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## Abstract<sup>1</sup>

This paper shows that workers who do not receive legally mandated benefits due to employer noncompliance have a negative view not only of their employers, as has been documented, but also of the State. Those workers believe that the State did not protect their rights, and hence they feel fewer obligations to comply with their duties as citizens. Using a list experiment, as well as household data from nine Latin American countries, the paper shows that non-registered workers are less likely to obey the law, pay taxes and vote compared to registered workers.

**JEL classifications:** C83, H26, J22, J46

**Keywords:** Labor, Informality, Citizenship, Vote, Taxes, Latin America

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## 1. Introduction

There is a growing policy-oriented literature that focuses on violations of labor law. Several studies attempt to measure the extent and depth of noncompliance with a number of legally mandated requirements such as minimum wages, maximum working hours, occupational health and safety, and social security coverage. Research shows that noncompliance with labor regulations is pervasive, particularly in less developed countries (Bhorat et al., 2012; Kanbur et al., 2013; Rani et al. 2013; Ronconi, 2010).<sup>2</sup> There is, however, debate about the welfare implications of this fact. On the one extreme, noncompliance is viewed as a way to achieve *de facto* flexibility and economic efficiency in countries where political distortions explain the existence of overly stringent labor laws. On the other extreme, noncompliance is viewed as exploitation of workers and as an impediment to effectively implementing policies that solve labor market failures.

This paper shows that, regardless of which of the above views is more accurate, noncompliance with labor regulations produces more social costs than previously thought. Workers who do not receive the labor benefits to which they are legally entitled are alienated not only from the employer, but also the State. Those workers believe the State did not protect their rights, and they reciprocate by not complying with their civic duties. That is, employer noncompliance with labor legislation erodes workers' citizenship responsibilities.

The paper is related to the vast literature on political theory which discusses the meaning and importance of the concept of citizenship. As pointed out by Van Deth (2011: 403) "Political philosophers from Aristotle and Plato to Michael Walzer and Benjamin Barber have dealt with the relationships between the requirements of the community on the one hand, and the rights and obligations of people living in that community on the other." The debate between those who emphasize citizenship-as-rights and those who emphasize citizenship-responsibilities has been overcome to some extent by recognition that citizenship involves both rights and responsibilities (Janoski, 1998). Furthermore, recent research emphasizes that "the health and stability of a modern democracy depends...on the qualities and attitudes of its citizens" (Kymlicka and Norman, 1994: 352). That is, citizenship matters for both normative and instrumental reasons.

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<sup>2</sup> The fact that noncompliance is so pervasive has triggered interest on public and private enforcement. See Piore and Schrank (2008), Basu et al. (2010), Amengual (2010), Murillo et al. (2011), Ronconi (2012), Bartley (2007), Locke et al. (2007), and Weil (2005).

Although there are several views as to what constitutes a responsible citizen, they usually tend to include the aspects that we cover in this study, that is, law-abidingness and the willingness to evaluate the performance of those in office and to engage in public discourse.<sup>3</sup>

As Galston (2001) points out, a good citizen is made, not born, raising a set of interesting questions about the determinants of good citizenship behavior. A number of related literatures deal with this broad subject, and they can be categorized into two groups according to which component of good citizenship behavior they study. One group attempts to explain why people obey the law. Economists, as well as other social scientists, have extensively analyzed tax evasion and criminal behavior. One of the most influential theories argues that individuals are rational utility maximizers and obey the law when the material benefit of doing so is higher than the cost (Becker, 1974; Allingham and Sandmo, 1972). The empirical evidence, however, suggests that, while the probability of being caught and the expected fine are strong determinants of compliance, other factors that go beyond mainstream economics, and are usually labeled social norms, also influence compliance (Andreoni et al., 1998; Alm et al., 1993). These factors include notions of fairness, tax morale and reciprocity, either towards their fellow citizens or towards the state. For example, Frey and Torgler (2007) show that an individual's willingness to pay taxes is higher when he perceives that most other members of society comply with their tax obligations, and Ortega et al. (2012) find that it is higher when he perceives that the government is doing a good job. The empirical literature on criminology also shows that deterrence is an important determinant of crime, but social norms, as well as other factors, also matter (Freeman, 1999; Tyler, 2006).

