Who Demands Labour (De)Regulation in the Developing World? Insider–Outsider Theory Revisited

Lucas Ronconi
Ravi Kanbur
Santiago López-Cariboni

Who Demands Labour (De)Regulation in the Developing World? Insider–Outsider Theory Revisited

Lucas Ronconi
CIAS-CONICET and IZA

Ravi Kanbur
Cornell University and IZA

Santiago López-Cariboni
Universidad de la República Uruguay

ABSTRACT

Who Demands Labour (De)Regulation in the Developing World? Insider–Outsider Theory Revisited[*]

Contrary to the predictions of the insider–outsider model, we show that the large majority of outsiders in developing countries support, rather than oppose, protective labour regulations. This evidence holds across countries in different regions, across different types of protective labour regulations (i.e. severance payment, minimum wages, working time), and for different categories of outsiders (i.e. unemployed workers and employees without access to legally mandated labour benefits). We revise the economic and political assumptions of the insider–outsider model, discussing their empirical relevance in a developing country context.

Corresponding author:
Lucas Ronconi
Centro de Investigación y Acción Social (CIAS)
Av Callao 542
Ciudad de Buenos Aires C1022AAS
Argentina
E-mail: lucas.ronconi@cias.org.ar

1   Introduction

A fundamental question in developing countries is why informal workers remain so under-protected by the state even when conditions of economic growth and political democracy have already been met. A growing literature in political economy argues that the relative political strength of formal workers, which translates into employment protection legislation (EPL), is the main culprit. According to insider–outsider theory, labour regulations reduce overall welfare, but are nonetheless in place either because the median voter is an insider (a legally covered worker who benefits from protective EPL), or because insiders have over-representation in the policy process due to their capacity to collectively organize. That is, outsiders would like to eliminate EPL because they are negatively affected by it; but they do not have sufficient political power to translate their preferences to the labour code. Persson and Tabellini (2002) express this argument clearly:

> Employed and unemployed voters disagree over firing flexibility: the currently employed insiders want to protect their jobs, and thus dislike flexibility, whereas the unemployed outsiders welcome flexibility, as it raises the hiring rate. The unemployed constitute a minority, however, and equilibrium policy is thus chosen so as to please the employed voters. Persson and Tabellini (2002: 147)

At the core of this approach is the idea that capitalists lack economic and political power, and that disaggregating labour into insiders and outsiders is a fundamental distinction to explain labour law (Rueda 2005, 2006). This paper empirically challenges the dominant approach to explain the political economy of EPL. By exploiting available surveys as well as collecting new original data, we present a stylized fact that has been overlooked. In developing countries, contrary to the insider–outsider model, outsiders tend to *support* protective employment regulations. We show that all types of outsiders (i.e. unemployed workers, non-registered employees, and low-skilled self-employees) overwhelmingly support alternative components of EPL such as severance payments, minimum wages, and working time regulations. At the very least, the evidence we present suggests that the persistence of stringent EPL in developing countries is consistent with explanations based on a broad social support for employment protection—from both insiders and outsiders—instead of the common wisdom emphasizing powerful and narrow interests of insiders.

This paper also aims to contribute to the design of labour regulation. Labour economists usually attempt to estimate the causal effects of EPL. The idea is that once the true parameters of the labour market are estimated through careful empirical analysis, then policy makers would be able to design the appropriate set of labour policies. Despite much effort, this approach has only achieved partial success, mainly due to the difficulties of solving the problems of confounding variables and endogeneity that pervade non-experimental studies (Kanbur and Ronconi 2018). An alternative approach is to directly ask voters which labour regulations they prefer. This approach has some important shortcomings (which we discuss below) but is nevertheless informative and can complement the more traditional econometric literature. To the best of our knowledge, however, this paper constitutes one of the first attempts to analyse workers' preferences for labour regulation in a developing country context.

Our stylized finding points toward a largely neglected puzzle in the political economy of EPL in developing countries: Why would outsiders support EPL if, from the point of view of the insider–outsider model, EPL harms their welfare by making it harder to find a formal job? Because existing accounts neglect this mismatch between theory and data, they often assume the insider–outsider theory holds and never test the main prediction of that model: that outsiders should unambiguously oppose EPL (Wibbels and Ahlquist 2011; Carnes and Mares 2014; Baker and

Velasco-Guachalla 2018). This paper shows that there are several potential reasons for observing outsider support for EPL, and it explains how these reasons have different implications for the validity of the insider–outsider model.

This enables us to ask a more fundamental question: Is disaggregating labour into insiders and outsiders really so crucial to explaining the existence and characteristics of labour law? (Ronconi 2019). We believe that the current state of this debate is imprecise and unorganized. First, scholars take the insider–outsider model to explain many different policies, and often neglect analysing EPL per se. Second, those who analyse workers' preferences focus on the interpretation of marginal insider–outsider differences in policy support when, in fact, outsiders may overwhelmingly support policies that benefit insiders. Third, there is no systematic analysis of the theoretical conditions under which insider–outsider preferences diverge and converge. In this paper we attempt to contribute to the debate.

The paper is organized as follows: In the next section we revisit the economic and political assumptions of the insider–outsider model and review the empirical literature that is usually interpreted as supportive of the model. In the third section we provide novel evidence suggesting that, contrary to the insider–outsider model, outsiders are in favour of protective labour legislation across different countries, different groups of outsiders, and alternative measures of EPL. In the fourth section, we relax the insider–outsider model assumptions one by one in order to evaluate the extent to which the prediction that outsiders oppose EPL still holds. Finally, we discuss potential avenues for future research.

2   The insider–outsider literature

2.1   Economic assumptions: the neoclassical labour market

The canonical formulation of the insider–outsider framework is a neoclassical competitive labour market where wage adjustment clears the labour market and there is no unemployment. Each individual firm is a wage-taker, and, in equilibrium, the wage equals the marginal productivity of labour. If regulations that increase the cost of labour more than workers' productivity are introduced (such as minimum wages, mandated holidays, contributions to social security, overtime payments, severance pay, firing restrictions, and so on), labour demand will fall below its market clearing level and unemployment will result. Those individuals who are unemployed, who may engage in informal unregulated activities with low income, are labelled 'outsiders'. Those lucky enough to keep a job, now with higher pay and benefits, are the 'insiders'.[1]

Workers are assumed to be rational, well-informed, materialistic, and self-regarding (i.e. *homo economicus*). In this framework, regulations clearly benefit the insiders at the expense of the outsiders and every worker knows it. Removing regulations, or curtailing them, would improve the economic situation of outsiders since more of them would then be employed on the inside. The outsiders should therefore be *against* regulation and in favour of deregulation.

---

[1] In their original formulation, Lindbeck and Snower (1988a, 1988b) divide labour turnover costs into three categories: 'production-related' costs such as search, hiring, and training costs; costs related to insiders cooperating with one another but harassing underbidding new recruits; and 'rent-related' costs such as severance pay, seniority rules, advance notice, and other forms of legal protection against firing. That is, in the original version there are other sources of insider market power not related to legislation. But for the purpose of the paper, the key prediction remains: outsiders should oppose EPL.

2.2 Political assumptions: powerless capitalists and powerful employees

The standard political economy version of the insider–outsider model, as applied to EPL, assumes a median voter outcome (Persson and Tabellini 2002; Saint-Paul 1996, 2002). In the model, nature distributes individuals to employment (insiders) and unemployment (outsiders) status such that the unemployed are a minority. Because employment protection benefits insiders at the expense of outsiders, the decisive voter supports a higher level of firing restrictions than outsiders do. How much higher? Outsiders do not support zero firing costs because the gain in terms of higher job creation without EPL may be too small compared to the gain in terms of lower job destruction under strict EPL (Saint-Paul 1996). Conversely, median insider workers would not prefer unrestricted EPL because of the risk of firms' bankruptcy, an excessive toll taken on innovation and growth, and the higher cost of unemployment, which may outweigh the benefits of tighter labour market restrictions: 'should they become unemployed in the future, they will have to wait longer for a job' (Persson and Tabellini 2002: 147). Hence, there is an unambiguous although bounded discrepancy between the median voter outcome and outsider preferences.

Assuming a median voter outcome implies that, *ceteris paribus*, countries with more informality and unemployment, or more precisely countries where the median voter is an outsider, should tend to have less protective labour legislation. Similarly, if under relatively strict EPL the insider median voter becomes an outsider, such as might occur in a developing country suffering a major negative economic shock that increases unemployment and informality, then, the electoral policy outcome should be reforming EPL to a lower level.

