

Job informality (i.e. paid-work without social protection) is highly prevalent in Latin American countries and other emerging economies (International Labor Organization, 2013; The World Bank, 2010). Job informality may compromise individual well-being because workers who lack social protection might be at higher risk of ill-consequences in face of adverse life events such as unemployment, disability or involuntary retirement. In Colombia, approximately 60 percent of all workers are in the informal sector. These workers do not contribute to social security and do not accumulate retirement benefits; in addition, they have no access other work-related social protection services. In this paper, we examine the effect of job informality on life satisfaction using data from three repeated cross-sectional and nationally representative surveys of Colombia, conducted in 1997, 2005 and 2011, totaling 5,024 participants nested in 56 municipalities. We also examine whether the impact of local economic conditions influence well-being differently for workers in the formal and informal sector.

Life satisfaction was measured with a Likert scale with values ranging from 1 (completely unsatisfied) to 10 (completely satisfied). We defined job informality as being in paid-work but lacking pension contributions. We conducted a pooled analysis, controlling for survey wave as fixed effects, to estimate differences in life satisfaction between informal and formal workers. We also examined whether the association between informality and life satisfaction differed by employment sector and status (full-time, part-time or self-employed). In addition, we examined whether the unemployment rate at each town would moderate the association of informal work on life satisfaction.

Averages of life satisfaction were 8.3 in 1997, 8.3 in 2005 and 8.5 in 2011. Prevalence of job informality was 52 percent in 1997, 53 percent in 2005 and 68 percent in 2011. Throughout the period of study, prevalence of job informality was lowest among professional workers (28.5

percent), while rates in other industries ranged from 55 percent (retail, services or manufacturing) to 66 percent (extractive e.g. agricultural, mining). Self-employed workers had higher average prevalence (66.8 percent) than full-time (48.8 percent) or par-time workers (59 percent).

After adjusting for individual level socio-demographic and socioeconomic confounders and towns as fixed effect variables, informal workers reported lower life satisfaction than formal workers ($\beta=-0.16$, 95% CI -0.35, -0.05 $p<0.05$). This association differed by employment sector ($p<0.05$); except in extractive activities ($\beta=0.30$, 95% CI -0.05, 0.65 $p<0.1$), informal workers averaged less life satisfaction than formal workers, with a stronger magnitude among workers employed in the service industry ($\beta=-0.32$, 95% CI -0.69, 0.03 $p<0.1$). There were no interactions between informality and employment status, though self-employed workers were more likely to work informally than full-time workers. In addition, the association between informal work and life satisfaction was moderated by the local economic conditions, namely the unemployment rate at each town. A one-percentage point increase in the local unemployment rate was associated with 0.5 decrease in life satisfaction ($\beta=-0.5$, 95% CI -0.72, -0.28, $p<0.05$), but this association was stronger for formal workers, who suffered more from increases in the local unemployment rate than informal workers (β for interaction=0.02, 95% CI 0.003, 0.03 $p<0.05$).

In conclusion, our results suggest that informal workers report lower life satisfaction than formal workers, but this effect seemed to vary by employment sector. Informality was higher for extractive activities and within this industry, informal workers averaged higher life satisfaction than their formal counterparts. In addition, this effect is moderated by the local unemployment rate, so that in times of high unemployment, the difference in life satisfaction between informal

and formal workers was smaller. Our results highlight the need for policies that incentivize workers to be in the formal sector, and employers to offer benefits to their workers, as a strategy to increase worker's well-being.

References

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