

# Discussion of: Payments Under the Table in Latin America

by J. Feinman, A. Franco, P. Garriga, N. Gonzalez-Pietro, R. Hsu Rocha, M. Lauletta

André Victor Doherty Luduvicé

Federal Reserve Bank of Cleveland

IIPF 2024

*The views and findings expressed here are those of the author's and do not necessarily reflect the views of the Federal Reserve Bank of Cleveland or the Federal Reserve System.*

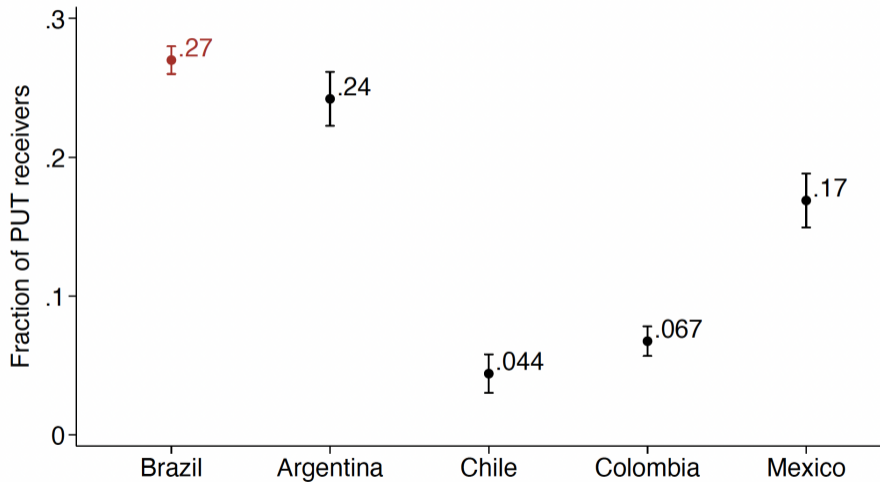
# Basic Idea and Main Results

- ▶ The paper studies Payments Under the Table (PUT) in Latin America:
  - ▶ PUT: formal workers receiving part of salary off the books
  - ▶ Extends Feinman et al. (2024) framework to Argentina, Chile, Colombia, and Mexico
  - ▶ Documents, analyzes determinants, and quantifies consequences
- ▶ Main results:
  - ▶ PUT is prevalent (17% of formal workers) and substantial (24% of earnings of receivers)
  - ▶ PUT receivers are more likely to be at the top in everything: age, education, formal, income, occupation
  - ▶ More prevalent in smaller firms, varies by country.

# Takeaway Lessons and Strong Suits

- ▶ Takeaway Lessons:
  - ▶ PUTs exist and matter for a substantial fraction of employees
  - ▶ PUTs are prevalent in several countries of Latin America
  - ▶ Developing economies can be (yet again) surprising: need understanding of firms' distributions
- ▶ Strong Suits:
  - ▶ Unique data collection and eliciting of sensitive content with clever strategy using indirect and direct questions
  - ▶ Counter-intuitive: we (usually) think of informality as prevalent at the bottom
  - ▶ Clear result on negative correlation with establishment/firm size
  - ▶ Clear result on motivation due to tax evasion and correlation with low tax morale

## Main Figure:



# Discussion of the Paper: Questions, Comments, and Suggestions

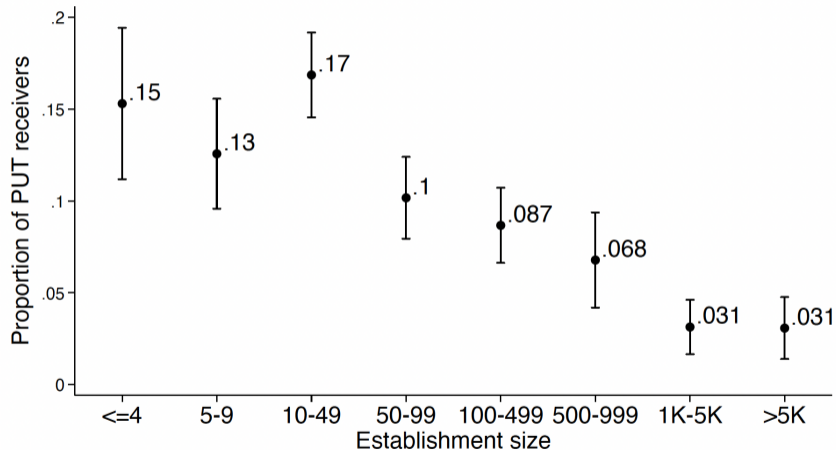
## ▶ Questions:

- ▶ How can one be sure workers understand salary as money/cash? Could it be favors/in-kind?
- ▶ Authors mention they can identify workers with PUT and ask follow-ups: how?
- ▶ Do all countries have  $\bar{w}$ ? Payroll taxes?
- ▶ Why are estimates less precise at the “bottom” (income, size) where there are more obs?
- ▶ Is it an occupation-specific story? Managerial incentives in terms of bonus pays?

## ▶ Comments:

- ▶ Explore case study: why so high in Argentina and Brazil? Mention Feinman et al. (2024)
- ▶ Why do we care? Worth the measuring effort and revenue recoup, but what if PUTs are a solution to:
  - ▶ “too distorted” labor markets? e.g., high firing costs
  - ▶ “too distortive” taxes? e.g., group-driven payroll tax reliefs

## (What I perceive as the) Main Mechanism Figure:



# Discussion of the Paper: More Comments and Suggestions

- ▶ More comments/suggestions:
  - ▶ Is it a minimum wage story?
    - ▶ How many are paid just the minimum wage and rest in PUT?
  - ▶ Is it a labor laws story?
    - ▶ Brazil: high-earning workers in finance have hiring schemes to mitigate tax burden
  - ▶ Is it a small-firm tax incentive story?
    - ▶ Brazil: “Simples” regime, is there anything similar in other countries? Influences not so small firms.
  - ▶ (Again, sorry) Brazil: evidence of collusion on UI (Doornik et al., 2024)