

Insights Series #144

Labor Informality and Its Political Consequences in Latin America

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Key Findings:

- We explain how to identify informal sector workers using the new survey item added to the 2018/19 AmericasBarometer.
- The new item has strong measurement validity: it is highly correlated with an alternative measure of informality (from the ILO) and with GDP per capita.
- Informal workers vote at slightly lower rates than their formal counterparts.
- Formal and informal workers have similar attitudes toward policies aimed at reducing inequality, but informal workers are slightly more likely to support government measures to help the poor.



Informality is an extremely widespread and important economic reality in Latin America. Jobs, financial services, and home ownership are informal—meaning they are not monitored by the state—for hundreds of millions of Latin American citizens. The material consequences of this are well-documented in the field of economics: informality consigns many workers to low and precarious incomes with minimal social protections, it prevents the poor from accessing sorely needed loans and savings instruments, and it diminishes overall societal prosperity by proliferating economic inefficiency.¹ Political scientists have also considered the consequences of economic—and especially labor—informality, arguing that its prevalence weakens organizational life, discourages political participation, detaches voters from parties, and nudges the poor rightward in both their policy attitudes and their voting behavior.² Some political scientists even argue that these patterns underlie an alleged historical weakness of left-labor parties in the region, which in turn explains the region's truncated welfare states, its unconventional and meager efforts to assist the poor, and (thus) Latin America's severe income inequalities.³

Unfortunately, many of these arguments on the political science side have been speculative. Despite the recognized importance of informality, political scientists have only recently begun to include individual-level measures of informal labor status in their surveys of political matters. Various efforts exist but have been sporadic, mostly occurring in studies of single Latin American countries.⁴ In the relatively few studies that do use cross-national data, scholars have attempted to, in essence, retrofit items from standard demographic batteries as measures of informality. To proxy the concept, these studies end up using suboptimal measures such as self-employment—which ignores the fact that around half of informal workers are salaried and employed—or enrollment in a health insurance plan—even though many countries have means-tested programs that insure informal workers.⁵

Fortunately, the 2018/19 round of the AmericasBarometer included a new direct measure of labor informality. In this report, we demonstrate the strong measurement validity of this measure. We then use it to explore the political consequences of informality. Informality is associated with

slightly lower voter turnout and somewhat greater support for policies benefiting the working poor, although we find no difference between formal and informal workers in the degree of support for policies to reduce income inequality.

