Democracy and Labor Market Outsiders: The Political Consequences of Economic Informality

by

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Guillermo Trejo

Dissertation submitted in partial fulfillment of the requirements for the degree of Doctor of Philosophy in the Department of Political Science in the Graduate School of Duke University 2015
Abstract

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This dissertation addresses the effect of informality on three key dimensions: social policy preferences, partisan attachments, and citizen-politician linkages. Many Latin American labor markets have large informal sectors where workers are not covered by formal labor arrangements and earn meager wages, as well as truncated social security systems that target benefits to the well-off at the expense of the poor.

I first analyze how economic informality conditions voters preferences regarding the redistributive role of the state (Chapter 3). I examine the effect of labor informality on individual preferences over contribution-based programs (such as social security and public health insurance) and means-tested programs (such as CCTs). The analysis of micro-level data for both Latin America and Mexico suggests that, counterintuitively, voters in the informal sector are no more likely to support increased spending in social security and welfare institutions. On the contrary, labor market outsiders tend to favor only social programs with no eligibility requirements.

In the second part of the project, I study patterns of party identification among citizens in the informal sector (Chapter 4). I argue that the low utility derived from social policies and the obstacles to class identity formation contribute to depress partisan attachments. The findings indicate that economic informality weakens ideological attachments between voters and political parties. Results also show that outsiders trust less in political parties.

Finally, I analyze how economic informality conditions linkages between citizens and politicians (Chapter 5). I theorize that given the characteristics of the members in the informal sector, political parties will have incentives to approach them using
clientelistic offers and vote-buying strategies. I find that voters in the informal sector are particularly sensitive to some types of clientelistic offers. Furthermore, labor market outsiders seem to be more likely to switch their vote toward candidates offering private benefits.
Para papá y mamá.

Pour Sylvain et Emma.
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<tr>
<td>CCT</td>
<td>Conditional Cash Transfer Program</td>
</tr>
<tr>
<td>HDI</td>
<td>Human Development Index</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organization</td>
</tr>
<tr>
<td>IMSS</td>
<td>Mexican Social Security Institute</td>
</tr>
<tr>
<td>INEGI</td>
<td>Instituto Nacional de Estadística, Geografía e Informática</td>
</tr>
<tr>
<td>ISSSTE</td>
<td>States Employees Social Security and Social Services Institute</td>
</tr>
<tr>
<td>LAPOP</td>
<td>Latin American Public Opinion Project, Americas Barometer</td>
</tr>
<tr>
<td>NMT</td>
<td>Non-Means Tested Program</td>
</tr>
<tr>
<td>PAN</td>
<td>Partido Acción Nacional</td>
</tr>
<tr>
<td>PRI</td>
<td>Partido Revolucionario Institucional</td>
</tr>
<tr>
<td>PRD</td>
<td>Partido de la Revolución Democrática</td>
</tr>
<tr>
<td>VAT</td>
<td>Value-Added Tax</td>
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A puzzling feature of electoral politics in the developing world is the limited role of welfare policy issues in voters’ relationship with political parties. While in developed democracies social policy continues to be a salient issue during elections (Hamann and Kelly, 2007; Giger, 2011), the redistributive role of the state does not seem to be a divisive topic for voters in developing countries (Blofield and Luna, 2011; Dion and Birchfield, 2010). While political campaigns in advanced democracies often include debates on proposals for the extension or retrenchment of social policies, electoral competition in new democracies focuses more on economic performance and market reforms. How can welfare policy be a sideline issue in countries with pervasive inequality? And why don’t low-income voters in new democracies press more for increased redistribution?

This dissertation suggests that economic informality is a key missing piece in this puzzle. While the economics literature has extensively analyzed the causes and consequences of non-regulated work for economic outcomes, its political implications have received less attention in the political science literature. Nonetheless, the very nature of the informal sector challenges basic assumptions of our understanding of redistributive politics. When studying electoral competition in democratic regimes,
scholars expect political preferences and party strategies to be strongly influenced by income inequalities, class and the occupational structure.

Traditional accounts theorize that workers will favor higher levels of redistribution and insurance, labor benefits and protection from risks, and that these interests will determine their position on the left-right ideological scale. This fundamental division of interests is expected to be crucial for understanding the interaction between redistributive demands and partisan alignments. According to a vast literature in political science, there is a connection between democratization and levels of redistribution provided by the government. The logic is as follows: Given that democratic regimes allow electoral competition and freedom of interest groups to mobilize, it is reasonable to expect an increase in the pressure for redistribution once countries transition to democracy. With the expansion of the franchise and competition for office, politicians have incentives to appeal to a broader constituency, and redistributive policies are a mechanism to gain electoral support (Haggard and Kaufman, 2008). In fact, the connection between democratization and redistribution is central to some of the most influential models in political science. Acemoglu and Robinson (2006) as well as Boix (2003) argue that the main driver of democratization is the demand for redistribution in unequal societies. Implicitly, however, these visions of democracy consider that economic preferences will largely be determined as a function of what individuals contribute to and receive from the state. That is, these models assume that even at low levels of income, individuals will consider the trade-off between paying taxes and receiving benefits, according to their position in the economy.

