified” system turns out to be complex and costly.

Social security managers must understand and fully take on board the idea that the labor registration procedure is only for registration purposes, and not for obtaining individual data about the worker or his or her family or employment situation. For example, when a labor relation is registered for the first time, the strictly necessary information consists of the employer's CUIT code and the potential employee's CUIL code, and nothing more. Data regarding family affiliation should be obtained from the social security family register database and, if it is out of date, it is up to the ANSES (which is responsible for managing the family relations register) to update it via direct communication with the household. The same is applicable to information concerning management of the other social security benefits (health and occupational accident insurance policies and trade union voluntary benefits). As far as employment conditions are concerned, legislators and employment authorities should be aware of the need to create administrative regulations and requirements that simplify the act of worker registration. Given that they have a vested interest in eliminating informality, it is highly contradictory that by issuing new regulations that ignore administrative problems, they end up generating adverse pressure on labor registration.

In any case, the most paradoxical and contradictory example is provided by the AFIP itself. On one hand, it administrates the simplified labor registration system and the electronic issue of social security payment vouchers. But, on the other, it stipulates a complex set of regulations for employers concerning the calculation and deduction of income tax for all workers that they employ. The liquidation of income tax for natural persons in Argentina is a complex procedure that can only be completed with relative ease by an accountant. The legislation states that employers must withhold part of this tax from the salaries of their highest-paid workers. What is paradoxical and contradictory is that the "simplifying" institution is the same one that thereafter complicates the procedure: the AFIP. This could be resolved quite easily by circumscribing the deduction the employer is obliged to make by a fixed percentage and letting the taxpayer (the worker) take care of the final income tax liquidation him or herself, by declaring the fixed percentage as tax already paid. In this way, labor registration could be simplified (albeit at the cost of maintaining the complexity of income tax payment for the taxpayer—i.e., the worker) and improvement made with respect to the current situation, in which both employer and employee suffer from the regulatory irrationality of the income tax calculation method.

A simplification reform requires, on top of technical pertinence and precision, a change of attitude by labor authorities and social security management agencies. This attitude should support the idea that labor registration simplicity is a principle—rather than a system—that should not exploit the employer as an administrative mechanism for information transmission, but should rather implant appropriate information systems, so that contact and communication between the labor and tax authorities, social security management, and the workers themselves are direct, and leaves the employer to one side.

7 – Policy Recommendations

The first policy recommendation supports the concept of simplification as a normative principle, rather than a mere information system. This does not call into question the fact that a simplified system requires an efficient information system, rather it stresses that technical excellence is not going to overcome the absence of a philosophy that favors simple rules. This calls for a culture of simplicity on behalf of the public policymakers, and both social security and trade union benefits managers.

Second, the tax costs associated with worker registration (social contributions) must be reduced to the absolute minimum. In Argentina’s case, this phenomenon is very pronounced. Although important progress has been made in terms of simplification for smaller enterprises, the evidence suggests that the effects in terms of greater registration among small business are modest because of high payroll taxes on registered workers. This study does not include an impact analysis of the high taxes on employment (there are many other studies on this subject), but it is inevitable that if the taxation cost of registering an employee exceeds 50 percent of that worker’s take-home pay, the potential incentive effect of greater administrative simplification will be weighed down by the burden of taxation. The arguments in favor of maintaining high taxes on employment are based on the fiscal necessity to financially sustain the social security system. However, at least for developing countries, this argument is not just biased, but erroneous. One of the distinctive characteristics of countries with relatively backward economies is the low incidence of income tax as a source of fiscal revenue. This calls for reflection on the

fairness of tax systems (which is not a trivial matter from the perspective of administrative simplification).²²

Third, and assuming that a philosophy prevails that favors simple labor regulations, and that there is a tax system that does not tax the hiring of manpower (especially unskilled manpower), then aspects of a more technical nature can be considered. Here, the principle of *uniqueness* is a priority.

The Argentine experience demonstrates that social security and trade union managers must not be permitted to elude participation in the single procedure. Further, the agencies that create rights and obligations with regard to labor relations cannot be allowed to independently demand information from employers in parallel to the simplified system. Every management agency that administers an employment benefit or obligation should be explicitly and legally prohibited from asking employers for information, and should instead seek such information from the administrator of the simplified system (in Argentina's case, from the AFIP, which is responsible for *Mi Simplificación*). If a social security manager needs more information in order to administer benefits, this should be obtained from his or her own system of direct communication with the worker in question, without using the employer as an intermediary. In the same way, the collection of contributions that are exchanged between the worker and the social security agency should be conducted via the simplified system (in Argentina's case, *Su Declaración*) and not by parallel methods.

Fourth, once the trade unions and social security agencies have concentrated attention on a *single* channel for transmitting administrative information, standards must be set regarding the type and nature of the data that each agency expects to obtain from employers. It is essential here that awareness is raised about the importance of only asking for the indispensable data needed to register an employee, basically, that which identifies either the employer (the employer's CUIT) or the worker (the employee's CUIL). Attempting to take advantage of the occasion by asking the employer to provide other data—which may well be necessary for the administration of social security benefits, but which is not strictly relevant to the labor relation—only adds

²² Beyond the scope of this paper, it is worth mentioning the need to rethink the convenience of having a contributory system of social security based on the formal labor relation and financed by social contributions that are levied on workers with high and low salaries at the same rate, especially when the recent expansion of a noncontributory social protection system is considered. With a more progressive taxation system, based on income tax rather than on social contributions, the achievements of administrative simplification could be used as a way of inducing higher levels of formality.

complexity to the process without adding any value. The act of registering an employee should be kept as simple as possible, and data needed for benefits administration should be obtained on another occasion and by different administrative and technological means.