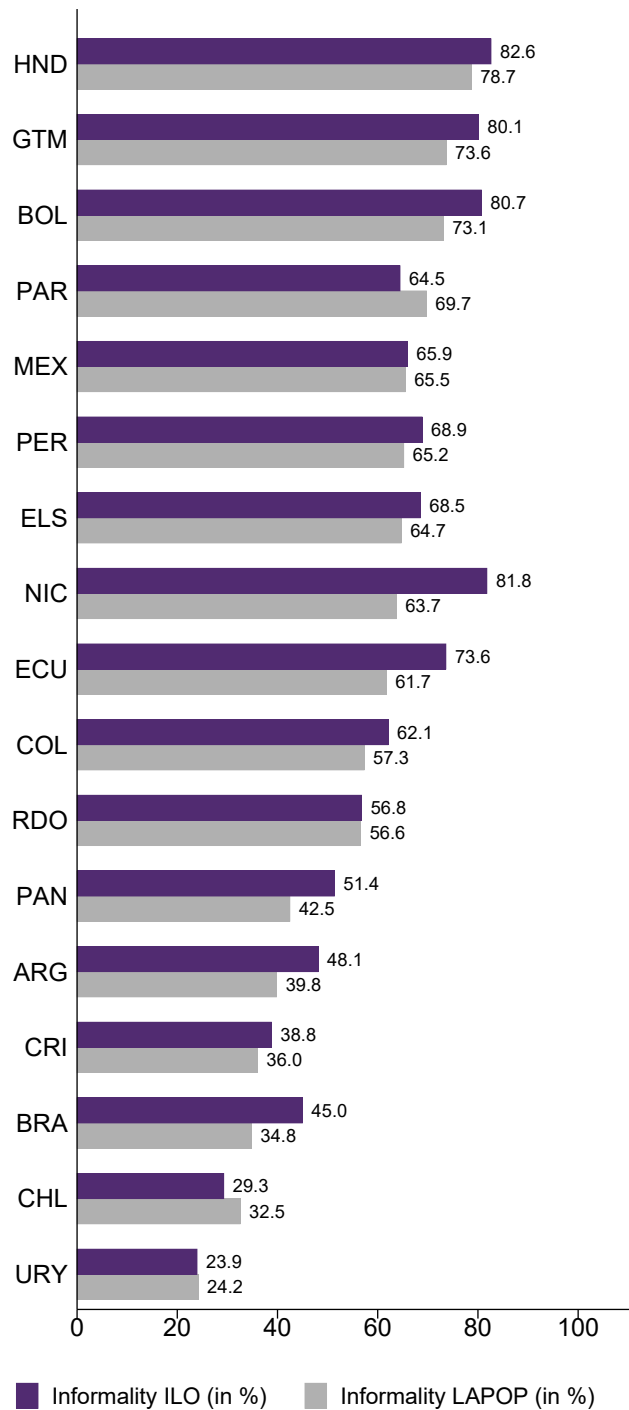
The New LAPOP Measure and Its Validity

The new measure of informality (**FORMAL**) is worded as follows: "For this job, do you or your employer make contributions to the social security/pension system? Yes [formal] or no [informal]?" The item is motivated by the "benefits" definition of formality status, which defines an informal job as one that does not enroll the worker in a state-administered pension plan. Experts generally agree that operationalizing the benefits definition is the best approach.⁶ Whether wages are taxed to fund a state-operated retirement program goes to the heart of the definition of informality, since payroll taxation is equivalent to state recognition of the job. Moreover, asking about job-based contributions to, specifically, a pension program provides cross-national comparability whereas questions about other kinds of benefits would not. The core of state-administered social security regimes in virtually all Latin American countries is retirement pensions, whereas the existence of other types of benefits, such as health and unemployment insurance, varies cross-nationally.⁷

Other definitions and potential measures of informality exist, but they are less useful than this question. The "productive" definition of informality classifies as informal anyone who is self-employed or who works in a micro-firm.⁸ Firm size, however, is merely correlated with—not definitive of—government recognition and is thus "theoretically weak."⁹ Of course, informal labor status is surely a continuous variable rather than an either/or state; workers can, for instance, work informally for formal firms or moonlight in the informal sector to supplement their formal job.¹⁰ If allowed a single question, however, a query about state-administered pensions is optimal.¹¹

Figure 1 shows some simple descriptive statistics for this new measure while also exploring its measurement validity. The figure shows the proportion, according to the LAPOP measure, of informal workers in each country as a share of the economically active population.¹² Figure 1 also shows country-level rates of informality as reported by the International Labour Organization (ILO). The ILO estimates are based on household surveys with much larger samples. The ILO classifies workers as informal if they are “not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits.”¹³ Comparing the ILO and LAPOP figures provides a validity check of the new LAPOP measure: the two measures should be similar in magnitude for each country and they should be highly correlated across the set of countries.

According to the LAPOP measure, the rate of informality ranges from 24.2 percent (Uruguay) to 78.7 percent (Honduras) in Latin America. Informality tends to be lower in the region’s wealthier countries (e.g., Argentina, Chile, Uruguay) than in its poorer countries (Bolivia, Guatemala, Honduras), which itself lends validity to the measure since GDP per capita is a known negative correlate of informality.¹⁴ More precisely, the correlation between GDP per capita and the LAPOP measure is -0.81. The correlation between the two informality measures is also reassuringly high (0.95), and across these 17 countries the median distance between the two percentages is just 4.8 percentage points. In only two countries (Ecuador and Nicaragua) do the two measures appear to be notably different.¹⁵ In summary, the new LAPOP measure of informality has good measurement properties and we confidently encourage its use.



Source: © AmericasBarometer, LAPOP, 2018/19

Figure 1: Informality in Latin America According to LAPOP and the ILO

The Political Consequences of Informality

With this new measure, we can quantify the effects of informality in Latin America on one important political behavior—voter turnout—and an important political attitude—public opinion toward state-sponsored redistribution. We first consider voter turnout. Much scholarship insists that informal workers participate less than their formal sector counterparts.¹⁶ Previous empirical findings, however, are meager, and those that do exist yield mixed evidence.¹⁷ Figure 2 shows results from two logit models, both of which pool respondents from the 17 countries listed in Figure 1. The dependent variable in both models is self-reported turnout (voted=1, abstained=0) in the most recent presidential election, and for the main independent variable we use the new binary measure of labor informality (informal workers=1, formal workers=0, and we limit the sample to just these two kinds of respondents).¹⁸ Model 1 in Figure 2 contains only the informality independent variable, while model 2 includes this variable along with some standard controls.¹⁹