These models build on a well-established literature in political economy stating that in democratic settings, the preferences of the median voter will be decisive in determining policy outcomes (Downs, 1957). Moreover, given that the distribution of income is skewed to the right in most countries, the median voter will typically have an income below the societal mean and therefore, she will favor redistributive policies (Meltzer and Richard, 1981). In the Meltzer and Richards model, individual prefer-
ences are thus determined by the expected social policy benefits minus the amount of taxes that will be paid. Those net benefits are increasing for the median voter as inequality increases. While there is no consensus regarding the empirical relationship between inequality and redistribution in developed democracies, this theoretical framework continues to be the point of departure for the analysis of preferences over redistribution and left-right electoral alignments in the economic dimension. That is, a key expectation in our understanding of economic preferences in political science is that voters consider the costs (i.e. associated taxes) and benefits of social policies.

But this basic assumption does not hold for large sectors of the population in the developing world, who are members of the informal economy (i.e. those individuals working outside of the legal system of taxing, spending, and regulation). For the vast majority of the people in the labor force in less developed economies, work has no associated labor benefits. Compensation is not established in any contract and saving for retirement is often unattainable. Access to health services is limited, and their quality and coverage is unequal. In everyday life, this means that these individuals lack a safety net to hedge them against livelihood risks. These labor market outsiders do not pay employment-related taxes and do not have access to programs and benefits associated with formal employment. I suggest that these conditions do not translate in increased pressure for welfare expansion. I claim that instead of generating incentives for political parties to connect with voters on the redistributive dimension, informality undermines partisan attachments and programmatic linkages.

1.1 Main Argument and Findings

This project analyzes the effect of informality on political behavior and party strategies. Specifically, I argue that economic informality reduces the demand for redistribution and weakens programmatic linkages between voters and political parties. I contend that three characteristics of informality jointly affect political behavior: the high livelihood risk informal workers face in the absence of risk-hedging mecha-
nisms; the low utility they derive from social policies; and the obstacles they face in developing a class identity.

I develop an argument linking economic informality and political behavior and derive specific hypotheses concerning three key dimensions: preferences for redistribution, party identification, and citizen-politician linkages. Each of the following chapters tests the effect of informality on one of these political behavior outcomes. Statistical evidence shows that informality does play an important role in shaping political behavior.

I find that labor market outsiders oppose increased spending in social security and welfare institutions, and instead favor universal cash programs. As a consequence, the link between economic vulnerability and demand for redistribution is not straightforward. Results also show that voters in the informal sector tend to identify less with political parties, suggesting that informality weakens political attachments, making even more difficult to translate economic interests into political preferences. The findings show that parties are more likely to resort to non-programmatic appeals when informality is widespread, and that labor market outsiders are more sensitive to vote-buying strategies.

1.2 Research Design

1.2.1 Latin America

To test my argument, I draw upon data from the Latin American region and the Mexican case in particular. The focus on both geographical areas is theoretically and methodologically useful. Latin America is a particularly interesting region for analyzing the political implications of economic informality for several reasons. First, having gone through profound political transitions in the 1980s and the 1990s, Latin American countries stand now as fairly stable democracies. It is precisely in these newly democratized environments where we would expect voters’ interests to structure political competition and provide parties with incentives to develop program-
matic linkages with the electorate. At the same time, focusing on these countries allows controlling for other confounding factors such as the system of government and religious composition.

Second, Latin America remains one of the most unequal regions of the world, with large differences among its citizens in terms of income and access to health services and welfare programs. In recent years, conditional cash transfer programs (CCTs) have emerged as a policy alternative that reaches poor citizens without access to social security. But although evidence suggests that CCTs help reduce poverty, their coverage is still limited. Theoretically, we would expect these economic disparities to translate into higher demand for redistribution, with low-income citizens being more likely to vote for parties advancing more redistributive policies.

Third, Latin America has substantial variation across levels of informality. As I explore in the next sections, many Latin American countries have undergone crucial economic and regulatory transformations in recent decades, leading to different levels of informalization in their labor markets. This variation allows me to test the effect of informality at the structural level on political behavior. The diversity of the economic and political conditions within Latin American countries facilitates a comprehensive analysis at the individual level, studying the effect of informal labor status on behavioral outcomes operating in different contexts. In addition, the analysis of cross-national individual data allows the study of the implications of informality at two levels, making comparisons across individuals but also taking into account the contexts in which they operate.

Fourth, in recent years, several countries in the region have elected leftist-populist governments. A set of studies has associated this shift to persistent economic grievances in contexts of pervasive inequality in countries such as Bolivia, Brazil, Ecuador and Venezuela. In this view, the success of leftist governments lies in the effectiveness of their political discourse, framed and targeted to traditionally excluded sectors. Social and populist movements demanding a change of the status quo are seen as a conse-
quence of entrenched socioeconomic inequalities and low redistribution (Kaufman, 2007; Roberts, 2007). But this argument relies again on the assumption that the lower classes have unified preferences regarding redistribution, and that these preferences are being translated into political alignments, ultimately driving vote choices. Latin America is therefore suitable to test the connection between economic individual conditions, political preferences and party strategies.

Taken together, these characteristics make Latin America an excellent setting to analyze the implications of labor force dynamics for political behavior and party strategies. Given its socioeconomic disparities, the region would make a likely case for theories connecting inequality and pressure for redistribution. Yet, previous work suggests that the poor in Latin America are no more likely to support increased redistribution than the upper classes (Dion and Birchfield, 2010; Blofield and Luna, 2011; Kaufman, 2009). Furthermore, evidence shows that electoral support for leftist-populist candidates has not necessarily come from low-income voters (Lupu, 2010; Kaufman, 2009) and fluctuations in social inequality do not match electoral shifts to the left in the region (Remmer, 2012). Latin America thus represents a fascinating puzzle for traditional political economy models and an opportunity to assess the extent to which informality is a crucial omitted variable.