In the original version of the insider–outsider model, however, insiders are also expected to be politically stronger than both employers and outsiders, due to the EPL protections they enjoy (Saint-Paul 1996). This opens the door for alternative political models of labour market policy in which insiders may form labour unions and become a key core-constituency capable of mobilizing different types of voters. Hence, labour-based parties and governments that politically rely on organized constituencies may protect the interests of insiders even if outsiders are a majority (Rueda 2005). The difference between the two political models is that under the median voter outcome outsiders simply vote for a liberalizing reform that would increase their chances of getting a better job, while in a model of partisan constituencies outsiders' preferences for EPL should depend on the utility from both a more flexible labour market and the nontrivial consequences of weaker labour unions. As we discuss below in section 4.4, outsiders' preferences for EPL should be sensible to the EPL's effect on the power of unions if the assumption of 'no capitalist power' form the insider–outsider model is relaxed.

2.3 The available evidence

There is a substantial empirical political economy literature based on the insider–outsider model. It has three main characteristics. First, it tends to focus exclusively on differences in preferences between insiders and outsiders (i.e. not on the absolute support of each group); second, it usually covers policy outcomes other than EPL itself; and, third, it has not tested whether outsiders oppose protective labour regulation as the model predicts. We briefly review the existing literature and show that even the critics of the insider–outsider model miss the central point that the majority of outsiders actually support, rather than oppose, EPL.

The distinction between insiders and outsiders has been generalized to broad categories of secure and vulnerable workers. Workers who are in stable employment are often considered as insiders, while all the unemployed, involuntary fixed-term employed, and involuntary part-time employed are coded as outsiders (Lindbeck and Snower 1988b, 2001; Saint-Paul 1998, 2002; Rueda 2005, 2007; Emmenegger 2009). The intuition is that outsiders are all the workers for whom EPL

3

represents a barrier that raises the cost of entry into good quality, protected insider jobs. The process of growing segmentation between secure and unstable jobs is known as the dualization of the labour market (Saint-Paul 2002; Rueda 2005, 2007; Palier and Thelen 2010).

While the insider–outsider model has direct and unambiguous implications regarding preferences for employment protection, the main political economy literature has instead focused on political economy explanations and preferences for alternative policies that either protect the unemployed with transfers, namely, passive labour market policy, or help the unemployed to find new jobs through active labour market policy such as training and placement programmes (Rueda 2005, 2006, 2007; Schwander and Häusermann 2013). Others have focused on insider–outsider differences in partisan preferences (Lindvall and Rueda 2014) and social policy preferences (Burgoon and Dekker 2010; Carnes and Mares 2014). Surprisingly, research that analyses explicit preferences for employment protection legislation is scarce and confined to the world of developed nations.[2]

Moreover, studies that analyse individual preferences often seek to understand whether insider–outsider differences are significant at the margin rather than describing whether labour market outsiders unambiguously oppose insiders' privileges. For instance, Rueda (2005: 65) justifies the insider–outsider model by reporting that 64 per cent of the insiders in 16 OECD countries consider 'job security' as a very important characteristic of a job while only 58 per cent of outsiders have the same opinion in the Eurobarometer survey. Besides the problem that the data at hand does not directly refer to support for EPL, the substantive difference is very modest between insiders and outsiders, and the majority of outsiders actually prefer job security. Analysing the same survey question from the 1997 International Social Survey Programme (ISSP), Emmenegger (2009) estimates that labour market insiders are the group that value job security the most, while labour market outsiders (such as the temporarily, part-time employed, and non-employed) are more critical, and the unemployed are somewhere in between. But, the data in the above two studies is about whether workers value certain attributes jobs might have. Testing the insider–outsider model requires data on workers' preferences for protective labour regulations, such as severance payment, firing restrictions, or minimum wages.

In an insightful study, Guillaud and Marx (2014) analyse support for employment protection in an electoral context in France. Respondents report attitudes around real alternatives of policy reform in the context of a segmented labour market (Palier and Thelen 2010) and strict labour market regulation on dismissals (Venn 2009). The authors find that temporary outsider workers do not differ from permanent insider workers, while the (outsider) unemployed are about 11 percentage points more likely to support the single employment contract (i.e. deregulation) than permanent workers.[3]

Many researchers have used the insider–outsider logic to analyse the effects of labour market dualization on politics and policies in developing countries (Carnes 2014a , 2014b; Berens 2015a, 2015b; Carnes and Mares 2015, 2016; Holland and Schneider 2017). For example, accounts of social protection in developing countries build on the insider–outsider model to explain the effect of informal employment on the provision of non-contributory social policy (Carnes and Mares 2013, 2014); although Baker and Velasco-Guachalla (2018) challenge this view, finding that differences in preferences between formal and informal workers are non-existent in Latin America. Similar research on preferences for employment protection legislation in developing countries,

---

[2] For an exception, see Berens and Kemmerling (2019).

[3] Interestingly, Svalund et al. (2016) analyse preferences for EPL in Nordic countries and observe that insiders are even more prone to demand deregulation than outsiders.

though, is surprisingly scarce and, to the best of our knowledge, no direct tests of workers' preferences for EPL have been conducted. Hence, we can only refer to different narratives existing in the political economy literature.

One line of argumentation in these narratives goes back to the origins of dualism in developing nations. Development projects based on import-substitution industrialization played an important role in creating high levels of labour market segmentation. In these contexts, a group of powerful labour market insiders was able to keep employment protection even long after the exhaustion of the initial development project (Rueda et al. 2015). The core insights of this argument emphasize the following. First, workers in the import-substituting sector became economically and politically privileged. As a result, import-substituting countries had largely uncontested labour markets (Haggard 1990; Mesa-Lago 1997; Murillo 2000) in which insiders earned above competitive wages and firms charged more than the competitive prices (Lindbeck and Snower 2002). The labour market power of industrial labour resulted from their condition of being both a scarce production input and a key domestic consumer of manufactured output (Mallet 1970). This increased wage differential and encouraged the government to enact policies that limited the arbitrage between urban and rural wages. As a consequence, the risks of not being employed in a protected industrial job were exacerbated (Iversen and Soskice 2001) and so were the demands for restrictive labour market rules and generous social insurance programmes (Wibbels and Ahlquist 2011; Rueda et al. 2015).

From this perspective, and consistent with the insider–outsider model, the persistence of large informal sectors in developing countries was a consequence of the level of protection against unemployment (Rueda et al. 2015). More importantly, this type of analysis suggests that formal workers should be the main labour market group backing up employment protection legislation. Because of the centrality of EPL for the very survival of insiders, unionized formal workers spent important resources blocking labour deregulation even as they were forced to accept other undesirable macroeconomic reforms such as trade liberalization and privation of state-owned enterprises (Murillo 2001; Murillo and Schrank 2005). One important account of the evolution of EPL in Latin America sustains that union density exerts its influence on the laws that govern the collective action of workers, while skill levels impact the laws that govern individual employment relations—of which EPL is a significant component (Carnes 2014b). This argument reflects canonical findings from the literatures on 'varieties of capitalism' (Hall and Soskice 2001) and power resources (Esping-Andersen 1985; Huber and Stephens 2001), and it is consistent with the insider–outsider model insofar as more skilled workers are more likely to be formal and therefore to prefer stronger EPL. However, it tends to concentrate on the unionized (and skilled) insiders and does not offer direct empirical tests of the EPL preferences of outsiders.

Finally, there are several critiques of the insider–outsider literature with regard to its predictions about workers' preferences. First, scholars arguing for convergence in insider–outsider preferences around EPL, emphasize optimistic future expectations among outsiders regarding their chances of finding a good insider job (Emmenegger 2009; Guillaud and Marx 2014). Second, another related claim is that insider–outsider theory makes too strong assumptions about workers' rationality and therefore overestimates the resulting polarization of policy preferences (Emmenegger 2009). Third, the theory is also criticized because it may ignore the role of policy packages offered by political parties. That is, outsiders may consider EPL not in isolation but as one of the many attributes of a policy bundle (Emmenegger 2009; Svalund et al. 2016). Fourth, the insider–outsider theory may also disregard outsiders' fear of potential erosions in the power balance between capital and labour (Tsakalotos 2004), which could also explain why outsiders

might support job security regulations as much as their insider counterparts.[4] These critiques offer useful guidelines to explore the reasons why informal outsider workers in developing countries may support EPL rather than oppose it. But they are exclusively focused on developed countries, and, more importantly, none of them point to the potential existence of market failures. They neglect the fact that protective labour regulations can increase both employment and efficiency, benefitting both insider and outsiders, in contexts in which employers have monopsony power.

3 Establishing a stylized fact: outsiders support protective EPL in developing countries

There are quite a number of surveys where employers and experts are asked to report their preferences for labour regulations. For example, the World Bank itself has two initiatives: the Enterprise Survey and the Doing Business survey.[5] There are, however, almost no surveys asking workers about their preferences for labour regulations. We could only find two single questions, one in the 2008 Latin American Public Opinion Project (LAPOP 2008)) and the other in the 2006 and 2016 International Social Survey Programme (ISSP Research Group 2008, 2018). The LAPOP question refers to minimum wages, and the ISSP refers to working time regulations, which we complement with our own collected data about preferences for severance pay. Despite certain limitations, the evidence we find is clear: the large majority of outsiders in developing countries *support* EPL.

