

From caring to work: The labor market effects of non-contributory health insurance.

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Abstract

A number of countries achieved universal health coverage through the introduction of non-contributory programs that insure those not covered by employer-based health insurance. This paper analyzes the influence that these programs have on labor market decisions, both by shifting incentives away from jobs that pay contributions to social security (formal employment), as well as by relaxing the labor force participation constraints faced by the previously uninsured. Using a difference-in-differences design that exploits the variation generated by the municipal level roll-out of a large scale intervention of this kind in Mexico. This paper finds that program exposure for at least three quarters leads to a small (0.84 pp) decrease in the ratio of formal to total employment. This effect is not driven by flows between formal and informal jobs but rather by a decrease in the flow from informal employment to inactivity, (1.2 pp). Consistent with the predictions of a model in which improvements in the health of dependents leads to less binding labor force participation constraints for other household members, a set of additional results show that this effect is concentrated among women and specifically among secondary earners with caregiving responsibilities. It is further established that these groups increase weekly working hours by up to 4.6 hours (20%) while decreasing the time devoted to home production by as much as 3 hours (9.6%). I find no evidence to support alternative mechanisms such as delayed childbearing, the freeing up of precautionary savings, time reallocation between household members or improvements in the health of the working age population. These findings suggest that crowding out of employer based-health insurance did not take place because better off workers in the margin between formal and informal employment placed little value on the new health benefits. Conversely, some groups among those excluded from formal employment did benefit from reduced caregiving costs and responded by increasing their labor supply. This latter finding is important because it highlights the previously undocumented double dividend that this type of interventions have on female labor force participation.

Keywords: Health insurance; Crowd-out; Informality; Female labor supply.

JEL codes : I13, I15, I38, J21, J22, O12, O17.

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