1.2.2 Mexico

To complement the analysis of preferences and behavior in Latin America, I turn to the case of Mexico. In order to test my hypotheses more thoroughly, I designed an original survey including detailed questions addressing the dependent variables required to test my main arguments, as well as specific items aimed at measuring the structure of inequality in Mexico.

The survey was applied in the State of Mexico, which is located in the south-central region of the country and is adjacent to Mexico City. It is also the most
The populous state in the country. The case of Mexico offers a particularly suitable case for analyzing the effect of economic informality on social policy preferences for the following reasons.

First, Mexico transitioned to democracy in the late 1990s, and in 2000 an opposition party won the presidential elections for the first time after seven decades of governments led by the Institutional Revolutionary Party (Partido Revolucionario Institucional, or PRI). Political transformations in the country have occurred along with economic shocks and deep economic reforms. Mexican governments before and after the democratic transition have sustained market-friendly policies while attempting to address persistent poverty levels. But even though recent administrations have advanced a series of structural reforms ranging from telecommunications to private investment in the oil sector, economic informality remains one of the greatest challenges for Mexico's economic development. According to a 2015 estimate by the National Institute of Statistics and Geography (INEGI) almost two-thirds of the labor force works in the informal sector.

Second, unlike other Latin American democracies, the Mexican political party system is fairly well institutionalized. Even though democratic elections at the national level resumed only 15 years ago, they were preceded by competitive elections at the local level. Furthermore, besides the PRI, the National Action Party (Partido Acción Nacional or PAN) and the Democratic Revolution Party (Partido de la Revolución Democrática or PRD) have successfully competed in legislative and local elections since the late 1990s. Given the stability of the political system in recent Mexican elections, voters are now able to (at least) identify the three main parties on the

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1 By 2014, approximately 14% Mexico’s inhabitants lived in the State of Mexico (16,651,171). The state is followed in population by Mexico City with 7.4% (National Institute of Statistics and Geography (INEGI) and the Mexican National Population Council (CONAPO)).

2 The INEGI estimate refers to the total sum of two groups of individuals in the labor force: a) those considered vulnerable due to the precariousness of their labor conditions and b) those who work in enterprises/micro-firms/businesses that are not formally registered. [http://www.inegi.org.mx/saladeprensa/boletines/2015/iooe/iooe2015_02.pdf](http://www.inegi.org.mx/saladeprensa/boletines/2015/iooe/iooe2015_02.pdf)
political spectrum, as well as their campaign messages. Therefore, the Mexican case is well suited to explore the linkages between redistributive preferences and political platforms and strategies.

Third, the State of Mexico is an interesting region to focus on. Although the state has a dynamic industrial economy that constitutes approximately 11% of the national GDP, there are important differences in the level of economic development across localities. According to the Human Development Index elaborated by the United Nations Development Programme (UNDP), while there are Mexico state municipalities with relatively high levels of economic development equivalent to the mean development score across boroughs in Mexico City, some municipalities rank below the poorest states in the country. Furthermore, there is significant variation in terms of the levels of informality of municipalities across the state. While some municipalities have a very high level of social security coverage (0.80), in some localities only one third of the population (0.34) has access to these services. In the aggregate, almost half of the state population is in the informal sector.

1.3 Defining Economic Informality

The informal sector can be defined as the unregulated portion of the economy producing goods and services for sale, not covered or insufficiently covered by formal labor arrangements (Becker, 2004). The term was first introduced to describe urban labor markets that diverged from the economic patterns in advanced democracies in terms of their (lack of) compliance with institutional and regulatory frameworks

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3 See: http://www3.inegi.org.mx/sistemas/mexicocifras/

4 The UNDP also classifies countries according to their level of development using the same indicator, the Human Development Index (HDI). To illustrate, municipalities' HDI in the State of Mexico ranges from 0.86 (Metepec) which is equivalent to Greece’s national average, to 0.64 (Villa Victoria) which is similar to that of Syria in 2012. See: http://www.undp.org.mx/desarrollohumano/genero/Doctos/Estado%20de%20Mexico.pdf and http://hdr.undp.org/en/data
But more generally, this unregistered exchange of goods and services includes unreported income from the production of legal goods or services, that is, all economic activities that would generally be taxable if they were reported to the government (Schneider, 2004; Smith, 1985).

As Portes and Haller (2010) note, there is an important conceptual distinction between informal and illegal activities. That is, while illegal transactions by definition involve the production and exchange of goods that are defined as illicit, economic activity in the informal sector deals mostly with licit goods. Distinguishing between these two kinds of economic activity (i.e. informal and illegal) is helpful because it allows the analysis of potential interactions between both.

Most importantly, informal work is characterized by not being covered or being insufficiently covered by formal labor arrangements (Becker, 2004). Economic activities in the informal sector usually “lack coverage by the social security system, entitlement to paid annual or sick leave or written employment contracts” (Hussmanns, 2003). While low levels of protection and scarce labor benefits are common denominators, the informal sector is also highly heterogeneous, bringing together individuals of various occupations (Perry et al., 2007). An informal worker can be a street vendor, but also an employee in a small firm, working without a contract.