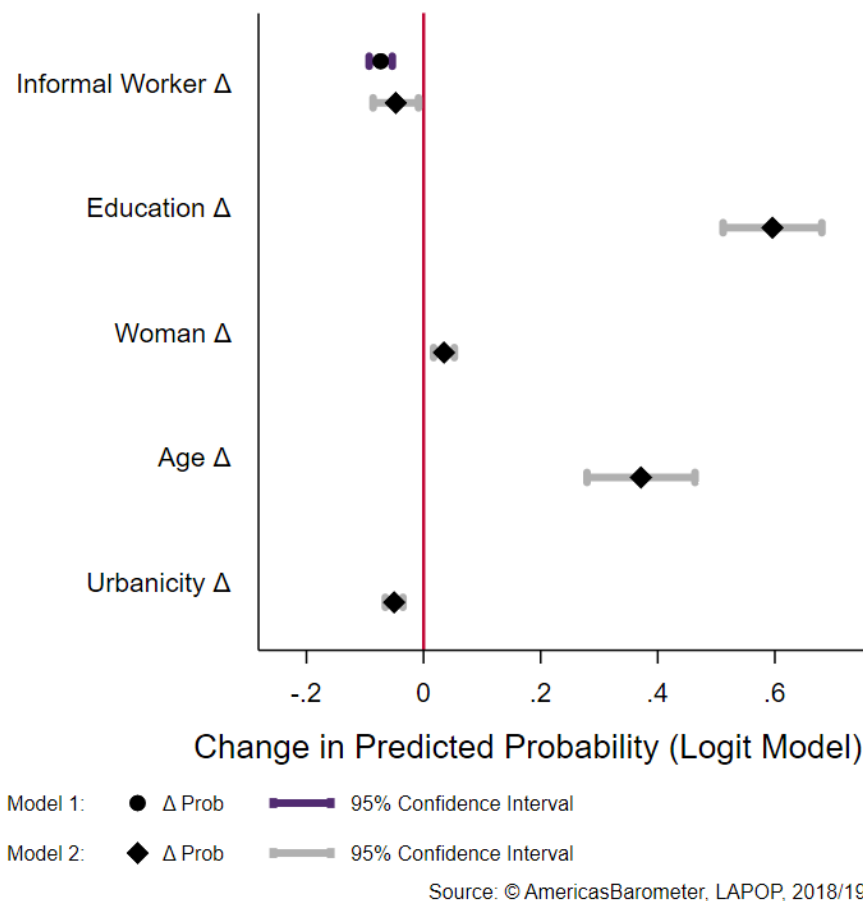
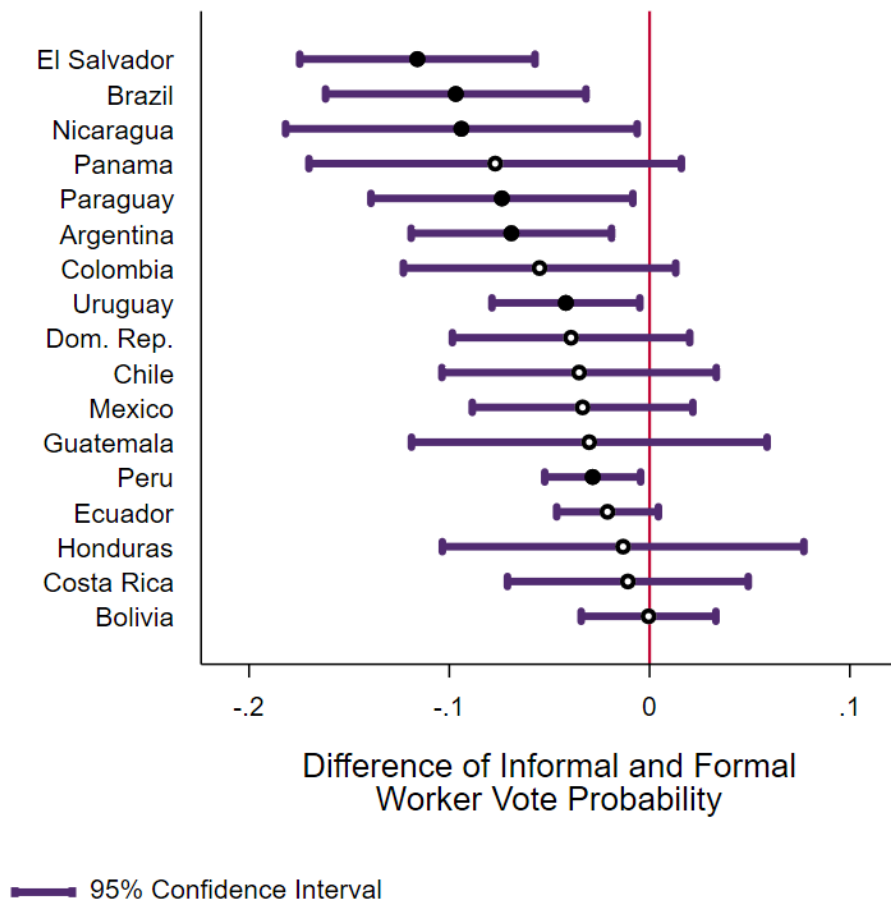