The second group, more dominated by political scientists and sociologists, attempts to explain the other components of good citizenship behavior, such as political participation and civic engagement. Mettler and Soss (2004) divide this group into four intellectual traditions: i) a sociological tradition that explains political participation by linking it to the individual's position within social structures (Milbrath and Goel, 1977); ii) a psychological tradition that emphasizes the importance of identities, beliefs, values, and feelings (Campbell et al., 1960); iii) an economic tradition that focuses on individual self-interest (Downs, 1957); and iv) the political tradition, which explains political participation as a product constructed through the interplay of

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<sup>3</sup> See Galston (1991) and Heater (2013).

political actions and institutions.<sup>4</sup> Within the latter tradition, there is an approach known as “policy feedback” that emphasize that “policies produce politics” (Pierson, 1993); in particular, it explores how access to social benefits affects political participation and civic engagement (Campbell, 2003). For example, Mettler (2002) shows that the G.I. Bill—a program that offered numerous social benefits to U.S. veterans of World War II—produced higher levels of political participation by veterans through enhancement of their civic capacity and predisposition for involvement.

This paper builds on the above literature, and particularly on the policy feedback approach, to show that lack of government enforcement, and the consequent violation of labor rights, affects an individual’s predisposition to fulfill her civic duties. Informal workers believe that the State has failed to protect their rights, and they reciprocate by not complying with their civic duties. This is, to the best of our knowledge, a novel contribution. The policy implications are also important and go beyond the labor policy debate described above. Labor exclusion should not only be a concern for those who emphasize citizenship-as-rights, but also for those who underscore the importance of citizen responsibilities, since access to rights promotes good citizenship behavior. The paper also makes an empirical contribution. Most previous research attempting to explain variation in good citizenship behavior, and particularly political participation, suffers from endogeneity problems and does not provide clear evidence of the underlying mechanisms driving the correlations. A notable example is the socioeconomic status (SES) model, which shows a positive correlation between citizen activity and SES (i.e., income, education and occupation). We provide both experimental and non-experimental evidence and show the importance of reciprocity as the underlying mechanism.

Furthermore, most of the existing research has focused on the United States and Western Europe, that is, in countries with institutionalized democracies.<sup>5</sup> However, as pointed out most prominently by Guillermo O’Donnell, the usual definitions of state, democracy, and citizenship are not always useful in understanding the political reality of new democracies in Latin America. In particular, O’Donnell (1993) stresses that, while in well-established democracies the state extends its legality almost completely homogeneously over all its territories and social sectors, in

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<sup>4</sup> The “Civic voluntarism model” proposed by Brady, Schlozman and Verba ties into these intellectual traditions, arguing that i) resources, ii) psychological engagement and iii) recruitment networks are all important determinants of political participation (Verba et al., 1995; Brady et al., 1995).

<sup>5</sup> There are exceptions such as MacLean (2011), who studies political participation in Africa.

new democracies, such as Argentina, Brazil, or Peru, the rule of law extends irregularly over them. He provides the example of peasants and slum-dwellers who are often unable to get fair treatment in the courts, be safe from police violence, or obtain from state agencies those services to which they are legally entitled. The violation of these rights produces what O'Donnell calls "low-intensity citizenship," and this phenomenon further erodes the rule of law since it promotes opportunism, greed, lack of solidarity and corruption among members of society. This paper provides empirical evidence supporting one of the important theoretical concepts in O'Donnell's work, that is, a state that is unable to enforce its legality produces a democracy of low-intensity citizenship.

Finally, this paper is also related to the literature on organizational citizenship behavior (OCB), that is, employee "behavior that is discretionary, not directly or explicitly recognized by the formal reward system, and that in aggregate promotes the effective functioning of the organization" (Organ, 1988: 4).<sup>6</sup> The empirical evidence suggests that employees engage in OCB in part to reciprocate good treatment from the employer (Coyle-Shapiro et al., 2004). This paper also argues that reciprocity is one of the underlying mechanisms explaining good citizen behavior, but not towards the employer as in the OCB literature, but towards the State. In the OCB literature there is little room for public policies because the employer internalizes most of the benefits/costs of treating workers fairly/unfairly. This paper, however, suggests quite the contrary. It shows that employer noncompliance with labor regulations produces social costs that far outweigh private costs. Employees who do not receive the labor benefits to which they are legally entitled reciprocate against the State and society by ignoring their civic responsibilities such as voting and complying with the law. These behaviors produce costs that are certainly not fully internalized by the employer.

