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

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Abstract

Health reforms in low and middle income countries usually entail the provision of free or subsidized health insurance. In this paper I examine whether this type of insurance encourages employment by freeing up resources previously used by households to cope with health shocks. To isolate the causal effect of providing free health insurance I use a difference in differences design that exploits the municipal (county) level variation created by the rollout of Mexico's Seguro Popular (SP). My labor market transition estimates suggest that SP increases labor supply by retaining workers in the labor force. This effect is driven by women, particularly by those with caregiving responsibilities. Time use estimates additionally illustrate that this increase in female labor supply results from the reallocation of time from work at home to work in the labor market. These findings are consistent with the predictions of a simple model where SP reduces the time burden that dependents in poor health impose on caregivers. The finding that SP increases labor supply is also important because it highlights that past findings on the labor market effects of SP do not entail an efficiency loss. Specifically, I show that the increase in the share of workers in jobs without employer based health insurance, that is, in informal jobs, is not driven by workers moving to less productive informal jobs, but by informal workers being retained in the labor force.

Keywords: Health insurance; Crowd-out; Informality; Female labor supply.
JEL codes : I13, I15, I38, J21, J22, O12, O17.