Figure 2: The Predicted Effect of Informality on Voter Turnout in 17 Latin American Countries

The results show that informal workers in Latin America are less likely to vote, a difference that is statistically significant in both models. The models predict a five-percentage point turnout gap between the two groups, with formal workers participating at moderately higher rates than their informal counterparts. Figure 3 gives a country-by-country view, showing model-predicted turnout differences between the two groups for each country. (These are generated from new logit models, one per country, using the same covariates as Model 2 in Figure 2). Participatory differences between the two groups are not universal. A statistically

significant difference in turnout exists in just 7 of the 17 countries (solid dot), and the predicted difference exceeds 5 points in just 7 countries. In sum, the new LAPOP measure allows us to conclude that informal workers do vote less frequently than formal workers in Latin America, but the gaps in participation between the two groups are, on average, somewhat modest and vary by country.



Source: © AmericasBarometer, LAPOP, 2018/19

Figure 3: Predicted Differences in Turnout Rates between Informal and Formal Workers

Next, we consider whether informality shapes attitudes toward state-administered economic redistribution in Latin America. Prominent political economy arguments predict that informal workers should support

genuinely progressive redistributive policies, both because they tend to be relatively poor themselves²⁰ and because they are excluded from the social security regimes that provide the bulk of welfare state benefits in Latin American societies.²¹ Indeed, previous research suggests that informal workers appreciate the relatively new noncontributory social programs—conditional cash transfers, minimum pensions, non-contributory health insurance—that are much more progressive than the traditional social security systems.²² Still, other studies show that exclusion from the largest welfare programs dampens support for state-led redistribution²³ and incentivizes workers to opt out of the fiscal contract.²⁴ These findings suggest that standard questions about reducing income differences may not resonate with poor informal workers because in the truncated (and sometimes regressive) welfare states of Latin America, such workers are generally not net beneficiaries. In other words, although reducing income differences presumes progressivity, it says less about who actually benefits from redistribution. To many Latin Americans, for example, reducing income differences may mean taking from the very rich to give to the middle class.²⁵

To address this question, we employ two measures of redistributive preferences. A first question asks respondents how much they agree with a statement that the government should reduce income inequality between rich and poor (**ROS4**). This is the standard survey item used to measure support for state-led redistribution across developing²⁶ and advanced democracies.²⁷ A second measure asks respondents how much they agree with the statement that the government should spend more on helping the poor (**REDIST1**). This question makes explicit that state-led redistribution is targeted to poor groups. We use these as dependent variables in another set of regression models (multilevel OLS), where both are coded so that higher values equate to greater support for redistribution.²⁸ Figure 4 shows the results.²⁹