Finally, most informal jobs are characterized for their relative instability in terms of pay, workplace and hours. Individuals in the informal sector usually have low-

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5 The definition of economic informality (as well as its economic determinants and implications) has been a matter of debate among researchers since the 1970s. While the International Labor Organization (ILO) has characterized the informal sector as the excluded and suboptimal part of the economy, other scholars have argued that some workers might opt to enter the informal sector following a cost-benefit analysis or due to entrepreneurial predispositions (Portes and Haller, 2010; Perry et al., 2007).

6 Portes and Haller (2010) note that the notion of illegal is a socially defined category subject to change. However the distinction remains useful given the stability of the regulations defining certain activities as illegal (e.g. drug production and commercialization).

7 In this sense and particularly relevant for the analysis of Latin American countries, the drug economy would not be considered part of the informal economy but fundamentally an illegal activity. For instance, previous work has studied the effect of drug-related activities in Bolivia on the informal sector (Blanes Jiménez, 1989).
skilled jobs, such as street vending, housekeeping or as employees in micro-firms without a contract. These jobs usually involve erratic shifts, and workers not always not share a common workplace with others (Portes and Haller, 2010; Rudra, 2005). As I explain in the next chapter, these conditions reduce the capabilities of workers to collectively organize and develop a class-based political identity. In this sense, formal workers share the experience of uncertain jobs with deficient labor conditions, but not the occupational experiences commonly associated with workers’ collective organization.

1.4 The Informal Sector in Latin America

Until the 1980s most Latin American countries followed a model of economic development relying on Import Substitution Industrialization (ISI) strategies. This model sought to propel economic growth via the domestic market, in contrast to the period of export-led growth that lasted from the middle of the nineteenth century to the Great Depression (Hirschman, 1968). ISI involved a predominant participation of the state in the economy, as well as an alliance between the government and both capital and labor. Labor protections were compatible with the ISI model. The state adopted a predominant role as mediator between workers and industrialists, facilitating the implementation of national economic strategies. In addition, the heavy involvement of the government in the industrialization process included the establishment of several state-led industries in key sectors, which reinforced governments’ ties with the working class (Williamson and Kuczynski, 2003; Collier and Handlin, 2009; Morgan, 2011).

The collapse of the ISI model was followed by a series of comprehensive economic reforms in the 1990s. Governments in the region dismantled or privatized state-led industries and introduced reforms to facilitate private investment and international free trade. These economic and political processes had implications for labor markets as well. With the contraction of the public sector, a significant share of the labor force
transitioned to jobs in the private sector (Tokman, 1992, 2007, 2011). In this context of privatization and liberalization, labor markets in the region became increasingly dualized, and the informal sector now constitutes a significant portion of the labor force.

But preexisting structural conditions affected the quality of these jobs. Latin American labor regulations are significantly strict in comparison with advanced economies, placing high costs for employers in terms of hiring, dismissal and labor benefits (Ghersi, 1997). Indeed, studies have shown that informal sectors in Latin America (and elsewhere) mostly prevail due to excessive tax burdens and strict labor regulations (Loayza, 1996). In addition, bureaucratic barriers to entrepreneurship and corruption substantially increase transaction costs, further reducing the incentives for small firms to stay in the formal sector.

In recent decades, the informal sector has concentrated most of the economic activity in many Latin American countries. Informal work is now normalized in the economic landscape all across the region. Firms in these countries have incentives to hire individuals ‘off-the-books’ without paying taxes and making mandatory contributions to social security institutions. Low-skilled individuals without access to these jobs in small firms often turn to other informal activities such as street vending, construction or housekeeping. As a consequence, labor markets are highly fragmented, and the limited capacity of the government to tax informal activities continues to be one of the greatest challenges for the economies in the region. Yet, as I show in the following chapters, the process of informalization is not politically neutral. Economic informality plays a role in how individuals form their preferences and expectations regarding the role of the state, and also contributes to shape party electoral strategies.

1.5 Size and Composition of the Informal Sector in Latin America

Figure 1.1 provides a sense of the size of the informal sector in Latin America and in developed countries according to the estimates in Schneider et al. (2010). It shows
that contrary to the labor market structure in advanced democracies, the informal sector represents a large share of the labor market in Latin America. A large share of the population that is economically active do so via informal activities, evading regulation and taxes, but also not benefiting from the main social policy programs provided by the state. Over 40% of the labor force in countries such as Nicaragua, Honduras, Guatemala and Peru is in the informal sector and this percentage goes up to 60% in the case of Bolivia. In contrast, informal activities are well below 30% in most industrialized economies. Although informal sectors in Portugal, Spain and Italy are larger, informality is clearly not the norm. This figure shows how radically different the occupational experiences of workers in Latin America are compared to those of workers in the OECD countries.

![Figure 1.1: Average Informality by Country, 1999-2006.](image)
Another relevant feature of the informal sector is that its members have relatively lower incomes than their counterparts in the formal sector. Figure 1.2 shows the distribution of incomes by decile for formal and informal workers in Latin America. Informal workers are more concentrated on the low end of the scale, as they tend to be poorer than their counterparts in the formal sector. Previous work in economics has shown that informal economic activity is related to low-productivity jobs (Tokman, 1989). For instance, Perry et al. (2007) suggest that lower-tier micro-firms may choose to operate in the informal sector as a result of their limited productivity and growth potential. In addition, these firms have limited access to financial markets, credit and technology.

