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 select “yes” or “no” as their answer.

Figure – Share of employees without a work contract 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

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

4A - Argentina

4B - Chile

4C - Colombia

4D - Mexico

☐ Reduce   ☐ Keep it as it is   ☐ Increase
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)