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Between enforcement and forbearance: deferred compliance and protection against informality during crisis

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Abstract:

Informality is a key challenge in many developing countries. We argue that deferring compliance has the potential to protect against informality. Situated between enforcement and forbearance, both well-established concepts in the political economy literature, deferred compliance aims to sustain people's connections to the formal sector in times of crisis. We emphasize the importance of politics behind deferred compliance and develop a micro-foundational argument to understand the conditions under which the policy may be likely to sustain compliance. Using observational and experimental data, we evaluate the compliance effects of a policy of deferred payment of electricity bills implemented in Uruguay under the Covid19 crisis. Using a difference-in-difference analysis, we compare payment behavior among households that were (and were not) directly affected by a policy of deferred payment of electricity bills in Uruguay in 2020. Using information nudges targeted to beneficiaries, we provide causal evidence of the mechanisms through a RCT implemented in cooperation with the local energy provider. Intent-to-treat effects indicate a robust and substantive increase in payment in response to the information nudges. Our findings show that deferring compliance is an additional strategy through which crisis-hit governments in middle-income countries can protect against informality in ways that are politically and economically viable.

Sarah Berens is Professor at the University of Bremen. Her research interests are comparative politics, comparative political economy and development politics with an emphasis on low- and middle income economies.