![Graph showing income distribution by work status](image)

**Figure 1.2:** Income Distribution by Work Status in Latin America, 2010.

The informal sector includes a wide range of occupations. As previously discussed, an informal worker can be a street vendor or a construction worker, but also an employee in a small firm, working without a contract. Figure 1.3 shows the distribution

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8 Data for this figure come from the Latin American Public Opinion Project (LAPOP) 2010 surveys. Members of the informal sector are identified as those respondents without access to health insurance.
of occupations ranked from high skilled/status to lower skilled/status. Each bar shows the proportion of individuals working in the informal and the formal sector in each occupation. Informal workers constitute a larger part of the labor force in lower skilled occupations. Only 17% of the respondents working in domestic service and agriculture are formal workers. On the contrary, most white-collar workers (94%) and those in government or military related positions (83%) are in the formal sector. Yet, there is a sizable proportion of respondents in blue-collar and service positions that can also be classified as labor market outsiders. Thus, in average, informal workers have lower incomes and less education, but at the same time are dispersed in terms of their occupations and workplaces.

![Figure 1.3: Distribution of Workers in the Informal Sector by Occupation in Latin America.](image)

1.6 Data Sources

Given the behavioral nature of the hypotheses driving this project, I mainly rely on individual-level data. For Latin America, I rely on the 2010 AmericasBarometer surveys conducted by the Latin American Public Opinion Project (LAPOP). As I
discuss in the following section, this particular wave of the survey includes an item about welfare coverage that is suitable for testing the proposed hypotheses.

LAPOP surveys are collected from samples of adults (18 years and older) and are representative of national populations. The countries included in the analysis are Mexico, Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica, Panama, Colombia, Ecuador, Bolivia, Peru, Paraguay, Chile, Uruguay, Brazil, Venezuela and Argentina. LAPOP surveys use a multi-staged, stratified sample (with household level quotas) for each country, with national samples of approximately 1,500 individuals, except in the cases of Bolivia (N=3,000), Ecuador (N=3,000) and Paraguay (N=1,166). Data were weighted to account for these differences in sample sizes (in addition to using the sampling weight variable provided in non-self-weighted country samples).

The LAPOP questionnaire includes very useful questions to test the main arguments driving this research, but these items still have some limitations. First, the questions about redistributive preferences ask broadly about the role of the state regarding inequality reduction. But given the variety of social programs and the level of fragmentation of welfare systems in the region, we need more specific questions disaggregating preferences vis-à-vis specific social policies and institutions. This is particularly important because the levels of exclusion vary considerably across social programs and welfare benefits. Second, the LAPOP questionnaire has an item on vote buying that allows an initial test of the relationship between informality and citizen-politician linkages. Yet, to fully explore the party strategies and voters’ sensitivity to non-programmatic offers, we need to measure respondents’ reactions to specific offers during electoral campaigns and whether these offers are effective in changing vote

9 The analysis includes 17 Latin American countries, which is a comprehensive sample, similar to other studies focusing on the region. I excluded the Caribbean nations, Canada and the U.S. from the LAPOP sample. Data on the aggregate indicators I use is limited in the case of the Caribbean nations. Canada and the U.S. have followed divergent economic and political processes in comparison with Latin American countries. However, the argument I advance in this dissertation should be generalizable to other countries in the developing world.
Therefore, I draw upon original survey data from Mexico. I designed a questionnaire for a survey aimed at further exploring individual preferences about specific social policies. The study was carried in the State of Mexico in 2014. The survey included four original modules that allow a more thorough analysis of the relationship between informality and political behavior. These sets of questions seek to overcome some of the limitations of existent survey instruments available for the Latin American region, especially regarding redistributive issues. First, the survey included specific questions on redistributive preferences tailored to the welfare system in Mexico, distinguishing between social security institutions, CCTs and non-means tested programs. Second, I designed detailed questions about party positions regarding a variety of economic and social policies, which capture a broader set of issues on the redistributive dimensions. Third, a set of questions in the survey bearing upon citizen-politician linkages captures the sensitivity of voters to different type of particularistic offers and their effect on vote switching. Fourth, the survey includes a series of questions asking about access to health benefits linked to work status. As I explain in the next section, given the characteristics of informal labor in the region, this question works as a reliable instrument for identifying labor market outsiders.

Operationalizing economic informality

The operationalization of informality at the individual level is not trivial. Most of the studies on informality draw upon aggregate measures intended to approximate the size of the informal sector at the national level. This information is often unavailable for several developing countries. There is an even greater challenge when trying to study the role of informality on individual behavior, especially when the focus of interest is not on economic but on political outcomes.

Income surveys contain useful questions on work status, labor benefits and type of contracts, but these instruments are not designed to analyze political outcomes.
Conversely, surveys focusing on social and political issues do not usually include questions related to labor benefits or work contracts. Instead, socioeconomic questions are often drawn from surveys designed for developed economies, which have lower levels of labor market dualization.

To overcome this limitation, I focus on a crucial characteristic of labor market outsiders. Individuals in the informal sector, the key variable in this study, tend to get substantially lower net benefits from the state, including health insurance. Studies on labor regulation in the region have emphasized that a current feature of social protection systems in the region is that health insurance (together with other benefits) is linked to formal employment. That is, the major part of social insurance is provided through contributory programs in Latin America (Bertranou and Gasparini, 2004; Cecchini and Martínez, 2012).