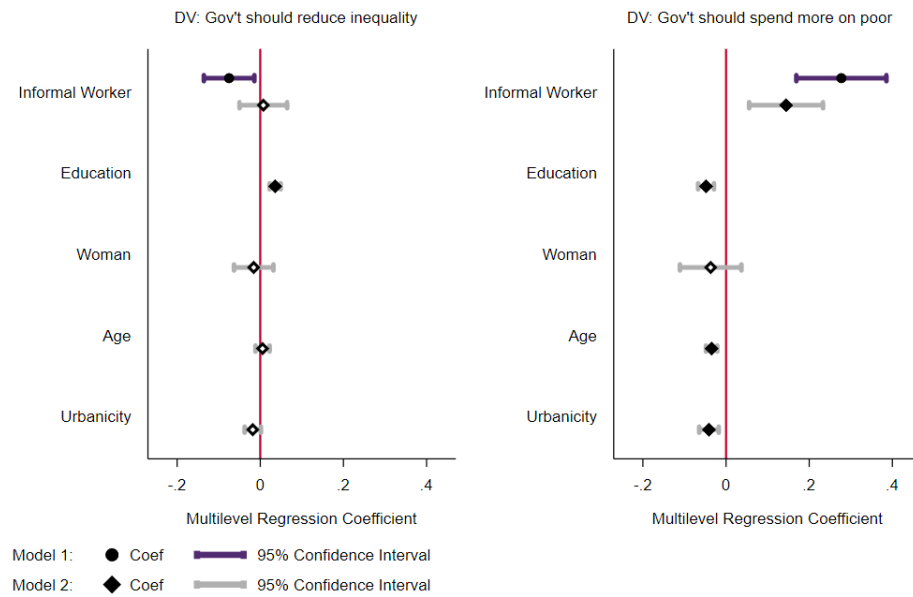


Figure 4: The Effect of Informality on Support for Economic Redistribution

We find that informality has no statistically significant relationship with support for government efforts to reduce inequality, at least once controlling for a few confounds. By contrast, it does have a positive and statistically significant effect on support for measures that target the poor. Informal workers are more supportive than formal workers of increased government spending on the poor. This gap is modest in size. The effect of informality (~ 0.27) when not holding constant confounds (Model 1 with the government spending dependent variable) is about double the effect of informality (~ 0.14) when controlling for just a few confounds (Model 2 with the government spending dependent variable).³⁰ In sum, labor informality is positively, albeit weakly, correlated with support for redistributive efforts that specifically target the poor.

Conclusion

Labor informality is a fundamental characteristic of the Latin American economic experience, and political scientists have a bevy of impressions about how the informal sector differs politically from the formal sector. Fortunately, the 2018/19 round of the AmericasBarometer introduced a survey measure that allows scholars to test many of these impressions. We provide a few examples of such tests in this note. We find that informal workers vote at lower rates than formal ones. Differences in rates are small—in the single digits—but not negligible, given that average turnout is high across the region. These small differences in turnout across groups of voters could be consequential in a close election. We also find that informal workers are slightly more supportive than formal workers of government help for the poor, but the differences between the two groups are small. Here, both the more precise empirical identification of informal sector workers and the two survey measures of redistributive preferences show the importance of having well-designed survey instruments for estimating empirical relationships. We hope that scholars will capitalize on this new item and further explore the influence—or absence of influence—of informality on political behavior.

Notes

1. de Soto (1989); La Porta and Shleifer (2014); Levy (2008).
2. Nelson (1970); Roberts (2002).
3. Feierherd (2017); Holland (2017); Huber and Stephens (2012); Schneider and Soskice (2009).
4. Holland (2017); Menéndez González (2018); Singer (2016).
5. Altamirano (2019); Baker and Velasco-Guachalla (2018); Berens (2015).

6. International Labour Organization (2002).
7. To be clear, prior rounds of the AmericasBarometer contain measures that come close to implementing the benefits definition. In previous rounds, respondents were asked if they had health insurance (2006, **OCUP1C**) or a pension plan (2010, **PEN1**), but these queries did not directly tap whether these benefits were administered through the respondent's job. More useful is the 2008 item that asked respondents if they had health insurance *through their business or employer*. This is a second-best application of the benefits definition, but it is possible in some countries for otherwise formal workers to decline health insurance from their employer if they receive coverage from a spouse or a noncontributory program.
8. Perry et al. (2007).
9. Gasparini and Tornarolli (2009, 20).
10. International Labour Organization (2002).
11. A third definition, based on a “legalistic” conception of informality, defines informal workers as those whose jobs are not backed by legally binding work contracts (Perry et al. 2007). This definition, however, is less cross-nationally comparable than the benefits definition. In many Latin American countries, labor contracts are not required for all sectors, and we suspect they are less salient to workers than monthly pension deductions. For instance, labor regulations for some sectors (e. g. domestic workers) in Mexico allow oral labor contracts, which are harder to enforce and surely harder for workers to recall.
12. In addition to using the **FORMAL** question, the following variables are used to construct the informality measure. **OCUP1A** asks “In this job are you: 1) A salaried employee of the government or an independent state-owned enterprise? 2) A salaried employee in the private sector? 3) Owner or partner in a business? 4) Self-employed? 5) Unpaid worker?” Those who answered they were an unpaid worker but had said that they make contributions to the pension system in **FORMAL** were classified as informal workers. To avoid confusion, all of those who answered that they were a salaried employee of the government were classified as being formal workers. Furthermore, the informality measure also categorizes as missing all of those who responded to **OCUP4A** (“How do you mainly spend your time? Are you currently”) as 3) Actively looking for a job?, 4) A student?, 5) Taking care of the home?, 6) Retired, a pensioner or permanently disabled to work, or 7) Not working and not looking for a job. We also classify a small number of unpaid workers (using **OCUP4A**) as informal workers and a small number of public-sector workers who do not make contributions to the pension system as formal. Due to missing