The paper is organized as follows. The next section provides non-experimental evidence using a household survey conducted in nine Latin American countries. The evidence shows that informal workers (i.e., those who do not receive legally mandated labor benefits) are less likely to vote and to comply with taxes compared to formal workers. Because of potential unobserved heterogeneity and social desirability bias, we conduct a list experiment. Section 3 presents the results, which indicate that approximately one third of informal workers reciprocate against the unfair treatment they receive from their employer—and the lack of State intervention to correct

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<sup>6</sup> See Podsakoff et al. (2000) for a review of the literature.

labor law violations—by not complying with their civic responsibilities. Finally, Section 4 concludes by briefly discussing the policy implications of the results.

## 2. Evidence Based on Household Surveys

The CAF 2011 household survey includes 10,200 households residing in 17 cities located in nine Latin American countries. The surveyed cities are Buenos Aires, Córdoba, La Paz, Santa Cruz, Sao Paulo, Rio de Janeiro, Bogotá, Medellín, Quito, Guayaquil, Panama City, Lima, Arequipa, Montevideo, Salto, Caracas and Maracaibo; and the countries are Argentina, Bolivia, Brazil, Colombia, Ecuador, Panama, Peru, Uruguay and Venezuela.<sup>7</sup> Survey respondents are individuals between 25 and 65 years of age regardless of their occupational status.

The dataset is particularly useful for this study because individuals report their voting and tax evasion behavior, two main components of good citizenship. More specifically, people report whether they voted or not in the last presidential election (*Vote*), how much effort they devote to knowing political candidates' proposals (*Voting Knowledge*), and whether they have accepted buying a product at a reduced price in exchange for not asking a receipt to the seller (i.e., complicit in *Tax Evasion*).<sup>8</sup>

We use the sample of individuals who are currently working as employees (that is, we exclude self-employees, inactive and unemployed individuals from the analysis), and categorize workers as excluded or *Informal* if they report that the employer is not making legally mandated contributions to the social security system, and as formal otherwise. Table 1 provides basic statistics.

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<sup>7</sup> The sample includes 600 households per city. For more information see CAF (2011). The dataset is available at [www.caf.com](http://www.caf.com)

<sup>8</sup> The exact questions are (our own translation): 1) *Did you vote in the last presidential election?* 2) *When you vote, how much effort you make to know the proposals of the candidates?* Based on the response to this question, we construct an indicator equal to 1 if the answer is a lot, and equal to 0 if the answer is a little or nothing. 3) *Have you ever accepted discounts in exchange for not receiving a receipt?*

**Table 1. Descriptive Statistics, CAF Survey 2011**

Variable	Observations	Mean	Std. Dev.	Min	Max
Informal	4,547	0.248	0.432	0	1
Citizenship	4,278	0.367	0.482	0	1
Tax Evasion	4,396	0.269	0.443	0	1
Vote	4,490	0.896	0.305	0	1
Voting Knowledge	4,448	0.512	0.500	0	1
Age	4,547	39.383	10.519	25	65
Sex (male = 1)	4,547	0.587	0.492	0	1
Schooling (years)	4,539	11.956	3.771	0	19
Native born	4,547	0.978	0.147	0	1
Income (\$)	4,049	650	646	50	5000
Wealth	4,547	3.775	1.598	0	5
Right-leaning ideology	4,547	0.413	0.492	0	1
Times penalized if evasion	3,831	6.485	3.127	1	10

*Source:* CAF 2011 Household Survey. The sample is restricted to people who are currently working as employees. An employee is categorized as informal if she/he reports that the employer is not making legally mandated contributions to the social security system.

Almost a fourth of employees in the sample are informal, 41 percent are female, 2 percent foreign-born and 38 percent have some college education or more. The share of informal workers in the sample is relatively low compared with national estimates of noncompliance with payroll contributions to the social security system in Latin America, and their level of education is relatively high (IDB, 2004). These results are expected given that the CAF survey only covers large cities, and in Latin America people living in large cities tend to be more educated, wealthier and more likely to have formal jobs.