In the main text, we present estimates of support for EPL for two groups of outsiders: unemployed workers and employees without access to legally mandated benefits. But, many low-skilled self-employees in the developing world could also be considered outsiders. They tend to be independent workers by necessity; they would prefer to work as formal employees but cannot find such a job (Anchorena and Ronconi 2014; Margolis 2014). Therefore, we also compute estimates for this group (defined as self-employees with less than complete secondary school education), and also find that the majority of them also support EPL. Our results are in Figures A1 to A4 in the Appendix.

3.1 Preferences for minimum wages and working time regulations in available surveys

In 2008, LAPOP included the following question in three countries (i.e. 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 per cent in Argentina to 75 per cent in Venezuela. They do not think that a higher

---

[4] Another challenge to the insider–outsider model of labour market preferences refers to the causal link between labour market status and preferences for employment protection. Recent research shows that socioeconomic background simultaneously determines both the risk of getting unemployed and political socialization experiences from early childhood onwards (Wehl 2018).

[5] Managers and business owners are asked: 'To what degree are Labor Regulations an obstacle to the current operations of this establishment?' and the response options are 'none', 'minor obstacle', 'moderate obstacle', 'major obstacle', and 'very severe obstacle'. The framing does not allow for the possibility that some business owners consider labour regulations as a contributor to the productivity of their business. This possibility is not inconceivable; as shown by Amengual et al. (2017), almost half of employers choose the first option (i.e. that labour regulations are not an obstacle for their establishment), and a relatively small portion of employers describes labour regulations as a 'major' (10 per cent) or 'very severe' (5 per cent) obstacle.

minimum wage would make their labour situation even more meagre, as insider–outsider theory predicts.

Figure 1: Share of employees without a work contract who support a higher minimum wage
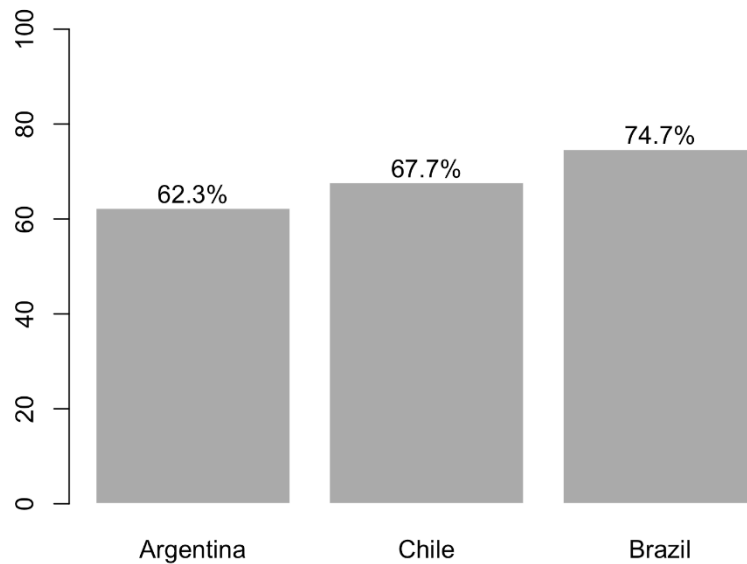
Source: Authors' calculations from LAPOP (2008) data.

The LAPOP data has a number of limitations. First, those who think that an increase in the minimum wage would have no effect on their welfare cannot be distinguished from those who think that an increase in the minimum wage would hurt them, which is what the insider–outsider model predicts. A second limitation is that the question was not asked to unemployed workers.

In 2006 and in 2016 the ISSP asked the following question: 'Are you in favor or against reducing the working day to create more jobs?'. Advantages of these data are the fact that unemployed workers were also asked to respond this question and that the survey covers many developing countries.[6] However, there are some limitations too. First, while, theoretically, respondents could select being 'in favor' or 'against' the measure, the way the question was framed makes the latter option less likely (i.e. who would oppose a reform that *creates more jobs*?). Second, it is not possible to distinguish between formal and informal employees in ISSP (i.e. with or without access to legally mandated benefits). Finally, restrictions on working time may be less interesting than testing preferences over minimum wages and dismissal restrictions.

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 labour regulations.

---

[6] The countries are: Chile, Dominican Republic, Suriname, and Venezuela in Latin America; Georgia, India, Philippines, Thailand, and Turkey in Asia; and South Africa.

Figure 2: Share of unemployed workers who are in favour, against, and neither against nor in favour of reducing the working day
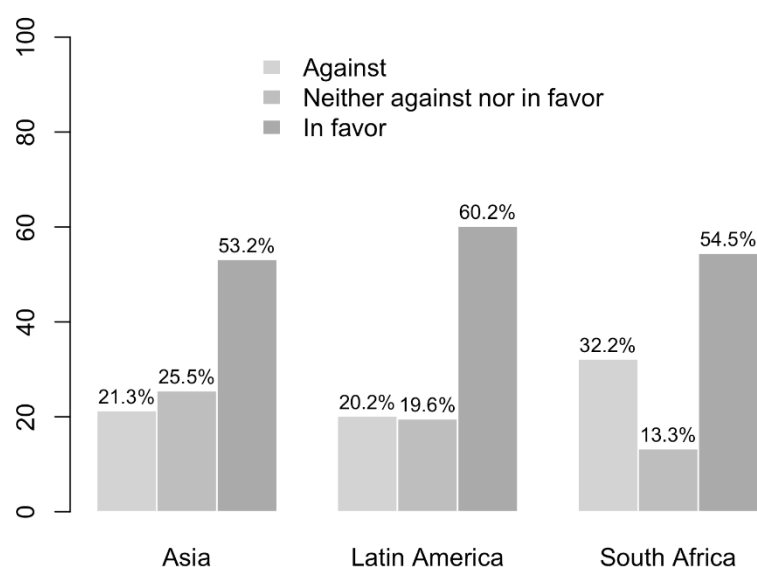
Notes: Pooled data from ISSP 2006 and 2016 waves. List of countries is in footnote 6.

Source: Authors' calculations from ISSP (2008, 2018) data.

## 3.2 Preferences for severance payment in our own collected data

To provide additional evidence, we collected our own data. Rather than estimating population parameters, our objective here is providing cost-efficient suggestive evidence based on questions explicitly designed to collect preferences for reform of EPL. 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.[7]

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). Only 4 per cent of the unemployed and 2 per cent of the informal employees support a reduction in severance pay as predicted by the insider–outsider model.

---

[7] The Buenos Aires metropolitan area has an extensive commuter rail system. Every weekday, hundreds of thousands of people commute from their homes in Greater Buenos Aires to the capital city for work. The average socioeconomic characteristics of the collected sample are similar to other estimates (e.g. 30 per cent of employees do not have health insurance, compared to 31 per cent in the main Argentine household survey EPH).

Figure 3: Preferences of unemployed and informal employees with respect to severance pay in Argentina
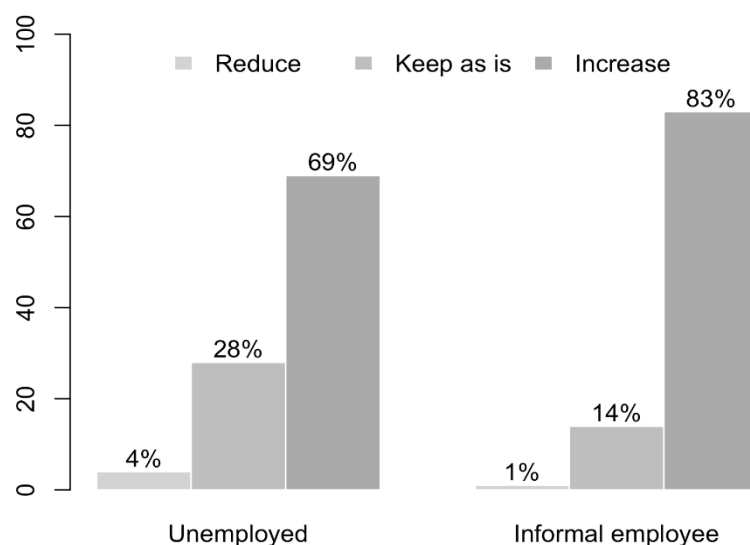
Source: Authors' own data collected at train stations in Buenos Aires, Argentina.

Arguably, our sample from the Buenos Aires' train stations comes from a relatively homogenous group of urban workers. As a means of providing additional suggestive evidence, during 2017, we also collected data through online surveys in four different Latin American countries (i.e. Argentina, Chile, Colombia, and Mexico). Data from different political and institutional contexts further strengthen our previous findings. We observe a total of 547 labour market participants. Outsiders are either unemployed or employed without the right to a pension.[8] The online samples are certainly different from the population in that they are younger and more educated (the average number of years of schooling is 15.3 years, compared to 9.7 years in the population), and with a smaller share of informal employees (23 per cent in the sample compared to 39 per cent in the population). This suggests that the outsider preferences we observe from the online samples are, in principle, the least likely to exhibit high support to EPL. Together with the data from Argentinean workers at the train station, we are confident in our basic claim that informal worker preferences are inconsistent with the insider–outsider model.