Finally, the choice of software used for the procedure is not a trivial matter. It must be sufficiently versatile to make procedure execution extremely agile, and simple enough that the employers can fill out the forms themselves. This implies bridging the gap between the absolutely indispensable levels of security that the system administrator must maintain (along with standards of quality that guarantee information consistency, in order to preserve database quality levels) and the ease of compliance with the procedure on the website, which must be as user-friendly as possible, especially for small employers with limited time and little knowledge of administrative regulations and procedures. Any information management and transmission system, even when supported by Internet, is not simple if the management software is not made user-friendly for the average client.

By way of synthesis, the following recommendations can be drawn from the discussion and analysis of the evidence put forward in this paper:

- i) Develop a philosophy of simplicity among labor, tax, trade union, and social security lawmakers, and put effective social protection mechanisms into place. This does not imply having to complicate things administratively for employers: it is essential that every time a new regulation is drafted and passed, its administrative ramifications for employers are considered, and that requirements for data provision are minimized so as not to inhibit job creation.
- ii) Impose low taxes, or none at all, on the hiring of labor. The benefits from eliminating administrative complexity will be limited if registering an employee also implies paying high taxes. With high taxes on employment, it is difficult to perceive the benefits accruing from simplification (which obviously does not mean that that administrative simplification should be forsaken).
- iii) Cultivate the idea among social security managers and trades unions that the registration of an employee must be a *single* act. All required information regarding labor registration should be solicited from the administrator of the simplified system.

- iv) Avoid utilizing the employer's contact with the simplified system administrator to obtain data that does not strictly correspond to the registration of a employee, such as identification of the worker, his or her family, or the conditions of employment. This information can (and should) be obtained by other administrative and technological alternatives, via direct communication of the social benefit management agencies with the employee, rather than through the employer.
- v) Ensure that the software used for procedure execution is extremely user-friendly and tailored for the levels of effort, time, and knowledge of the average, nonspecialist users, such as the small entrepreneurs.

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Appendix 1 – Enumeration of the Data Required by *Mi Simplificación* registry

The following is an enumeration of the data required by *Mi Simplificación* registry. It is presented in detailed form because, from the simplification perspective, it is not a trivial matter. Although the procedure is now single and unique, the quantity and nature of the information required mean it is still far from being simple.

i) With regard to the employer, the following are required: name and surnames, or business name; Unique Tax Identification Code (CUIT); date of entry as employer and company address for tax purposes; code and description of the contracted occupational accident insurance policy; identification of the collective agreement that corresponds to the employer's principal activity; codes and descriptions of the healthcare plans (health insurance policies) that correspond to each worker according to the collective covenant applied;²³ place of work address; codes and descriptions of the economic activities carried out at said address; *Clave Bancaria Uniforme* (CBU) (Unique Banking Key) of the bank account into which family benefits are paid.

ii) With regard to each worker: name and surname; Unique Worker Identification Code, (CUIL); legal abode; code and description of the health care plan corresponding to the worker's activity; amount of the agreed monthly remuneration; code and description indicating salary payment method; interrelation between "Address of workplace – Economic Activity" corresponding to the place where the employee works; code and description of the position taken up by the worker, through which the specific task to be

²³ Another peculiarity of the Argentine trade union system is that the unions themselves administer the health insurance policies (health care plans). Traditionally, the worker was obliged to contribute to whichever trade union was signatory to the collective agreement that included his occupation. This changed in 1998, when workers were granted the freedom to choose a health care plan. However, the employer is still obliged to inform the health care plan stipulated in the corresponding collective covenant in the eventuality that the worker does not take up the option of a different health insurance policy.

performed is identified; code and description of the conditions of employment; agricultural worker; date of entry of labor relation; date of discharge of labor relation, in the case of a fixed-term contract; date of definitive discharge of labor relation and the code for the type of discharge, if the discharge is communicated to the labor registry; date of birth; description of level of education, nature of incapacity;²⁴ CBU of the bank account for the receipt of family benefit payments and payments arising from occupational accident insurance coverage, in the case of financial compensation due to accident.

iii) With regard to family members: details of spouse and dependent children: dates of entry and discharge, and modifications.

²⁴ This is applicable whenever a worker suffers an accident causing sick leave, and the occupational risk insurer has to pay the salary for the days spent on sick leave.

Appendix 2 – Questionnaire for Accountants

We would like your opinion about the labor simplification reforms implemented in recent years. These questions will take up about ten minutes of your time.

Answer: Yes No Call again later

There are several possible options for each question. Please say which is most applicable.

Did the introduction of *SU DECLARACIÓN* make your job any easier?

- A lot
- A little
- Not at all
- It made it more difficult
- I don't know

Observations.....

Did the introduction of *MI SIMPLIFICACIÓN REGISTRAL* make your job any easier?

- A lot
- A little
- Not at all
- It made it more difficult
- I don't know

Observations.....

How long do you estimate that it used to take you to register an employee before the changes, and how long does it take you now?.....

How long do you estimate that it used to take you to liquidate an employee's salary and social security contributions before the changes, and how long does it take you now?.....

In your opinion, how complicated is it to apply the current regulations concerning employee registration and the payment of social security contributions?

- Very complicated, as the rules are constantly changing
- Very complicated, as the rules are difficult to understand
- Very complicated, as the rules are difficult to understand and are constantly changing
- Relatively complicated
- Simple

In your opinion, how helpful is the AFIP in lending support and helping to explain the rules regarding registration and social security payments?

- Very helpful
- Relatively helpful
- No help whatsoever