Voting is compulsory in most countries of the region, and almost 90 percent of individuals voted in the last presidential election.<sup>9</sup> About half of individuals in the sample report that they made an effort to know political candidates' proposals. Regarding tax behavior, 27 percent report that they have accepted buying a product at a reduced price in exchange for not asking the seller for a receipt, which implies being complicit in tax evasion. Finally, we construct an overall measure of good *Citizenship* behavior (i.e., equal to 1 if the individual voted, became informed on political proposals, and was not complicit in tax evasion, and zero otherwise), and find that 37 percent of individuals fall into this category.

<sup>9</sup> Colombia and Venezuela are the only countries in the sample where voting is not compulsory.

Table 2 shows that employees without access to legally mandated benefits are, compared with formal employees, less likely to vote or learn about political candidates' proposals, and more likely to engage in tax evasion. The magnitude of the difference is large. The overall measure of good citizenship behavior is 0.4 among formal employees compared to 0.28 among informal employees; for tax evasion the figures are 0.25 and 0.33; for voting 0.91 and 0.86; and for becoming informed on political candidates' proposals the figures are 0.54 and 0.43. But excluded employees also differ from formal employees in several other dimensions: they are substantially poorer, less educated, more likely to have a left-leaning ideology, and more likely to be foreign born.<sup>10</sup> Therefore, it is important to control for potential omitted variable bias when estimating the effects of labor exclusion on compliance with civic responsibilities.

**Table 2. Characteristics of Informal and Formal Employees in CAF 2011 Survey**

Variable	Informal	Formal	Difference	Std. error
Citizenship	0.275	0.397	-0.121***	0.017
Tax Evasion	0.325	0.250	0.075***	0.016
Vote	0.858	0.908	-0.050***	0.011
Voting Knowledge	0.428	0.540	-0.112***	0.017
Age	39.056	39.490	-0.434	0.361
Sex (male = 1)	0.506	0.614	-0.108***	0.017
Schooling (years)	10.540	12.422	-1.882***	0.127
Native born	0.972	0.980	-0.009*	0.005
Income (\$)	417	728	-311***	22.9
Wealth	3.366	3.910	-0.545***	0.054
Right-leaning ideology	0.386	0.422	-0.036**	0.017
Times penalized if evasion	6.136	6.597	-0.461***	0.118

*Source:* CAF 2011 Household Survey. The sample is restricted to people who are currently working as employees. An employee is categorized as informal if she/he reports that the employer is not making legally mandated contributions to the social security system. Difference is statistically significant at the \* 10%, \*\* 5% and \*\*\* 1% level.

<sup>10</sup> *Wealth* is an ordinal variable that can take five values based on whether the person owns her dwelling, the type of house (i.e., free standing, apartment, shack), and the building materials. *Right-leaning ideology* is equal to 1 if respondent states as the government's top responsibility one of the following four options: to "keep order and national security," to "promote private investment," to "protect private property" or to "protect freedom of speech."

We use the model in equation (1) to test for the main hypothesis in this paper:

$$Y_{ij} = \alpha_j + \beta \text{Informal}_{ij} + \lambda \mathbf{X}_{ij} + \varepsilon_{ij} \quad (1)$$

where  $Y_{ij}$  is a place-holder for the four measures of good citizenship behavior of individual  $i$  in city  $j$ , *Informal* is an indicator equal to 1 if individual  $i$  is not covered by the legally mandated social security system,  $\alpha_j$  are city dummies,  $\mathbf{X}$  is a vector of individual characteristics; and  $\varepsilon_{ij}$  is a mean-zero disturbance term. We use a probit model and report the marginal effects in Table 3.

Columns 1, 4, 7 and 10 only include city dummies. The informality indicator is negatively and statistically significantly correlated with all measures of good citizenship behavior. That is, informal workers (compared with formal workers) are more likely to be complicit in tax evasion, and less likely to vote and to get informed about political candidates' proposals. A number of factors could be driving these correlations. A foreign-born worker, for example, could have a harder time finding a formal job due to discrimination in the labor market and also could be less interested in complying with the law compared to a native worker. Similarly, more educated people tend to become more involved into politics and also have more access to formal sector jobs. Therefore, columns 2, 5, 8 and 11 include years of schooling, place of birth, and a number of additional covariates (i.e., age, sex, income, wealth, ideology) in order to control for potential omitted variable bias. Adding these controls reduces the size of the coefficients, particularly for voting behavior, but there is still a strong negative correlation between lack of access to legally mandated labor benefits and all measures of good citizenship.