We asked the following question: 'There has been some recent discussion about the need to change the amount of severance pay in (your country). Some people think that the cost of firing is too high for those who have to pay it. Others, on the contrary, think that severance pay should be higher. What do you think: severance pay should be increased, left as it is, or reduced?'.

Figure 4 presents the results. Again, the majority of outsiders, including both unemployed and informal workers—in this case, defined as employees without a contribution to the pension system—support an increase in severance pay. On average only 8 per cent of the unemployed and

---

[8] Participants were recruited between April 10 and May 1, 2017, using different online ads (through Facebook Business) and redirected toward our survey based on the Qualtrics platform. The landing page had an 'informed consent' form. Those who accepted the terms were allowed to respond to the survey.

12 per cent of the informal employees support a reduction in severance pay, which contradicts the basic prediction of the insider–outsider model.

Figure 4: Preferences of unemployed and informal employees with respect to severance pay in Argentina, Chile, Colombia, and Mexico
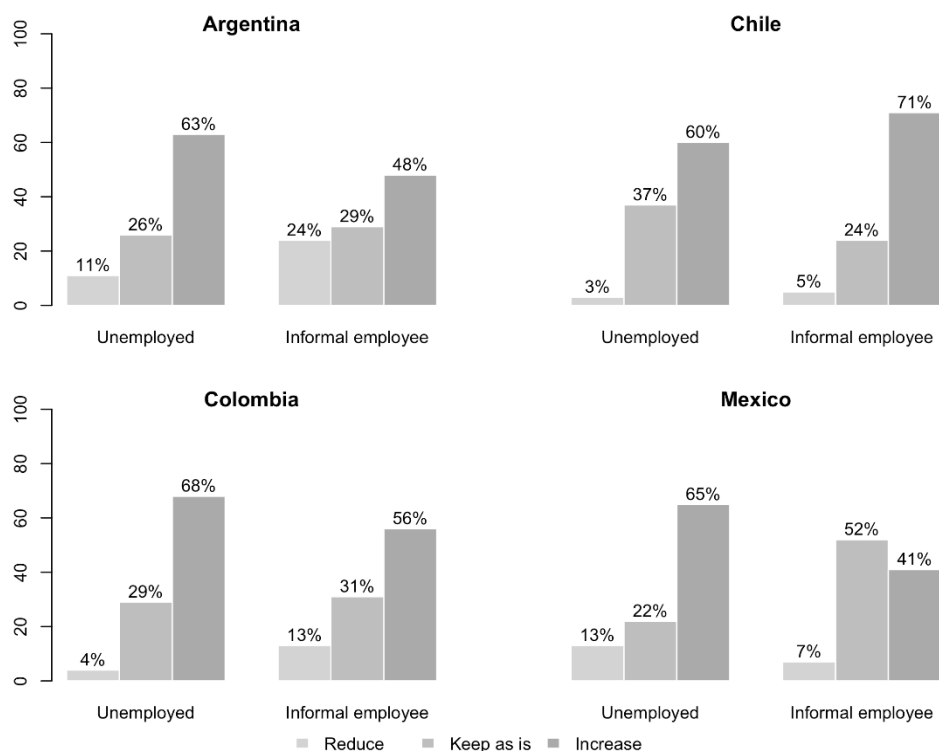
Source: Authors' own data collected through online surveys.

4   Revisiting the assumptions of the insider–outsider model

The assumptions of the insider–outsider framework are a neoclassical competitive labour market, where the median voter is a formal employee who benefits from EPL. In this framework, outsiders (either unemployed or employees without access to EPL) should be clearly against regulation and in favour of deregulation. Yet our evidence shows the opposite. There is considerable support for regulations from outsiders. This requires us to revisit the assumptions of the canonical insider–outsider model. We show below that relaxing some assumptions can potentially explain why outsiders support regulation. Finally, we briefly review the empirical literature, attempting to gauge the relevance of the alternative assumption.

4.1   Employer economic power

At the heart of the insider–outsider framework is the assumption of a competitive labour market with no employer power. But if there is indeed employer power then the predictions of the standard model could not hold. This has been known at least since the classic paper by Stigler (1946), which showed that when there is monopsony, an enforced minimum wage, provided it was not too high, would actually increase employment, benefitting both insiders and outsiders. This is something that many political scientists do not appreciate. The intuition behind the positive employment effect of a minimum wage is straightforward. A monopsonist can drive down the

wage per worker by reducing employment and hence going down the supply curve of labour. Forcing the monopsonist to pay a higher wage brings us back up the supply curve and hence to higher employment, provided the wage does not exceed the competitive wage.

There has been considerable extension of the Stigler model to bring it up to date with modern perspectives such as search theory. This includes the by now standard reference by Manning (2005), whose cover summarizes the thrust as follows:

> The book addresses the theoretical implications of monopsony and presents a wealth of empirical evidence. Our understanding of the distribution of wages, unemployment, and human capital can all be improved by recognizing that employers have some monopsony power over their workers. Also considered are policy issues including the minimum wage, equal pay legislation, and caps on working hours. In a monopsonistic labour market, concludes Manning, the 'free' market can no longer be sustained as an ideal and labour economists need to be more open-minded in their evaluation of labor market policies. (Manning 2005: book cover)

Basu et al. (2010) further extend the theory to include partial enforcement, but the basic conclusion stands—with employer power there is a significantly greater likelihood that regulations like minimum wages will actually increase employment and thus benefit outsiders.

Empirical evidence on the employment consequences of regulations is mixed but by no means supportive of the predictions of the competitive model. The empirical battle was launched by the seemingly (at that time) counterintuitive results of Card and Krueger (1994), which were in turn countered by Nuemark and Wascher (2008). In a recent review of the global literature on minimum wage and employment, Bhorat et al. (2017) emphasize the wide variation in results across countries. However, the main takeaway from our perspective is that this form of regulation is not necessarily against the interests of the outsiders.

4.2   Sharing between insiders and outsiders

The standard insider–outsider perspective in the labour economic literature views insiders and outsiders as individuals disconnected from each other. The tension is thus very clear if regulations benefit insiders at the expense of outsiders. But what if insiders and outsiders are linked through sharing mechanisms, through the family, or through other forms of association? Then the 'cost' to outsiders at the 'benefit' to insiders as seen by the conventional model is an inaccurate description of reality. We have to model the sharing to work out the final consequences of regulations. Let us explore sharing for the case which is most favourable for the conventional insider–outsider predictions—that of a competitive labour market—and let us consider the implications of an enforced minimum wage in this setting.

Imagine, first, that the labour force is one giant family with equal sharing of all income among the members. Then, what matters is the total wage bill. The division between those who earn this (the insiders) and those who do not (the outsiders) does not matter. What matters, then, is the impact of the enforced minimum on the total wage bill, and we know that this will rise with the wage when the elasticity of labour demand is less than one, which is the empirically relevant case.[9] With

---

[9] The seminal work of Hamermesh (1993), who reviews the earlier empirical literature, concludes that the constant-output own wage elasticity of labour demand is -0.30, and a more recent meta-analysis covering 105 studies finds a median elasticity of -0.39 (Lichter et al. 2015).

perfect sharing between outsiders and insiders, therefore, outsiders (and insiders) will support a higher minimum wage.

What if the sharing is not perfect? If only a fraction x of the wage bill earned by the employed is allocated to the unemployed, then the income of the representative outsider is given by

$$w^o = [xew^m]/[1-e]$$

where e is the employment rate. When x = (1-e), we have the case of perfect sharing. When x is less than (1-e) then the outsiders get a smaller fraction of the increase in the wage bill than the insiders. But even in this case, insiders nevertheless share something from the increased benefit to insiders, and may well respond by being supportive of regulations.

How is the sharing between insiders and outsiders put into effect in practice? This can be done through sharing within labour associations which have special funds for their members who are currently unemployed, financed by a levy on those employed. But the most obvious channel of sharing is through families and households. Such sharing is not perfect, but it is not non-existent either (Kanbur 2018). To the extent that households and families contain both insiders and outsiders, and to the extent that there is sharing within the household, we are likely to find outsiders supporting regulation which, even if we assume it damages them as individuals, benefits them because it benefits insiders within their households.

Ultimately, the extent of sharing between insiders and outsiders within households is an empirical question. But consider the following simple model drawn from Fields and Kanbur (2007). Let each household have two members. Suppose, with an employment rate of e, jobs are handed out randomly, so that the probability of an individual having a job (being an insider) is e and the corresponding probability of being unemployed is (1-e). Thus, a fraction $(1-e)^2$ of individuals will be in households where both members are outsiders, a fraction e^2 will be in households with both insiders and, crucially for the sharing argument, a fraction $2e(1-e)$ will be in households with one insider and one outsider.

