Who Demands Labor (De)Regulation in the Developing World? Insider-Outsider Theory Revisited

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• In this presentation I provide a brief summary of a recent paper which raises some questions about the “insider-outsider” perspective that dominates thinking about informality.

• The paper will come out in the next few weeks as a WIDER, CEPR, IZA and Cornell Working Paper.
• If insider benefits conveyed by labor regulations have such bad consequences for outsiders, we might expect these outsiders to be vehemently opposed to them.

• But are they? What is the evidence?

• Actually, there is very little evidence on the issue in developing countries, because while there are many surveys where employers and experts are asked to report their views on labor regulations, there are very few surveys asking workers in developing countries about their preferences or otherwise for labor regulations.

• This paper makes an initial effort, very imperfect, to present evidence on this issue.
In 2008, LAPOP (Latin American Public Opinion Project) included the following question in three countries (Argentina, Chile and Venezuela): “Do you think that an increase in the minimum wage will improve your labor situation?”

Respondents could select “yes” or “no” as their answer. Figure 1 shows the share of outsiders (defined as employees without a legally mandated work contract) who report a positive answer.

In the three countries, the majority of outsiders support an increase in the minimum wage, from 62% in Argentina to 75% in Venezuela. They do not think that a higher minimum wage would make their labor situation worse as the insider-outsider theory predicts.
Figure 1 – Share of employees without a work contract who support a higher minimum wage

• In 2006 and in 2016 the International Social Survey Programme (ISSP) asked the following question: “Are you in favor or against reducing the working day to create more jobs?”

• Chile, Dominican Republic, Suriname and Venezuela in Latin America; Georgia, India, Philippines, Thailand and Turkey in Asia; and South Africa.

• Figure 2 shows the results for unemployed workers. We have pooled both surveys and grouped workers by continent, but qualitatively, the same result is observed in every country-survey.

• Again, the majority of outsiders support rather than reject labor regulations.
Figure 2 – Share of unemployed workers who are in favor, against, and neither against nor in favor of reducing the working day

Notes: Pooled data ISSP 2006 and 2016 waves. List of countries is in footnote 6.
During 2016 we asked 1,000 individuals to answer a very short survey while they were waiting for the suburban train in Buenos Aires, Argentina; 795 people accepted and completed the survey.

We asked: “In your opinion, should severance payment be increased, kept as it is, or reduced?”

We find that the large majority of outsiders, including both unemployed and informal workers –defined as employees without access to health insurance through their employer which is legally mandated in Argentina, support an increase in severance pay (Figure 3).
Figure 3 – Preferences of unemployed and informal employees with respect to severance pay in Argentina

Source: Own collected data at train stations in Buenos Aires, Argentina.
• Of course there are severe limitations to the data we have presented.
• But if there is even a kernel of truth to the tendency depicted here, it calls for more detailed empirical work on other data sets--indeed, for collection of information on outsiders’ views on labor (de) regulation.
• It also calls upon us to look more carefully at the assumptions of the canonical insider-outsider perspective.
• What modifications to these assumptions might lead to outsiders preferring regulations to deregulation?
• **Employer power.** In the standard Stigler monopsony model, for example, higher minimum wage increases the employment of outsiders.

• There is now growing evidence of employer power in labor markets, but empirical analysis in developing countries is still in its infancy.
• **Sharing between insiders and outsiders.** If outsiders are also beneficiaries of gains to insiders through transfers and sharing, then their support for those benefits is understandable.

• Theoretical work by Fields and Kanbur (2006).

• But empirical work eg insider-outsider composition within households or within other sharing groups, is not very advanced.

• This is perhaps because the question has not been posed as yet.
• Transitions between insider and outsider status.
• Easy to write down models where transitions mitigate the static disparities when viewed in present discounted value terms.
• Connection to current discussion of the extent of mobility between informality and formality and its implications for equilibration of wage and non-wage benefits (Santiago Levy).
• Connection to POUM (prospect of upward mobility) hypothesis of Benabou and Ok.
• Other aspects discussed in paper—capitalists vs workers rather than insiders workers versus outsider workers; and relaxing homo economicus assumptions.
Conclusion

• None of this is to deny that there might not be systemic issues with certain types of regulations. Overall efficiency costs should of course be assessed.

• But the simple, and perhaps simplistic, “insider-outsider” view, of workers pitted against each other in the arena of labor regulations, needs to be subjected to careful empirical and theoretical scrutiny.

• It has had too easy an analytical ride so far.

• And the implications of a reassessment could be far reaching.
• Thank You!