LAPOP surveys include a question about health insurance provided by the government, which I use as a proxy of informality. I measure informal labor status with a dichotomous variable taking a value of 1 if the respondent does not have access to health care and 0 otherwise. The percentage of respondents falling into this category in the total cross-country sample is approximately 60%. Similarly, the original survey I designed includes a set of questions asking about access to health benefits at social security institutions, which is also associated to formal labor status. This allows me to test the effect of informality on both samples (Latin America and Mexico) using a compatible operationalization.

1.7 Dissertation Outline

The following four chapters explore the relationship between informal labor status and political behavior. Chapter 2 presents the main argument driving this dissertation. It explains how the main characteristics of economic informality are politically relevant, and develops the causal mechanisms connecting these factors to specific political outcomes. Specifically, the chapter argues that a) high livelihood risk, b)
a low utility derived from social policies and c) the obstacles to class identity formation among informal workers contribute to weaken demand for redistribution and undermine programmatic linkages between voters and political parties.

Chapter 3 explores how informality shapes social policy preferences and reduces the demand for traditional welfare spending. The analysis of micro-level data for both Latin America and Mexico suggests that, counterintuitively, voters in the informal sector demand less spending in social security and welfare institutions. On the contrary, labor market outsiders tend to favor only social programs with no eligibility requirements. This result helps explain why previous analysis have found negative and inconsistent relationships between low-income and demand for redistribution in Latin American countries.

Chapter 4 studies the relationship between informality and partisan attachments. I find that low utility derived from social policies and the obstacles to class identity formation among members of the informal sector combine to ultimately weaken ideological attachments with political parties. Results also show that outsiders trust less in political parties, suggesting that informality might result in a more disengaged citizenry.

The analysis in Chapter 5 focuses on the strategies followed by political parties when approaching members in the informal sector. The findings suggest that parties are more likely to resort to non-programmatic appeals when informality is generalized. In addition, evidence from the analysis of the Mexican survey data shows that voters in the informal sector are particularly sensitive to some types of clientelistic offers, and that programmatic appeals are less effective to win their vote. Results also suggest that outsiders are more likely to switch their vote to candidates offering private benefits.

The concluding chapter develops the main contributions of this project for the literature on comparative political behavior. It discusses the relevance of rethinking and adapting our theoretical approaches when trying to understand redistributive
politics in the developing world. The chapter also discusses the policy implications of the main findings in the dissertation. Finally, I address future avenues of research and ways to extend the agenda of informality and political behavior.
In this dissertation I argue that economic informality has political implications for the democratic process in developing countries. Specifically, I contend that informality undermines programmatic linkages between voters and political parties. I analyze how informal labor status shapes political behavior on three key dimensions: social policy preferences (chapter 3), partisan attachments (chapter 4) and citizen-politician linkages (chapter 5). In the next sections I suggest that being an outsider of the formal labor market reduces the demand for traditional welfare spending and weakens ideological attachments between members of the informal sector and political parties. Finally, I argue that clientelistic linkages are more likely in contexts where economic informality is widespread.

The causes and consequences of economic informality have been thoroughly explored in economics (Perry et al., 2007; Agell, 1999, 2002; Maloney, 1999) and sociology (Singerman, 1996; Cross, 1998). There are fewer analyses on how the informal sector conditions electoral politics. Recent work on outsider/insider politics in OECD countries offers valuable insights on the political economy of labor market structure (Agell, 1999; Rueda, 2007). The labor market has become increasingly segmented into those with secure employment and those without, generating a group of insiders,
insulated from the fluctuations of the level of unemployment; and a group of outsiders, lacking labor stability and protection from economic shocks. The political preferences of these two groups of workers appear to be fundamentally different, affecting party strategies especially on the left of the political spectrum (Rueda, 2005, 2006).

Nevertheless, the repercussions of informalization processes for electoral competition in developing countries remain largely underexplored. We still know little about how voters articulate their demands or the implications for party strategies when large segments of the population operate outside the formal labor market. Understanding the connection between the structure of labor markets and the political process is important for various reasons. Existing work has not only found a disconnect between the level of social policy provision and inequality in many developing countries, but also that demand for redistribution is not necessarily higher in contexts of impoverishment and high inequality (Blofield and Luna, 2011). There is also an ongoing debate about whether class matters as a meaningful ideological cleavage in the developing world (Lupu, 2010; Handlin, 2013; Agarwala, 2013). I claim that part of the answer to these puzzles lies in the analysis of the political dimension of economic informality. Informal labor status weakens redistributive programmatic linkages between voters and political parties. Labor market outsiders are also outside the main social security institutions and the pool of income tax payers. These conditions greatly affect the preferences and expectations of these potential voters regarding redistributive politics, partisan attachments and ultimately, electoral linkages.

This chapter develops the main theoretical argument guiding the dissertation. First, I explore how the characteristics of the informal sector are politically relevant. In particular, I study the connection between informal labor status and voters’ preferences and expectations regarding the political process. Then, I explore how economic informality conditions preferences regarding redistributive policies. Next, I analyze how informality significantly impacts the affinity between voters and political parties. The final section suggests that informal labor status shapes party strategies
when approaching voters, as it increases incentives for parties to resort to clientelistic exchanges to win votes.