The number of outsiders who will not support raising the minimum wage per the standard model are thus $(1-e)^2$ from households with only outsiders, but there are $e(1-e)$ outsiders who will support raising the minimum wage since they are in households with one insider. Net support for raising the minimum wage among outsiders is thus given by:

$$y = e(1-e) - (1-e)^2 = -2e^2 + 3e - 1$$

This net support function, a quadratic in e, is positive between employment rates of ½ and 1, with a maximum at ¾. Thus, for empirically plausible employment rates there is, in this simple formulation, net support among outsiders for raising the minimum wage. Of course, households are more complex than in this simple model, and there may be more complex sharing rules and patterns of insider–outsider composition. However, what these calculations show is that it is not at all implausible that a sharing perspective can explain why outsiders would support regulation, in contradiction to the predictions of the standard insider–outsider model but consistent with our empirical findings.

4.3   Transitions between insider and outsider status

Suppose that the standard view is right and that the spot market for labour is indeed competitive in the neoclassical sense. In this case we would be back to the situation where insiders and outsiders are segmented, with outsiders being worse off than insiders who benefit from regulation. But this

is the spot market. What if there were transitions between the two segments, so that no one was an outsider or an insider for long? It is easy to see that in such cases the (current) outsiders' presumed opposition to regulation, from the prediction of the standard model, would be dented by the fact that outsider status is not given and permanent. Today's outsiders would share insider benefits tomorrow, the exact amount depending on the specific transition patterns. The literature has emphasized that insider vulnerability could explain preference convergence in both developed (Rueda 2005) and developing countries (Carnes and Mares 2014).[10]

As a simple example, let the labour demand function be $D(w)$, let total labour L be supplied inelastically, and let the market clearing wage be w^*. If the minimum wage is w^m, higher than w^*, then the employment rate is $e = [L - D(w^m)]/[L]$. If the jobs are allocated by lottery and unemployment gets a zero wage, then the expected wage is given by $W = ew^m$. Simple calculation shows that this is increasing in w^m if the elasticity of labour demand is less than unity, which is a well-established empirical regularity in the labour economics literature. Thus, in this perspective, the outsiders (and the insiders) would prefer a higher minimum wage. Of course, risk aversion would mitigate this preference, but it would do so equally for insiders and outsiders. The basic point, however, is that there is indeed a mechanism whereby outsiders could prefer regulation.

As a second example, consider systematic transitions back and forth between insider (formal employed) status to outsider (informal or unemployed) status. Let the probability of transitioning from insider to outsider be p and let the reverse probability be q. For the minimum wage model above, the two transition probabilities have to satisfy $pe = q(1-e)$. The transition matrix A is given by

$$A = \begin{bmatrix} 1 - p & p \\ q & 1 - q \end{bmatrix}$$

Let $w^\wedge$ be the column vector showing the wages of insider and outsider status. The expected present discounted value of wage for current insiders and outsiders, shown by elements of the two-dimensional vector V, taking d as the discount factor, is given by:

$$V = [I + dA + (dA)^2 + ...]w^\wedge = [I - dA]^{-1}w^\wedge$$

This can be calculated in detail for given values of p, q, e and w^m, but the central point should be clear. The prospect of transition to insider status will raise the present discounted value of the projected earnings of outsiders and thus mitigate their opposition to the regulation. This could help to explain why, in the evidence we have presented, outsiders support protective legislation.

But how frequent are transitions between the two segments in the developing world? Maloney (2004) exploits short-term panel data to analyse transitions in Argentina, Brazil, and Mexico. He mainly focuses on informal self-employees and finds that many of them choose to have that type of job. Other papers, however, focus on informal employees, and find the opposite. Apella et al. (2008) show that, in Argentina, the large majority (90 per cent) of informal employees would like to work in the formal sector but could never find a job with those characteristics. Anton et al. (2012: Table 3) report that for Mexico, between 2007 and 2008, 11 per cent of all workers changed status between formality and informality. Of formal workers, 12.8 per cent change status to informality, while of informal workers, 9.2 per cent change status to formality. Recent evidence from Asia also suggests relatively few transitions. McCaig and Pavcnik (2015) focus on Vietnam over a decade of rapid growth. Despite the fact that gross domestic product per capita almost

---

[10] See, however, Berens (2015b).

doubles, the share of the workforce employed in the informal sector only drops from 0.86 to 0.79. Furthermore, using panel data, the authors find relatively few transitions, with 78 per cent of workers always working in the informal sector, 12 per cent always working in the formal sector, and 10 per cent switching. Gutierrez et al. (2019) explore transitions in Bangladesh using a retrospective survey. They find that the large majority of workers who start working without a contract remain in that situation (80 per cent). Only 7 per cent are able to switch to a job with a written contract and 13 per cent to a job with a verbal contract. Finally, Nordman et al. (2016) find that, in Madagascar, 21.3 per cent of informal employees and 11 per cent of self-employees were able to obtain a formal job four years later.

Summing up, the main takeaway from our perspective is that, although it is theoretically possible to conceive a labour market where frequent transitions from informality to formality lead to outsiders' support for EPL, the available evidence suggests that transitions can only account for a small share of the observed outsiders' support for EPL.

4.4   Insiders, outsiders, and capitalists' political power

The insider–outsider model assumes that the key distributive conflict is between two groups of workers, insiders (i.e. formal workers) and outsiders (i.e. unemployed and informal workers), in a context where capitalists lack political power. To explain the existence of EPL, the model assumes either that the median voter is an insider or that policies are influenced by lobbies and insiders have better capacity to mobilize than outsiders. In developed countries the median voter assumption works because it is an insider. But, in developing countries, where usually less than half of the labour force works as a registered employee with social security coverage, the median voter is usually an outsider, and hence, to explain the existence of EPL, it is necessary to assume that insiders are a minority who wield decisive political power.

This view requires the assumption that capitalists have no meaningful political power. Such an extreme assumption is, in our perspective, a possible reaction against a Marxist political economy approach, which focuses on the struggle between capital and labour, and it ignores the existence of conflicts within the workforce. The insider–outsider model, in order to emphasize the existence of conflict among workers, implicitly makes the extreme assumption of no capitalist power.

Indeed, the reason why insider–outsider preferences may converge, although not perfectly, is that there is important capitalistic political power. If outsiders push for their ideal EPL, they may end up in a worse point (complete flexibility) than the pro-insider status quo. For example, Tsakalotos (2004) argues that partial deregulation, even when benefitting outsiders at the expense of insiders, also changes the power balance towards employers. When insiders lose the power that underpins their privileges, they are weakened not just with respect to the outsiders but also with respect to employers. This increases the risk of triggering a process of deregulatory change that, in the long term, may be damaging to all workers and not just the current insiders. If deregulation reduces the power of insiders against capital, there is room for an unstable political situation. The net effect of such a deregulating context could potentially harm current outsiders to a larger extent than the costs they pay for the status quo, i.e. rigid labour market rules governed by the insider worker preferences. In this context, outsiders' opposition to deregulation is reasonable.

4.5   Relaxing the *homo economicus*

Insider–outsider theory assumes that workers are rational, egoistic, and materialist; they maximize a combination of income and security based on more or less accurate information (Saint-Paul 1996; Persson et al. 2002). Relaxing these assumptions could explain outsiders' support for EPL. First, outsiders may be too optimistic and overestimate their probability of obtaining a formal job.

Future expectations of upward mobility (Benabou and Ok 2001; Guillaud 2013) may partly explain the lack of significant differences between preferences and attitudes of formal and informal workers. Also, workers may have biased perceptions of future risk due to the desire to comply with social norms. This type of bias is well known in the context of self-perceived income, where all groups are biased toward perceiving that they have middle incomes. Bias in income (or objective labour market risk) affects policy preferences. For instance, Cruces et al. (2013) find that the poor demand less redistribution than their objective self-interest would suggest because they think they are richer than they actually are. Informal outsider workers may also fail to recognize their relative disadvantage in the distribution of labour market risks. If so, their preferences for EPL should explain convergence with insider preferences. Furthermore, the consequences of EPL could be wrongly understood. Concluding that a law that provides benefits for workers could be detrimental to some of them is somewhat counterintuitive. Employment protection rules may therefore involve strong framing effects known in other political economy areas such as labour market effects of trade policy (Hiscox 2006; Ardanaz et al. 2013).

Workers may not be as selfish and materialistic as it is assumed in the neoclassical model of *homo economicus*. Outsiders could identify themselves with a broader relevant group such as the working class. Identity considerations and other regarding preferences (Shayo 2009; Lupu and Pontusson 2011) may thus affect how outsiders perceive redistribution toward other proximate groups and therefore support protection for other members of the working class such as the insiders. Relaxing the assumption of an egoistic worker also opens the possibility that workers form preferences on a purely ideological basis and, combined with the development of partisan preferences, affect preferences for EPL. Evidence of this has been found in other areas of labour market policies (Gallego and Marx 2017); however, there is no empirical test able to disentangle the problem when it comes to employment protection rules.

