

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

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Insider-Outsider Theory

“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 (2000:147)

- Saint-Paul (1996), Rueda (2005): Neoclassical labor market (homo economicus) and Median voter
- Popular among political scientists in Latin America
- Median voter is an outsider (informal worker)

We provide a “new” stylized fact

In less developed countries outsiders support, not oppose,
Employment Protection Legislation

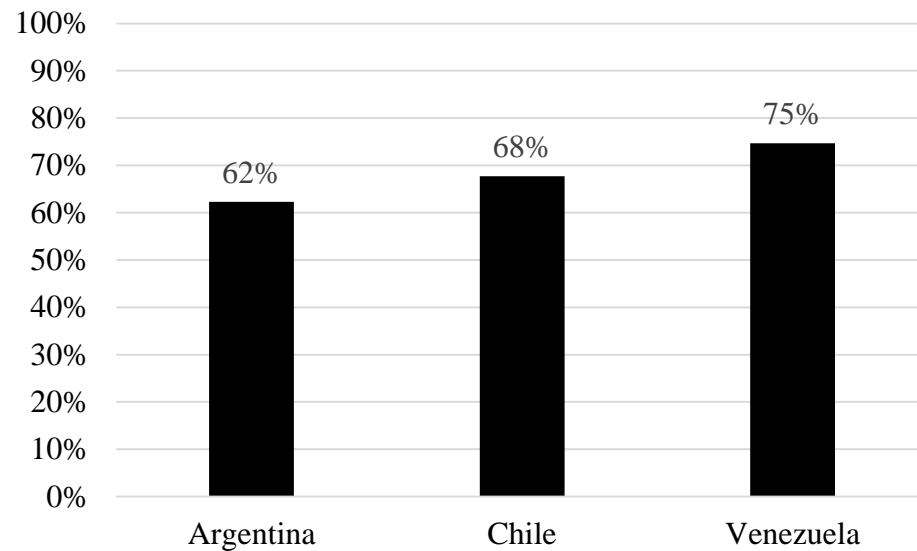
Revisit assumptions Insider-Outsider Theory

- Economic
- Political

Additional approach to design of labor
regulation: Listen to workers' preferences

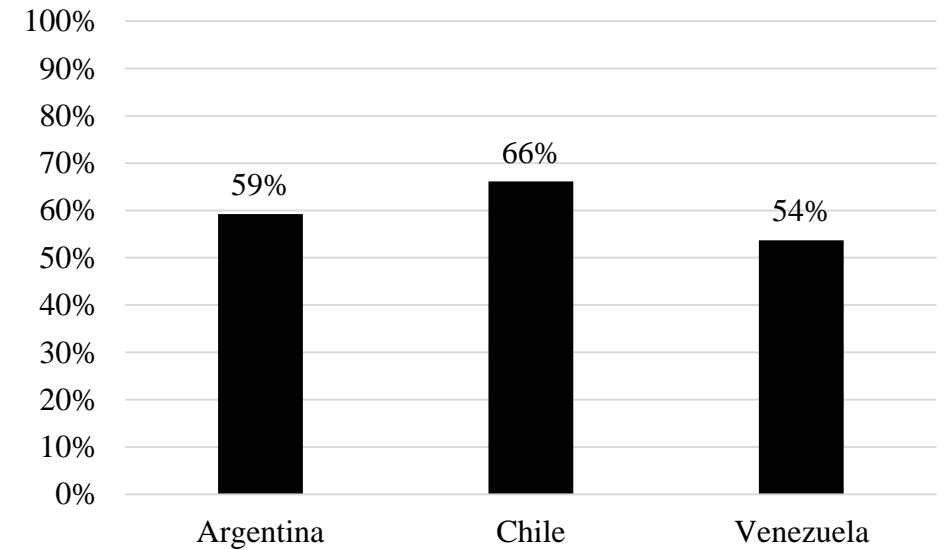
Latin America Public Opinion Project (LAPOP): “Do you think that an increase in the minimum wage will improve your labor situation?” Respondents could selected “yes” or “no” as their answer.

Figure – Share of employees without a work contract who support a higher minimum wage



Source: LAPOP 2008.

Figure – Share of low-skilled self-employees who support a higher minimum wage



International Social Survey Programme (ISSP): “Are you in favor or against reducing the working day to create more jobs?”

Figure – Share of unemployed workers who are in favor, against, and neither against nor in favor of reducing the working day