data on this variable, we cannot reclassify these two sets of workers in Colombia. Those who answered 1) Working? or 2) Not working, but have a job? to **OCUP4A** are included in the informality measure. The informality measure is coded such that 1 designates an informal worker and 0 a formal worker. The model for Figure 1 is estimated with survey weights.

13. International Labour Organization (2013, 4).
14. Loayza and Rigolini (2006). For the ILO measure, the correlation with GDP per capita is -0.86.
15. For Nicaragua, the ILO measure of informality is from 2012; this may explain the gap with the LAPOP measure for this country.
16. Portes, Castells, and Benton (1989); Ronconi and Zarazaga (2015).
17. Baker and Velasco-Guachalla (2018).
18. The question used for the dependent variable for Figure 2 is as follows: **VB2**. “Did you vote in the last presidential elections of (year of last presidential elections)?” [IN COUNTRIES WITH TWO ROUNDS, ASK ABOUT THE FIRST] 1) Voted 2) Did not vote.
19. N = 12,869 (Model 1). N = 12,722 (Model 2). These are multilevel logit models. Education and age are both logged and then multiplied by 10 to improve readability in the figures. Tables of estimates are available from the authors upon request. The models in Figure 2 use survey weights.
20. Meltzer and Richard (1981).
21. Haggard and Kaufman (2008); Weyland (1996).
22. Garay (2016); Hunter and Sugiyama (2009); Menéndez González (2018).
23. Holland (2018)
24. Berens (2020).

25. Holland and Schneider (2017).
26. Morgan and Kelly (2017)
27. Beramendi and Rehm (2016).
28. **ROS4**: “The (Country) government should implement **strong** policies to reduce income inequality between the rich and the poor. To what extent do you agree or disagree with this statement?” **REDIST1**: “The government should spend more on helping the poor. To what extent do you agree or disagree with this statement?” Both of these questions are measured on a 1-7 scale with 1 indicating “strongly disagree” and 7 indicating “strongly agree.”
29. N = 12,097 (Model 1—**ROS4**). N = 11,960 (Model 2—**ROS4**), N = 10,588 (Model 1—**REDIST1**). N = 10,463 (Model 2—**REDIST1**).
30. Notably, education is positively correlated with support for reducing inequality but negatively correlated with support for redistributing to the poor. This is consistent with the notion that redistribution is multidimensional, with much hinging on who benefits from it. Individuals of higher socioeconomic status are opposed to redistributing to the poor because they are net losers, but when asked about reducing income inequality, they conclude that redistribution benefits them.

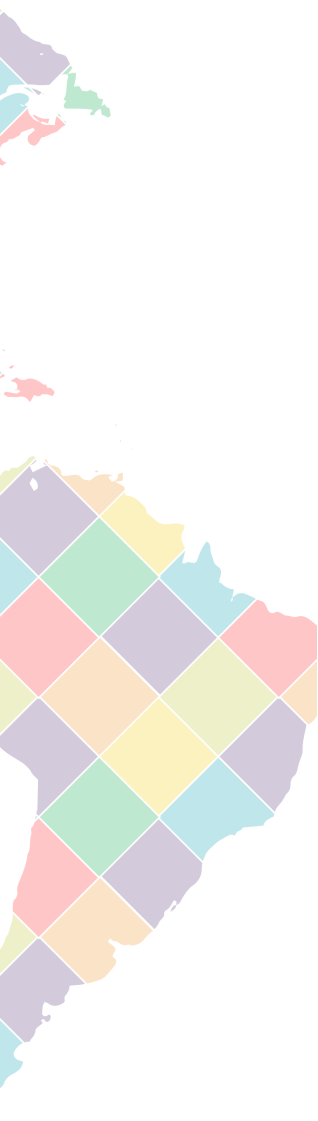
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As a charter member of the American Association for Public Opinion Research (AAPOR) Transparency Initiative, LAPOP is committed to routine disclosure of our data collection and reporting processes. More information about the AmericasBarometer sample designs can be found at vanderbilt.edu/lapop/core-surveys.

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