Finally, but quite importantly, the prevalence of fair-minded workers in the labour market may have important implications for the insider-outsider model. Outsiders may oppose reductions in severance payments or in the minimum wage because they perceive those regulations as fair. These policy measures may influence the reference point relative to which workers evaluate fairness. Experimental evidence—mainly from the lab— indicates that a substantial share of the population has reference-dependent fairness concerns (Falk et al. 2006; Fehr et al. 2009).

4.6   Partial enforcement and compliance

We now relax some assumptions of the insider–outsider model that can explain a moderate opposition of outsiders to protective EPL but cannot explain the level of support we find in the real world. The insider–outsider model usually assumes full compliance with regulations, quite a departure from the reality of labour markets in the developing world (Rani et al. 2013). *De jure* protective labour regulations would have little or no effect if there was zero enforcement, in which case insiders would not support EPL nor would outsiders oppose it. If enforcement is weak and compliance is partial, then the distortions produced by the protective labour regulations (and, hence, the degree of opposition of outsiders to these laws) would be less severe compared to a situation with full compliance. That is, relaxing the assumption of full compliance moderates outsiders' opposition to EPL but cannot explain the support we observe.

However, the idea that partial compliance with a distortionary regulation produces less inefficiency than full compliance could be misleading, particularly when we take into account that breaking the rule of law can bring large economic and social costs (see, for example, Acemoglu et al. 2005; Haggard and Tiede 2011; Ronconi and Zarazaga 2015). If this is the case, then outsiders should strongly oppose the combination of protective labour regulations and weak enforcement.

5   Conclusion

The first part of this paper shows that, contrary to the predictions of the insider–outsider model, the large majority of outsiders in developing countries *support* rather than oppose protective labour regulations. This evidence holds across countries in different regions, across different types of protective labour regulations, and for different categories of outsiders (i.e. unemployed workers and employees without access to legally mandated labour benefits). We consider this is an important stylized fact that has been generally overlooked.

In the second part of the paper we revise the economic and political assumptions of the insider–outsider model, discussing their empirical relevance in a developing country context. We speculate that some prominent features that could help explaining outsiders' support for EPL are the existence of substantial economic and political power among employers, and a behavioural account of the labour market, where the neoclassical *homo economicus* is replaced by fair-minded workers.

References

Acemoglu D., S. Johnson, and J. Robinson (2005). 'Institutions as the Fundamental Cause of Long-run Growth'. In P. Aghion and S. Durlauf (eds), *Handbook of Economic Growth*, Vol. 1A. Amsterdam: North Holland

Amengual, M., S. Coslovsky, and D. Yang (2017). 'Who Opposes Labor Regulation? Explaining Variation in Employers' Opinions'. *Regulation & Governance*, 11(4): 404–21.

Anchorena, J., and L. Ronconi (2014). 'Entrepreneurship, Entrepreneurial Values, and Public Policy in Argentina'. In E. Lora and F. Castellani (eds), *Entrepreneurship in Latin America. A Step Up the Social Ladder?* Washington, DC: World Bank.

Antón, A., F. Hernández, and S. Levy (2012). *The End of Informality in Mexico? Fiscal Reform for Universal Social Insurance*. Washington, DC: Inter-American Development Bank.

Apella, I., O. Arias, R. Beazley, A. Beccaria, M. Campos, L. Casanova, and D. Contartese (2008). *Aportes a una nueva visión de la informalidad laboral en la Argentina*. Buenos Aires: Banco Mundial and Ministerio de Trabajo.

Ardanaz, M., M.V. Murillo, and P.M. Pinto. 2013. 'Sensitivity to Issue Framing on Trade Policy Preferences: Evidence from a Survey Experiment'. *International Organization*, 67(2): 411–37. https://doi.org/10.1017/S0020818313000076.

Baker, A., and V.X. Velasco-Guachalla (2018). 'Is the Informal Sector Politically Different? (Null) Answers from Latin America'. *World Development*, 102(February): 170–82. https://doi.org/10.1016/j.worlddev.2017.09.014.

Basu, A., N. Chau, and R. Kanbur (2010). 'Turning a Blind Eye: Costly Enforcement, Credible Commitment and Minimum Wage Laws'. *Economic Journal*, 120(March): 244–69.

Benabou, R., and E.A. Ok (2001). 'Social Mobility and the Demand for Redistribution: The Poum Hypothesis'. *The Quarterly Journal of Economics*, 116(2): 447–87. https://doi.org/10.1162/00355530151144078.

Berens, S. (2015a). 'Preferences on Redistribution in Fragmented Labor Markets in Latin America and the Caribbean'. *Journal of Politics in Latin America*, 7(3): 117–56.

Berens, S. (2015b). 'Between Exclusion and Calculating Solidarity? Preferences for Private Versus Public Welfare Provision and the Size of the Informal Sector'. *Socio-Economic Review*, 13(4): 651–78. https://doi.org/10.1093/ser/mwu039.

Berens, S., and A. Kemmerling (2019). 'Labor Divides, Informality, and Regulation: The Public Opinion on Labor Law in Latin America'. *Journal of Politics in Latin America*. https://doi.org/10.1177/1866802X19843362.

Bhorat, H., R. Kanbur, and B. Stanwix (2017). 'Minimum Wages in Sub-Saharan Africa: A Primer'. *The World Bank Research Observer*, 32(1): 21–74.

Burgoon, B., and F. Dekker (2010). 'Flexible Employment, Economic Insecurity and Social Policy Preferences in Europe'. *Journal of European Social Policy*, 20(2): 126–41.

Card, D., and A.B. Krueger (1994). 'Minimum Wages and Employment: A Case Study of the Fast-Food Industry in New Jersey and Pennsylvania'. *The American Economic Review*, 84(4): 772–93.

Carnes, M.E. (2014a). 'Hooking Workers and Hooking Votes: Enganche, Suffrage, and Labor Market Dualism in Latin America'. *Latin American Politics and Society*, 56(2): 93–114. https://doi.org/10.1111/j.1548-2456.2014.00233.x.

Carnes, M.E. (2014b). *Continuity Despite Change. The Politics of Labor Regulaton in Latin America.* Stanford, CA: Stanford University Press. https://doi.org/10.11126/stanford/9780804789431.001.0001.

Carnes, M.E., and I. Mares (2013). 'Measuring the Individual-Level Determinants of Social Insurance Preferences: Survey Evidence from the 2008 Argentine Pension Nationalization'. *Latin American Research Review*, 48(3): 108–29.

Carnes, M.E., and I. Mares (2014). 'Coalitional Realignment and the Adoption of Non-Contributory Social Insurance Programmes in Latin America'. *Socio-Economic Review*, 12(4): 695–722. https://doi.org/10.1093/ser/mwt024.

Carnes, M.E., and I. Mares (2015). 'Explaining the "Return of the State" in Middle-Income Countries'. *Politics & Society*, 43(4): 525–50. https://doi.org/10.1177/0032329215602893.

Carnes, M.E., and I. Mares (2016). 'Redefining Who's "In" and Who's "Out": Explaining Preferences for Redistribution in Bolivia'. *The Journal of Development Studies*, 52(11): 1647–64. https://doi.org/10.1080/00220388.2016.1156091.

Cruces, G., R. Perez-Truglia, and M. Tetaz (2013). 'Biased Perceptions of Income Distribution and Preferences for Redistribution: Evidence from a Survey Experiment'. *Journal of Public Economics*, 98 (February): 100–112. https://doi.org/10.1016/j.jpubeco.2012.10.009.

Emmenegger, P. (2009). 'Barriers to Entry: Insider/Outsider Politics and the Political Determinants of Job Security Regulations'. *Journal of European Social Policy*, 19(2): 131–46. https://doi.org/10.1177/0958928708101866.

Esping-Andersen, G. (1985). *Politics against Markets: The Social Democratic Road to Power.* Princeton, NJ: Princeton University Press.

Falk, A., E. Fehr, and C. Zehnder (2006). 'Fairness Perceptions and Reservation Wages—the Behavioral Effects of Minimum Wage Laws'. *The Quarterly Journal of Economics*, 121(4): 1347–81.

Fehr, E., L. Goette, and C. Zehnder (2009). 'A Behavioral Account of the Labor Market: The Role of Fairness Concerns'. *Annual Review of Economics*, 1: 355–84.

Fields, G., and R. Kanbur (2007). 'Minimum Wages and Poverty with Income Sharing'. *Journal of Economic Inequality*, 5(2): 135–47.

Gallego, A., and P. Marx (2017). 'Multi-Dimensional Preferences for Labour Market Reforms: A Conjoint Experiment'.*Journal of European Public Policy*, 24(7): 1027–47. https://doi.org/10.1080/13501763.2016.1170191.