**Table 3. Estimates of the Effect of Labor Exclusion/Informality on Measures of Good Citizenship**

	Citizenship			Tax Evasion			Vote		Voting Knowledge			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Informal	-0.16*** (0.03)	-0.14*** (0.03)	-0.12*** (0.03)	0.11*** (0.03)	0.14*** (0.03)	0.16*** (0.04)	-0.08*** (0.02)	-0.06** (0.03)	-0.05** (0.02)	-0.13*** (0.03)	-0.07** (0.04)	-0.07* (0.04)
Detection probability	-	-	0.01* (0.00)	-	-	-0.01** (0.00)	-	-	0.01 (0.01)	-	-	0.01* (0.00)
Demographic controls	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
City FE (17)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	4,278	3,917	3,276	4,396	3,919	3,352	4,490	3,994	3,398	3,999	3,559	3,026

*Notes:* Table reports marginal effects and the robust standard errors (in parentheses). A probit model is used in all columns. All models include city fixed effects. The sample includes all individuals who are currently working as employees in the CAF 2011 Household Survey, except columns 10 to 12, which only include employees who voted in the previous election. Demographic controls are age, sex, foreign born, schooling, income, wealth, and ideology. Statistically significant at the \* 10%, \*\* 5%, \*\*\* 1% level of confidence.

A main threat to a causal interpretation of the above results is that the coefficients could still be capturing a selection process. Suppose that there is unobserved individual heterogeneity in willingness to comply with the law. In this case, people who have a preference for ignoring the law would be more likely to accept informal employment and would also be less likely to comply with their civic duties. In other words, there could be an unobservable factor driving the negative relationship observed in Table 3.

The above threat would be particularly compelling if nonregistered workers have chosen to be in that condition—for example, if workers agree with their employers to work under the table in exchange for higher monetary compensation. The available evidence, however, suggests quite the contrary. First, running a Mincer equation including the informality indicator in the right hand-side indicates that informal workers compared to formal workers (and after controlling for education, sex, experience and experience squared) earn *lower* take-home pay. The difference is large (i.e., 19 percent lower wages) and statistically significant at the 1 percent level.<sup>11</sup> That is, informal employees in Latin America are not only excluded from social security benefits due to employer noncompliance, but they also receive lower monetary compensation compared to formal employees, suggesting that they do not choose to work under the table in exchange for a higher wage. Second, according to the opinion of workers, whether their job is registered or not is decided unilaterally by the employer. In Argentina, 95 percent of informal workers report that they would prefer to have a registered job, but that is simply not an option for them. Because they cannot afford being unemployed due to their low income, they accept working without access to legally mandated benefits. Only 5 percent of informal workers report having received the option to register the job but agreed with the employer to work under the table in exchange for higher monetary take-home pay (World Bank, 2008).

It could be argued, however, that the above figures are biased. First, the Mincer equation only controls for observables, but it could be that unobserved heterogeneity is driving the negative correlation between informality and wages. Second, figures obtained from a workers' survey could overestimate the lack of informal workers' decision-making power due to a social desirability bias (Bradburn et al., 1978; DeMaio, 1984). A worker who agrees to work under the table in exchange for some monetary benefits may think that such behavior is socially

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<sup>11</sup> Results are available upon request. The same negative correlation has been found in other studies (see, for example, Gasparini and Tornarolli, 2009). This correlation, of course, does not control for unobserved ability.

undesirable and therefore would conceal her true behavior when asked directly in a survey. Instead, she would report that the decision was unilaterally taken by the employer or may simply refuse to answer the question. To deal with these limitations, we present in the next section evidence based on a list experiment, a methodology that is particularly well suited to dealing with social desirability bias and unobserved heterogeneity.

Before presenting the experimental evidence, however, there is an additional aspect of the CAF household survey to consider. Individuals were asked: *If you decide to evade taxes ten times, how many times do you think you would be fined?* This variable provides a measure of the individual's perception of the *Detection Probability*, and it is particularly useful to learn about the mechanisms driving the negative relationship between informality and good citizenship behavior. Are informal workers less likely to vote and pay taxes because they negatively reciprocate against the State? Or is it that they do not comply with their civic duties because they learn firsthand that the State does not punish non-compliers? In other words, is reciprocity or information the underlying factor driving the negative correlation?