2.1 Individual Preferences and Expectations

What is it about economic informality that matters politically? I suggest that informality shapes political behavior and affects individual expectations about public policies and political parties through three mechanisms. Members of the informal sector a) experience high economic risk, b) face barriers to political organization and class identity formation and c) derive lower benefits from social policies. Taken together, these factors reduce the expected utility from programmatic policies on the redistributive dimension and undermine the ideological linkages between voters and political parties.

2.1.1 High economic risk

As discussed in the previous chapter, members of the informal sector work outside of state regulations and without a formal contract or labor benefits. They pay no employment-related taxes, and thus do not bear in mind the whole costs of public goods and services. Given that comprehensive social policies are commonly linked to formal employment in these countries, economic informality limits the access of outsiders to social security services provided by the state. Informal workers face high uncertainty about potential economic downturns, as well as limited capacity to protect themselves and their families against unexpected shocks.

Economic informality significantly increases economic and livelihood insecurity for at least two reasons. First, given that informal jobs are more common in occupations with lower productivity and lower skills, people in this sector tend to have lower incomes. Most importantly, jobs in the informal sector are less stable and income is not always predictable. For those who are self-employed, weekly and monthly earnings might be irregular, and dependent on a series of fluctuating factors, such as
particular arrangements to work illegally in a particular place, or even the weather. For individuals employed informally, employment is also uncertain. Given the lack of a formal contract and off-the-books compensation, workers in these positions are uncertain about their job stability and face limited growth opportunities in their workplace.

Second, individuals in the informal sector have inadequate means to cope with risk, and are more vulnerable to events such as illness, unemployment, injury and old age. Compared with individuals in the formal sector with their same level of income, members of the informal sector lack the risk-hedging mechanisms provided by insurance and social security institutions. In contexts of dualized labor markets and truncated social security systems, informal workers above the poverty line often do not benefit from social policies. In many developing countries governments have turned to means-tested programs as a complement to insufficient social security coverage. However, these programs still represent a small proportion of social policy investment in most countries. As a consequence, members of the informal sector might face higher risks even if they are not at the bottom of the income scale. These increased risks are crucial for the well being of individuals in the informal sector. For instance, low-income households with limited savings have been shown to be more likely to fall into poverty due to out-of-pocket costs related to hospitalization and treatment of chronic diseases (Krishna, 2010).

I suggest that inadequate insurance has implications in terms of political preferences and behavior. When voters face higher livelihood risks and lack the mechanisms to cope with potential loses, they are less willing to invest time and resources in the acquisition of political information. Instead, individuals in the informal sector have to deal with the complexities associated with securing a regular and stable income, and the need to look for alternative risk-hedging mechanisms. This often means resorting to informal safety nets such as the family, communities or religious groups. In these insecure contexts, participation in the political process is clearly not a priority. As
a consequence, members of the informal sector have fewer resources and less time to (programmatically) engage in the political process.

2.1.2 Obstacles to class identity formation

In recent decades a large number of workers have transitioned into jobs without labor benefits and legal contracts, and without having unions articulating their interests. In these contexts, workers’ capacity to organize and develop a common identity has diminished. The decline of unions has limited the capacity of the working class to collectively voice its demands. Consequently, class cleavages have eroded in many countries, even in contexts of high economic inequality. The dualization of the labor market has also implied that in some countries many low-income voters were no longer the core constituency of labor-based parties. Absent the role of labor organizations as the active nexus between workers and political parties, individuals in the informal sector have found it more difficult to articulate their interests and translate them into demands relevant to the political agenda.

As discussed in Chapter 1, there is significant variation in terms of the occupations and workplaces of individuals in the informal sector. This posits a severe collective action problem for outsiders. Unlike unionized workers who are more capable of pressing for the preservation and/or expansion of their labor benefits, members of the informal sector lack organization and resources, which reduces their bargaining capacity. Outsiders are usually low-skilled, work erratic shifts and often do not share a common workplace with others (Centeno and Portes, 2006; Rudra, 2005). These structural features of the informal sector have important implications in terms of the political preferences and mobilization capacity of its members. Informal workers are less capable to articulate their interests in terms of traditional class lines. In average they have lower incomes and less education, but at the same time are more socially isolated and fragmented in terms of their occupations and workplaces (Levitsky, 2007). Ultimately, this reduces their likelihood of developing a common set of
class-based, programmatic political preferences as well as their chances to effectively voice their demands.

Informal workers’ lack of bargaining leverage directly affects their capacity to negotiate better labor conditions with their employers, but also limits their capacity to demand specific policies to be implemented by the state. Unlike workers in the formal sector, those individuals working illegally remain dispersed and their interests do not necessarily translate into more demand for social policies or improved labor benefits. These obstacles to their political coordination have crucial implications for preference formation and the relationship between voters and political parties. Individual interests are usually aggregated eventually forming electoral cleavages. Groups with clear demands become politically distinguishable and relevant for parties, which benefit from tailoring policy proposals appealing particular constituencies. As I argue in the following sections, the incentives to develop programmatic linkages are limited in the case of the informal sector.

2.1.3 Low utility derived from public policies

Members of the informal sector derive a lower utility from public policies. Being an outsider of the formal labor market implies non-eligibility for certain programs and an additional level of uncertainty regarding the actual level of implementation of such policies. Members of the informal sector do not benefit from social policies that are channeled via social security institutions, and even targeted programs might not benefit them if they do not fill specific requirements. As a consequence voters living in informality might be more likely to discount uncertain future gains.