Guillaud, E. (2013). 'Preferences for Redistribution: An Empirical Analysis over 33 Countries'. *Journal of Economic Inequality*, 11(1): 57–78.

Guillaud, E., and P. Marx (2014). 'Preferences for Employment Protection and the Insider-Outsider Divide: Evidence from France'. *West European Politics*, 37(5): 1177–85. https://doi.org/10.1080/01402382.2014.902169.

Gutierrez, I., K. Kumar, M. Mahmud, F. Munshi, and S. Nataraj (2019). 'Transitions Between Informal and Formal Employment: Results from a Worker Survey in Bangladesh'. *IZA Journal of Development and Migration*, 9(1): 3.

Haggard, S. (1990). *Pathways from the Periphery: The Politics of Growth in the Newly Industrializing Countries*. Ithaca, NY: Cornell University Press.

Haggard, S., and L. Tiede (2011). 'The Rule of Law and Economic Growth: Where Are We?'. *World Development*, 39(5): 673–85.

Hall, P., and D. Soskice (2001). *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage*. New York, NY: Oxford University Press.

Hamermesh, D. (1993). *Labor Demand*. Princeton, NJ: Princeton University Press.

Hiscox, M.J. (2006). 'Through a Glass and Darkly: Framing Effects and Individuals' Attitudes towards International Trade'. *International Organization*, 60(3): 755–80.

Holland, A.C., and B.R. Schneider (2017). 'Easy and Hard Redistribution: The Political Economy of Welfare States in Latin America'. *Perspectives on Politics*, 15(04): 988–1006. https://doi.org/10.1017/S1537592717002122.

Huber, E., and J.D. Stephens (2001). *Development and Crisis of the Welfare State: Parties and Policies in Global Markets*. Chicago, IL: University of Chicago Press, Selections.

ISSP Research Group (2008). 'International Social Survey Programme: Role of Government IV – ISSP 2006. GESIS Data Archive, Cologne. ZA4700 Data file Version 1.0.0, doi:10.4232/1.4700.

ISSP Research Group (2018): International Social Survey Programme: Role of Government V - ISSP 2016. GESIS Data Archive, Cologne. ZA6900 Data file Version 2.0.0, doi:10.4232/1.13052

Iversen, T., and D. Soskice (2001). 'An Asset Theory of Social Policy Preferences'. *American Political Science Review*, 95(4): 875–93.

Kanbur, R. (2018). 'Intrahousehold Inequality and Overall Inequality'. In J.A. Ocampo and J.E. Stiglitz (eds), *The Welfare State Revisited*. New York, NY: Columbia University Press.

Kanbur, R., and L. Ronconi (2018). 'Enforcement Matters: The Effective Regulation of Labour'. *International Labour Review*, 157(3): 331–56.

LAPOP (Latin American Public Opinion Project) (2008). 'The Americas Barometer'. Available at: https://www.vanderbilt.edu/lapop/data-access.php

Lichter, A., A.s Peichl, and S. Siegloch (2015). 'The Own-wage Elasticity of Labor Demand: a Meta-regression Analysis'. *European Economic Review*, (80): 94–119.

Lindbeck, A. and D. Snower (1988a). 'Cooperation, Harassment, and Involuntary Unemployment: an Insider-outsider Approach'. *American Economic Review*, 78(1): 167–89.

Lindbeck, A., and D. Snower (1988b). *The Insider-Outsider Theory of Employment and Unemployment.* Cambridge, MA: MIT Press.

Lindbeck, A., and D. Snower (2001). 'Insiders versus Outsiders'. *Journal of Economic Perspectives*, 15(1): 165–188. https://doi.org/10.1257/jep.15.1.165.

Lindbeck, A., and D. Snower (2002). 'The Insider-Outsider Theory: A Survey'. IZA Discussion Paper 534. Bonn: IZA Institute of Labor Economics.

Lindvall, J., and D. Rueda (2014). 'The Insider–Outsider Dilemma'. *British Journal of Political Science*, 44(02): 460–75. https://doi.org/10.1017/S0007123412000804.

Lupu, N., and J. Pontusson (2011). 'The Structure of Inequality and the Politics of Redistribution'. *American Political Science Review*, 105(2): 316–36. https://doi.org/10.1017/S0003055411000128.

Mallet, A. (1970). 'Diversification or Standardisation: Two Trends in Latin American Social Security'. *International Labour Review*, 101: 49–83.

Maloney, W. (2004). 'Informality Revisited'. *World Development*, 32(7): 1159–78.

Manning, A. (2005). *Monopsony in Motion: Imperfect Competition in Labor Markets*. Princeton, NJ: Princeton University Press.

Margolis, D. (2014). 'By Choice and by Necessity: Entrepreneurship and Self-Employment in the Developing World'. *European Journal of Development Research*, 26(4): 419–36.

McCaig, B., and N. Pavcnik (2015). 'Informal Employment in a Growing and Globalizing Low-income Country'. *American Economic Review*, 105(5): 545–50.

Mesa-Lago, C. (1997). 'Social Welfare Reform in the Context of Economic-Political Liberalization: Latin American Cases'. *World Development*, 25(4): 497–517.

Murillo, M.V. (2000). 'From Populism to Neoliberalism. Labor Unions and Market Reforms in Latin America'. *World Politcs*, 52 2): 135+. https://doi.org/10.1353/wp.2000.000.

Murillo, M.V. (2001). *Labor Unions, Partisan Coalitions, and Market Reforms in Latin America.* Cambridge, MA: Cambridge University Press.

Murillo, M.V., and A. Schrank (2005). 'With a Little Help from My Friends'. *Comparative Political Studies*, 38(8): 971–99. https://doi.org/10.1177/0010414004274402.

Nordman, C., F. Rakotomanana, and F. Roubaud (2016). 'Informal Versus Formal: A Panel Data Analysis of Earnings Gaps in Madagascar'. *World Development*, 86: 1–17.

Nuemark, D., and W. Wascher (2008). *Minimum Wages*. Cambridge, MA: The MIT Press.

Palier, B., and K. Thelen (2010). 'Institutionalizing Dualism: Complementarities and Change in France and Germany'. *Politics & Society*, 38(1): 119–48. https://doi.org/10.1177/0032329209357888.

Persson, T., and G. Tabellini (2002). *Political Economics: Explaining Economic Policy.* Cambridge, MA: The MIT Press.

Rani, U., P. Belser, M. Oelz, and Setareh Ranjbar. 2013. Minimum wage coverage and compliance in developing countries. *International Labour Review* 152(3-4): 381–410.

Ronconi, L. (2019). 'Enforcement of Labor Regulations in Developing Countries'. *IZA World of Labor*, 457.

Ronconi, L., and R. Zarazaga (2015). 'Labor Exclusion and the Erosion of Citizenship Responsibilities'. *World Development*, 74: 453–61.

Rueda, D. (2005). 'Insider-Outsider Politics in Industrialized Democracies: The Challenge to Social Democratic Parties'. *American Political Science Review*, 99(1): 61–74. https://doi.org/10.1017/S000305540505149X.

Rueda, D. (2006). 'Social Democracy and Active Labour-Market Policies: Insiders, Outsiders and the Politics of Employment Promotion'. *British Journal of Political Science*, 36(03): 385. https://doi.org/10.1017/S0007123406000214.

Rueda, D. (2007). *Social Democracy Inside out: Partisanship and Labor Market Policy in Industrialized Democracies*. Oxford: Oxford University Press.

Rueda, D., E. Wibbels, and M. Altamirano (2015). 'The Origins Of Dualism'. In P. Beramendi, S. Häusermann, H. Kitschelt, and H. Kriesi (eds), *The Politics of Advanced Capitalism*. Cambridge: Cambridge University Press.

Saint-Paul, G. (1996). 'Exploring the Political Economy of Labour Market Institutions'. *Economic Policy*, 11(23): 263. https://doi.org/10.2307/1344706.

Saint-Paul, G. (1998). 'A Framework for Analyzing the Political Support for Active Labor Market Policy'. *Journal of Public Economics*, 67(2): 151–65.

Saint-Paul, G. (2002). 'The Political Economy of Employment Protection'. *Journal of Political Economy*, 110(3): 672–704. https://doi.org/10.1086/339744.

Schwander, H., and S. Häusermann (2013). 'Who is in and Who is Out? a Risk-based Conceptualization of Insiders and Outsiders'. *Journal of European Social Policy*, 23(3): 248–69. https://doi.org/10.1177/0958928713480064.

Shayo, M. (2009). 'A Model of Social Identity with an Application to Political Economy: Nation, Class, and Redistribution'. *American Political Science Review*, 103(02): 147–74. https://doi.org/10.1017/S0003055409090194.

Stigler, G.J. (1946). 'The Economics of Minimum Wage Legislation'. *American Economic Review*, 36(3): 358–65.

Svalund, J., A. Saloniemi, and P. Vulkan (2016). 'Attitudes Towards Job Protection Legislation: Comparing Insiders and Outsiders in Finland, Norway and Sweden'. *European Journal of Industrial Relations*, 22(4): 371–90. https://doi.org/10.1177/0264619615626057.

