Comments on: Work, law, and labor market structure by Cristina O. Roriz

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This paper

It studies how Brazil's 2017 labor and outsourcing reforms reshaped the structure of work and firm organization.

Legal changes —especially the Outsourcing Law and Labor Reform in 2017— influenced the shift from traditional employment to individual entrepreneurship and other flexible work arrangements.

The author links those reforms to a broader process of workers becoming individual contractors and labor market dualization (large firms coexist with a growing number of non-employing micro-enterprises).

It situates this within Brazil's political and economic turbulence (post-2016) and draws from classic theories on firm formation (Coase, Knight) and modern views on outsourcing and digitalization.

Author's strategy

The study integrates two major administrative datasets:

✓RAIS (Annual Social Information Report) – covers all formal employment in Brazil.

✓CNPJ Business Registry – includes all registered firms, capturing both employers and self-employed individuals.

A panel data regression model (linear time trend, 2015–2023) is used to estimate:

✓The share of workers and firms by size category (0, 1–9, 10–99, 100+ employees).

✓Interaction effects between year and firm size, region, and sector.

The analysis explores heterogeneity by sector (e.g., construction, food, beauty, sales) and region (North, Northeast, Southeast, South, Central-West).

Additional models test year effects and occupation-specific trends in firm creation after job separation.

Findings and Conclusions

The 2017 reform accelerated firm creation among former employees, especially in beauty, food services, and sales sectors, confirming a shift toward independent contracting.

The share of non-employing firms (individual enterprises) has grown significantly and steadily since 2017, while micro, small, and large firms' shares have declined.

The data reveal a dual formal labor market structure:

- ✓A large base of self-employed or micro-entrepreneurs with limited employment capacity.
- ✓A small group of large firms that dominate formal job creation.

<u>Conclusion:</u> while flexibilization laws may have improved efficiency and formalization rates, they have also deepened structural polarization between self-employed workers and stable, formal employment.

Comments

Covid-19 (1)

COVID-19 likely reinforced the paper's conclusion that Brazil's labor market is evolving toward a dual structure of large firms and micro-entrepreneurs.

The pandemic likely amplified the main dynamics described in the paper — namely, the shift from traditional employment toward individualized and flexible work arrangements (MEIs, gig work, self-employment).

During the pandemic, lockdowns and firm closures disproportionately affected sectors reliant on face-to-face labor (retail, food services, beauty, construction). Many displaced workers turned to self-employment as an alternative source of income.

Data from IBGE and RAIS after 2020 confirm a spike in MEI registrations, consistent with the paper's finding that deregulation facilitates entrepreneurial formalization.

Covid-19 (2)

The pandemic blurs the distinction between reform-driven entrepreneurship and crisis-driven self-employment. Some “entrepreneurship” observed post-2020 may not reflect genuine firm creation but informal survival activity temporarily formalized under the MEI regime.

The pandemic also caused massive formal job losses that temporarily distorted the underlying dynamics in labor markets.

Many formal jobs disappeared not just due to structural outsourcing but because of demand collapse and lockdowns.

The rise in MEIs after 2020 could reflect necessity entrepreneurship (survival response), not just the regulatory incentives.

Endogeneity and omitted variable bias

The panel regression models (Equations 1–3) estimate how the 2017 Labor Reform and Outsourcing Law affected the probability of workers transitioning from formal employment to self-employment (MEI or individual firms).

By ignoring COVID-19 (a major structural break around 2020), the model assumes that post-2017 trends are driven solely by the legal reforms.

However, COVID-19 introduced massive exogenous shocks—to demand, mobility, firm closures, and employment—that independently increased self-employment.

Implication:

→ The coefficients attributed to the "post-2017" period (β_t for $t \geq 2017$) may be biased upward, overstating the true causal effect of the reform on entrepreneurship and firm creation.

Structural break and non-stationarity

COVID-19 constitutes a structural break in both the dependent and independent variables:

Firm creation, dissolution, and employment all changed abruptly.

Sectoral composition shifted (collapse in services; boom in delivery/logistics).

Ignoring this break violates the assumption of stable coefficients over time, a key condition for interpreting β_t as consistent estimators of reform effects.

Implication:

→ The estimated "trend" after 2017 may conflate policy-driven structural change with pandemic-driven behavioral change.

→ This leads to non-stationarity bias—the pre- and post-pandemic data follow different data-generating processes.