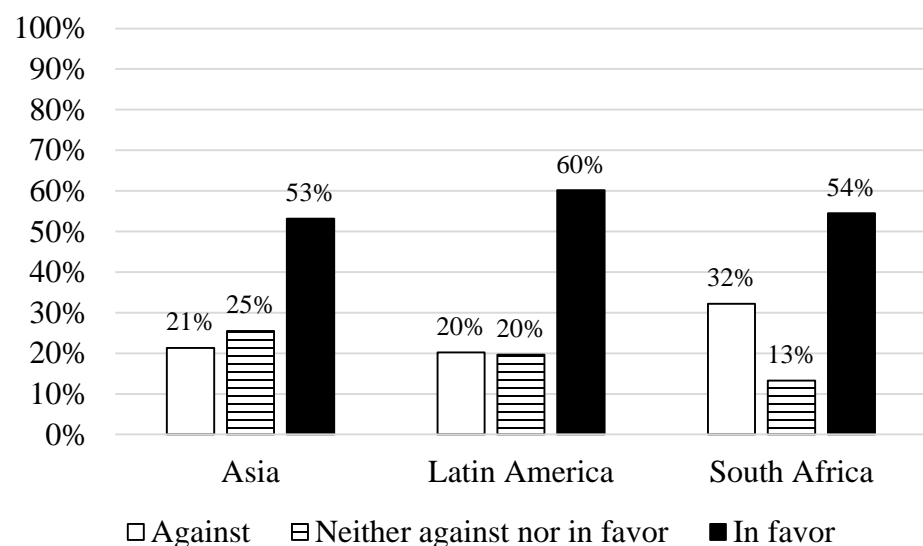
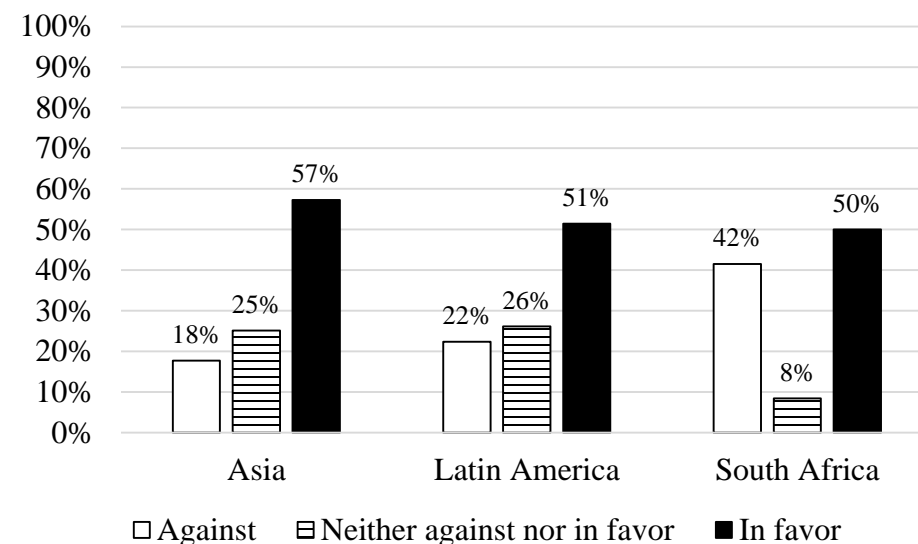


Figure – Share of low-skilled self-employees who are in favor, against, and neither against nor in favor of reducing the working day



Source: Pooled data ISSP 2006 and 2016 waves. Chile, Dominican Republic, Suriname and Venezuela in Latin America; Georgia, India, Philippines, Thailand and Turkey in Asia; and South Africa.

Own collected data (Buenos Aires train stations) *“In your opinion, severance payment should be increased, kept as it is, or reduced?” (It is one month per year of service + advance notice)*

Figure – Preferences of unemployed and informal employees with respect to severance pay

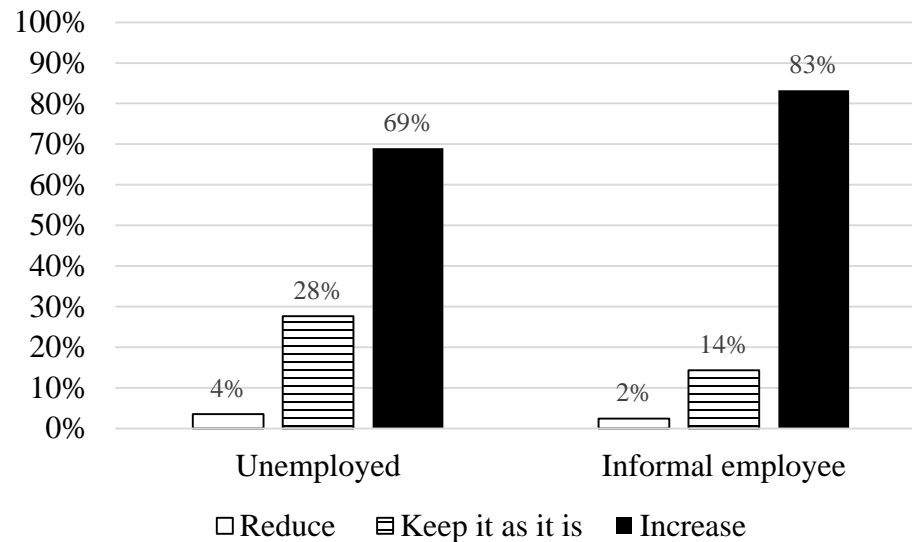
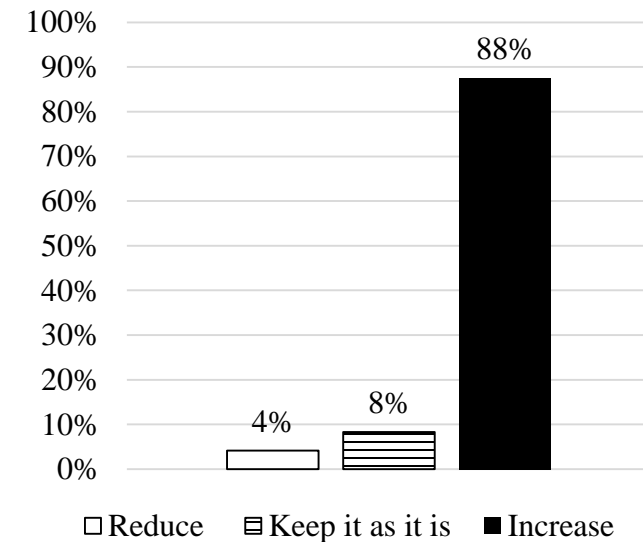