Tsakalotos, E. (2004). 'Market Constraints, Economic Performance and Political Power: Modernizers versus Leftists'. *Socio-Economic Review*, 415–24.

Venn, D. (2009). 'Legislation, Collective Bargaining and Enforcement: Updating the OECD Employment Protection Indicators'. OECD Social, Employment and Migration Working Papers 2009: 1–54. https://doi.org/10.1787/223334316804.

Wehl, N. (2018). 'The (Ir)Relevance of Unemployment for Labour Market Policy Attitudes and Welfare State Attitudes'. *European Journal of Political Research*, 1–22. https://doi.org/10.1111/1475-6765.12274.

Wibbels, E., and J.S. Ahlquist (2011). 'Development, Trade, and Social Insurance'. *International Studies Quarterly*, 55(1): 125–49. https://doi.org/10.1111/j.1468-2478.2010.00638.x.
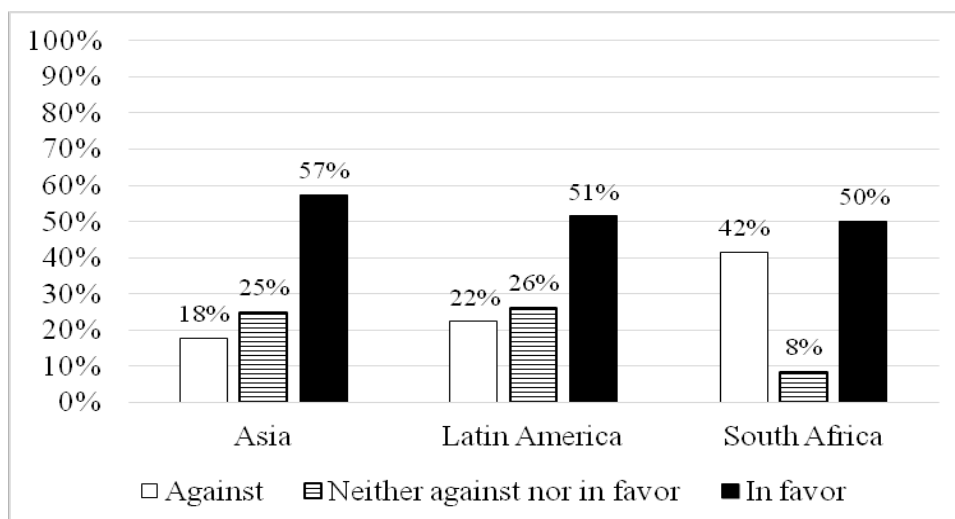
Appendix: Figures for low-skilled (i.e. less than complete secondary school education) self-employed

Figure A1: Share of low-skilled self-employed who support a higher minimum wage
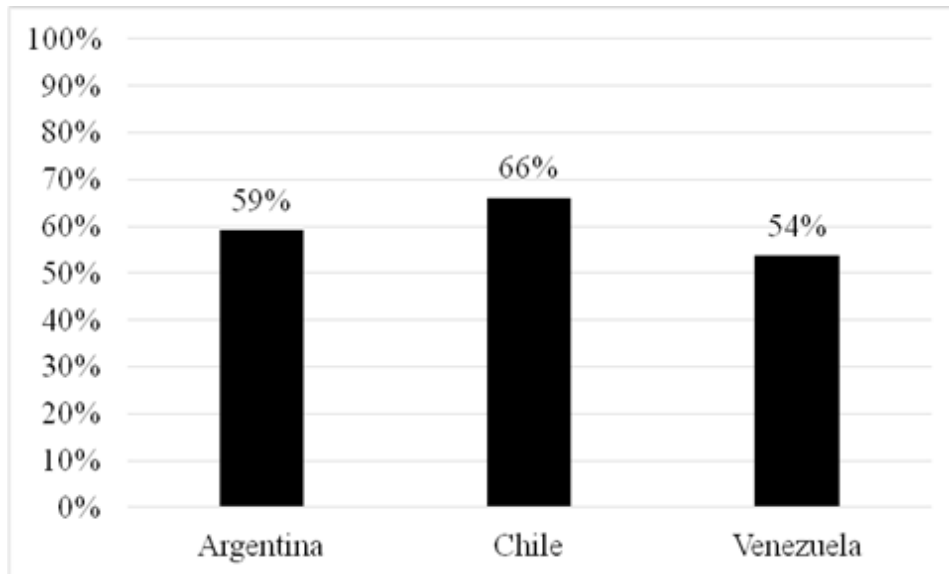
Source: Authors' calculations from LAPOP (2008) data.

Figure A2: Share of low-skilled self-employed who are in favour, against, and neither against nor in favour of reducing the working day
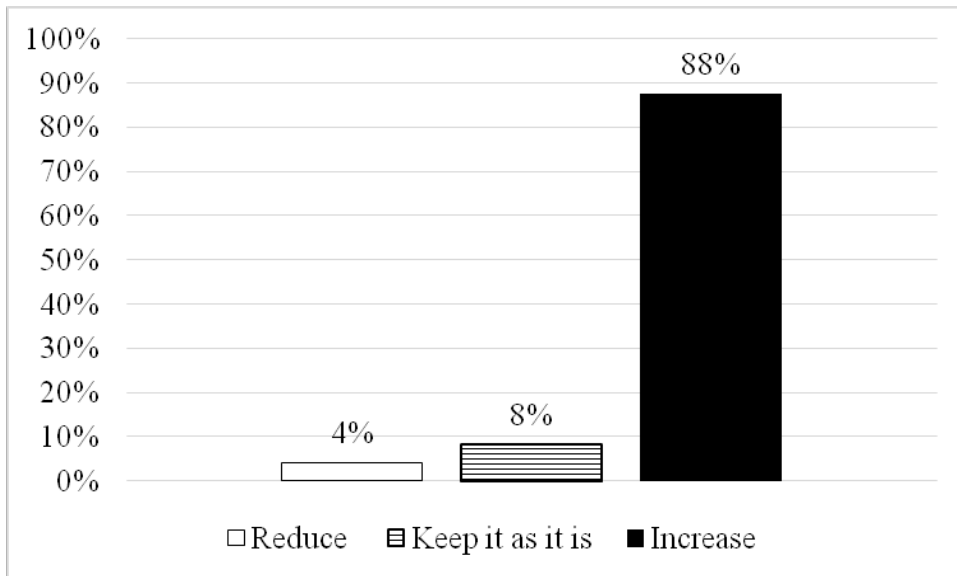

Notes: Pooled data ISSP 2006 and 2016 waves. List of countries is in footnote 6.

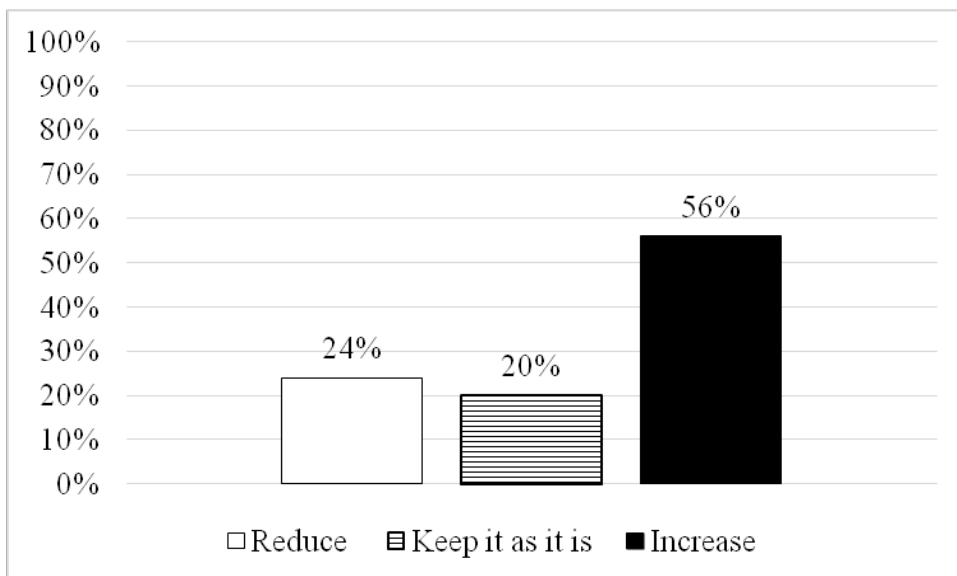Source: Authors' calculations from ISSP (2008, 2018) data.

Figure A3: Preferences of low-skilled self-employed with respect to severance pay in Argentina

Source: Authors' own data collected at train stations in Buenos Aires, Argentina.

Figure A4: Preferences of low-skilled self-employed with respect to severance pay in four Latin American countries

Note: The countries are Argentina, Chile, Colombia, and Mexico.

Source: Authors' own data collected through online surveys.