The data show that informal workers, relative to formal workers, tend to think that the number of times they would be fined is slightly lower (6.1 compared to 6.6), and the difference is statistically significant at the 1 percent level (see Table 2). As shown in columns 3, 6, 9 and 12 of Table 3, including this additional variable in the model tends to reduce the coefficients of interest, but the reduction is small (e.g., the coefficient for the overall good citizenship behavior variable declines from 0.14 to 0.12), and for tax evasion the coefficient actually increases. These results suggest that the information channel explains part, but only a small part, of the negative relationship between informality and citizenship.

### **3. The List Experiment**

The objective is to test the “reciprocity towards the state” hypothesis, which claims that employer violation of labor regulations—and the State's failure to solve the problem—erodes workers' citizenship responsibilities. To do so, we attempt to measure the share of the workforce that reacts against employer noncompliance by becoming less likely to fulfill their civic duties. One option is to ask a direct question, but this is likely to produce a biased estimate because of the social desirability problem described above. Respondents, even if they negatively react to

employer violations, could opt to report in the survey “the right thing to do,” leading to an underestimation of the phenomenon.

Therefore, we employ an unobtrusive technique such as the list experiment. The list experiment (or item count technique) provides an appealing alternative to direct questioning and have recently attracted attention among social scientists (Blair and Imai, 2012; Glynn, 2013). For example, list experiments have been used to measure racial and gender discrimination (Kuklinski et al., 1997; Streb et al., 2008), voter turnout (Holbrook and Krosnick, 2010), clientelism (González-Ocantos et al., 2012) and support for militant groups and organizations (Blair et al., 2014).

The experiment was implemented during June 2014 in Retiro, the main railroad station in the city of Buenos Aires, Argentina, while people were waiting for the suburban train. Every weekday, more than one million workers commute from their homes in Greater Buenos Aires to the capital city for work, and the majority are middle income workers. Individuals were asked to complete a short survey, and we stated that the collected data would only be used for research purposes. Individuals were not asked to provide any identification information (i.e., neither their name and address nor the name and address of their employer). The sample was randomly selected among the non-white collar adult population waiting in the railway station. We asked 600 individuals to complete the survey and 502 accepted, for a response rate of 83.7 percent.

The sample was split into random halves, a treatment and a control group, and both groups were asked the following question:

*Suppose that you become unemployed, and the only job you find is under the table, that is without access to legally mandated benefits such as a contribution to the pension system. The State does not inspect and penalize the employer, so you work under these conditions. In such a case, how many of the following actions would you take? Please, do not tell me which ones, only how many.*

The list of options for the control group is:

- *I would work harder so the employer would register my job.*
- *I would denounce the employer to the labor union.*
- *If I have a chance, I would steal something from the firm.*

The treatment group receives the same options plus the sensitive item:

- *I would comply less with the law; why should I do it if the State did not protect me?*

The question does not ask the respondent to reveal the specific actions. The respondent only has to report the number of actions she would take (i.e., from zero to three if she is in the control group, and from zero to four if she is in the treatment group). Because of this high degree of anonymity, social desirability pressures are reduced, and therefore the incentives to misreport negative reciprocity should be lower. Simply comparing the average number of items selected by each group provides an estimate of the proportion of respondents that reacts against employer noncompliance by becoming less likely to fulfill their civic duties. The estimate is unlikely to be driven either by observable or unobservable heterogeneity across groups because they were randomly assigned to each group.

After the item count question, the survey asked the age, sex, education and employment status of the respondent. Finally, the survey asked those currently employed whether their employer makes the legally mandated contribution to the pension system. Not making this contribution is a violation of labor and social security law, and based on this information the worker is characterized as formal or informal.

A potential concern in the list experiment literature is the presence of floor and ceiling effects (e.g., Kuklinski et al., 1997). The floor effect arises when the non-sensitive items are all so uncontroversial that negative responses are expected from many respondents. The ceiling effect arises when the true preferences of the respondent are affirmative for all the non-sensitive items as well as the sensitive item. As pointed out by Blair and Imai (2012: 50), “under both scenarios, respondents in the treatment group may fear that answering the question truthfully would reveal their true (affirmative) preference for the sensitive item.” That is, floor and ceiling effects undermine the high degree of anonymity that list experiments are supposed to provide, and therefore lead to an underestimation of the sensitive item.