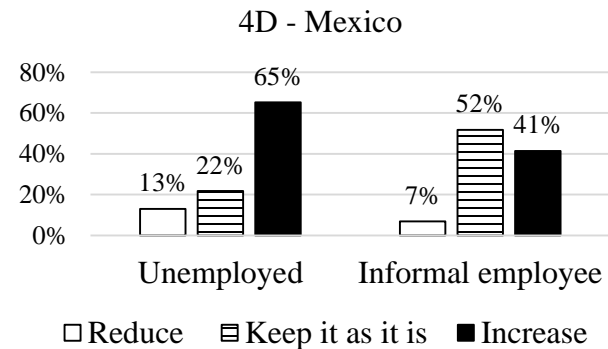
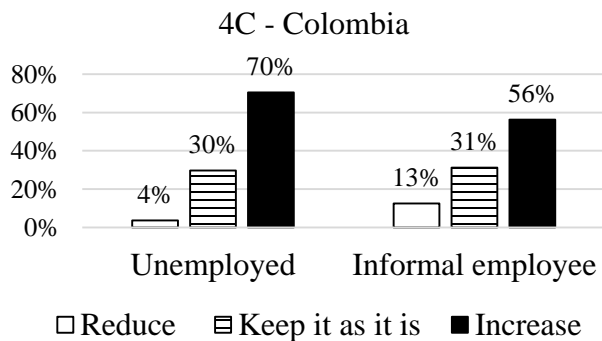
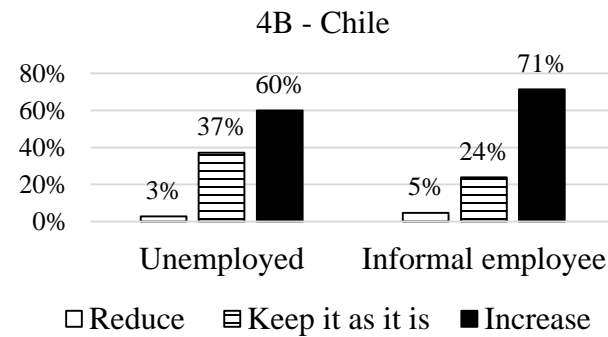
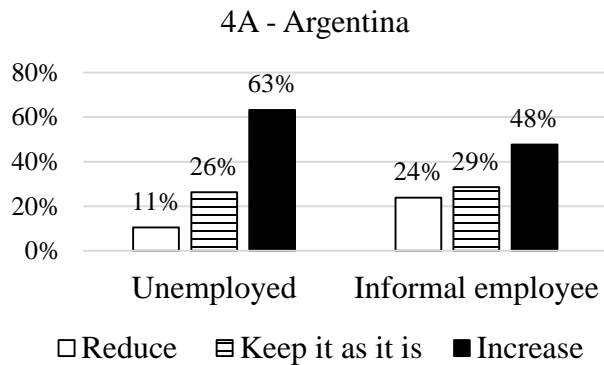
Figure – Preferences of low-skilled self-employees with respect to severance pay



Source: Own collected data at train stations in Buenos Aires, Argentina.

Own collected data (online-surveys) *“What do you think, severance pay should be increased, left as it is, or reduced?”* Non-representative sample

Figures 4A to 4D – Preferences of unemployed and informal employees with respect to severance pay in Argentina, Chile, Colombia and Mexico



Revisit assumptions Insider-Outsider Theory

- Employer Economic Power / Monopsony
 - Mixed evidence based on employment effects of minimum wages (Bhorat, Kanbur and Stanwix, 2017)
- Sharing Between Insiders and Outsiders
 - If elasticity of labor demand is less than 1 (Hamermesh 1993; Lichter et al. 2015)
- Transitions from one status to the other
 - Some transitions, but little (Nordman et al. 2016 for Madagascar; McCaig and Pavcnik 2015 for Vietnam; Anton et al. 2012 for Mexico; Gutierrez et al. 2019 for Bangladesh)
- Capital political power
- Relax Homo-economicus
 - Over-optimistic, “do not understand”
 - Identity, Ideology (Lupu and Pontusson 2011)