These problems can be avoided by carefully designing the experiment. In particular by including a list of non-sensitive items that is not largely composed of high or low prevalence items, and also by including items that are negatively correlated (Glynn, 2013). We follow the design advice. For example, the non-sensitive item “*I would work harder so the employer would register my job*” is likely to be negatively correlated with “*If I have a chance, I would steal*

*something from the firm.*” The results shown in Table 4 suggest that the experiment was successful since the potential for floor and ceiling effects appears to be quite small in the collected data. Out of the 251 survey respondents in the control group, only nine individuals (3.6 percent) said they would take none of the options and only five individuals (2 percent) said they would take all three actions.

**Table 4. Distribution of Responses in the List Experiment**

Response value	Control		Treatment	
	Frequency	Percentage	Frequency	Percentage
0	9	3.59	6	2.39
1	146	58.17	122	48.61
2	91	36.25	104	41.43
3	5	1.99	13	5.18
4	-	-	6	2.39
Total	251	100%	251	100%

Panel A in Table 5 presents these basic socioeconomic characteristics for the treatment and the control group. For all the observable traits (i.e., age, sex, education, currently working, and informal), there is no statistically significant differences between the groups indicating that there is balance in observable characteristics and that randomization worked properly.

Panel B presents the point estimates. The first row uses the whole sample. Individuals in the control group selected, on average, 1.37 out of the three actions, while individuals in the treatment group selected 1.57 out of the four actions. Therefore, the results indicate that 20 percent of the population reacts against employer noncompliance and government’s failure to correct the violation by becoming less likely to fulfill their civic duties. When the sample is restricted to people who are currently employed, the figure is 25 percent, and when we restrict the comparison to informal workers, the difference is 32 percent. All estimates are statistically significant.

**Table 5. Results of the List Experiment**

	Treatment	Control	Difference (1)–(2)	Std. Error
<b>Panel A</b>				
Age	38.85 [251]	38.53 [251]	0.31 [502]	1.29
Sex (female=1)	0.30 [251]	0.37 [251]	-0.07 [502]	0.04
High school dropout	0.21 [251]	0.17 [251]	0.04 [502]	0.03
Employed	0.87 [251]	0.87 [251]	0.00 [502]	0.03
Informal	0.21 [204]	0.24 [199]	-0.03 [403]	0.04
<b>Panel B</b>				
All respondents	1.57 [251]	1.37 [251]	0.20*** [502]	0.06
Only employed	1.61 [218]	1.36 [219]	0.25*** [437]	0.06
Only informal	1.64 [42]	1.32 [47]	0.32** [89]	0.15

*Notes:* The number of observations is in brackets. Panel A presents the demographic and socioeconomic characteristics of individuals in the treatment and control group. Panel B presents the results of the item count question for three samples: all respondents, only those that are employed, and only informal workers. An employee is categorized as informal if she/he reports that the employer is not making legally mandated contributions to the social security system. \*\* Statistically significant at the 0.05 level, \*\*\* at the 0.01 level.

The evidence obtained from the list experiment suggests that the positive correlation found in the previous section between access to legally mandated workplace benefits and compliance with civic duties is more than a selection issue. There is a causal relationship going from labor exclusion to noncompliance with civic duties, and the mechanism driving that relationship is reciprocity.

#### **4. Conclusion**

This paper provides empirical evidence suggesting that employer noncompliance with labor regulations, and the lack of government action to solve the problem, erodes citizenship. First, using a household survey that covers nine Latin American countries, the paper shows that excluded or informal employees (i.e., those without access to legally mandated labor benefits) are less likely to vote or learn about political candidates' proposals, and more likely to engage in tax evasion compared with formal employees. Second, using a list experiment conducted in Buenos Aires, Argentina, we find that about a third of informal workers report that they react to employer noncompliance by ignoring their civic duties. The underlying mechanism is reciprocity towards the State/society: If the law does not apply when it benefits me, then, why should I comply with the law when it is costly to me?

These results highlight the importance of policy-feedback effects. When the government fails to ensure citizens' rights, then excluded individuals react by ignoring their citizen duties producing what O'Donnell's categorizes as democracies with "low-intensity citizenship." The results are also particularly informative for labor policy design. Either achieving *de facto* (instead of *de jure*) flexibility via turning a blind eye to employer noncompliance, or introducing employment protection regulations but not devoting resources to enforcement, produces more social costs than previously thought. The large distance between the letter of the labor code and actual labor practices that is so pervasive in less developed countries contributes to the erosion of civic responsibilities.

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