In many developing countries social security systems have undergone a process of retrenchment in recent decades that has included a series of reforms ranging from privatization to decreased spending on existing services. In a parallel process, some governments have expanded non-contributory social programs to reach marginalized groups in an effort to make poverty-reduction compatible with fiscal discipline. Yet,
not all informal workers have benefited from the expansion of non-contributory social policies. In the case of means-tested programs, eligibility requirements often imply the exclusion of individuals above certain level of income, which is usually set at the national estimated poverty line (Cecchini and Martínez, 2012). There have also been initiatives aiming at the universalization of certain social policies. Yet, these social programs should also be evaluated in terms of the scope of services offered to beneficiaries. For instance, initiatives offering packages of primary health care services require lower investments and are more easily scalable, but their beneficiaries are not hedged against the risk of catastrophic health expenses.

The fact that informal work is unregulated also makes it difficult for members of this sector to benefit from other programs aimed at increasing labor productivity. Informal workers evade income taxes and often their small businesses or the firms they work for are established irregularly in a location without complying with the required legal fees and permits. The clandestine nature of informal work implies limited access to credit and training programs. In addition, members of the informal sector do not benefit from laws regarding minimum wages, workplace safety, pensions, or sick leave.

I claim that given the low level of benefits derived from government programs, members of the informal sector adjust their expectations regarding public policies. Voters in this sector will be less persuadable in the face of social policies and economic programs oriented primarily to the formal sector of the economy. But this simple adjustment of expectations affects how informal voters perceive political platforms and parties’ strategies. Programmatic proposals aiming at improving labor and economic conditions of those in the informal sector are less likely to be electorally effective.\(^1\)

\(^1\) To illustrate, suppose that a political party offers to implement unemployment insurance. While one might anticipate this initiative would to be widely popular among the vast majority of workers, in contexts of high informality a large segment of the workforce would simply not benefit from such a policy.
2.2 Party strategies

How does economic informality shape parties’ political strategies? I suggest that the prevalence of the informal sector reduces the likelihood of parties developing programmatic linkages with the electorate. Programmatic redistributive platforms are less likely to emerge in contexts of high economic informality. In the face of large informal sectors, parties will be less likely to develop coherent policy platforms and differentiate from one another on the redistributive dimension. The reasons are twofold. First, if individual preferences of the members of the informal sector are not unified in terms of welfare and social policy issues, parties will not be incentivized to structure their appeals on the traditional left-right/redistributive dimension. When competing in democratic elections, parties have to strategically choose which dimension(s) to prime in their electoral campaigns and platforms. To make this decision, they take into account salient cleavages in the population and prominent public issues. But paradoxically, members of the informal sector face limitations to constitute themselves as a “class” and therefore they lack the political leverage to influence parties’ programmatic agendas.

Second, given the high level of consensus in many developing countries about the need for social insurance and extended health coverage, existing literature would predict social policy to be a valence issue. Parties should have incentives to approach voters and differentiate themselves in terms of competence (Green, 2007; Green and Jennings, 2012). But this partisan distinction on the redistributive dimension is not as clear in developing economies. The process of dualization of labor markets increases the cost of developing programmatic platforms on redistributive issues. Facing high economic informalities and strict budget constraints, political parties have fewer incentives to differentiate themselves in terms of redistributive issues. In fact, in recent years, left and right parties in the developing world have resorted to means-tested and conditional cash transfer programs (CCTs) as their main social policy tool, as
more encompassing reforms are less feasible and less electorally rewarding when a large segment of the population is in the informal sector.

Politicians seek to maximize the electoral returns of their investment in programmatic and non-programmatic strategies. Given the characteristics of individuals in the informal sector, parties will adapt their electoral strategies when informality is prevalent. Absent a clear set of programmatic set of preferences unifying informal voters, parties will turn to alternative mechanisms in order to appeal this sector. In sum, informality poses important challenges for programmatic competition. If individuals in the informal sector lack a clear set of demands and do not perceive concrete benefits from public policies, parties will have few incentives to structure their campaigns and platforms with clear positions on the redistributive dimension. In contrast, labor market outsiders might be a likely target of clientelistic appeals.

The next sections discuss the implications of the mechanisms previously described on three specific dimensions. In particular, I study how informal labor status shapes social policy preferences, partisan attachments, and citizen-politician linkages.

2.3 Economic informality and redistributive preferences

I suggest that voters without formal jobs have weaker preferences regarding spending on traditional welfare systems, making it more difficult for them to establish an ideological connection between redistributive issues and political platforms. Two mechanisms are at play here. The low level of utility from public policies, together with the obstacles to class identity among members of the informal sector, contribute to weaken their demand for welfare spending. As discussed before, individuals in the informal sector have limited access to social policy benefits.

Given that these social and health services have been traditionally linked to formal employment, people with informal jobs de facto receive a low level of welfare benefits from the government. Beyond low income, the labor status of those in the informal sector implies that they are more likely to discount future redistributive
policies in favor of short-term material offers, simply because they do not have access
to social protection. That is, in contrast to the majority of the poor in countries with
extensive welfare coverage, many low-income voters in dualized labor markets will
not necessarily be in favor of increased spending in existing welfare systems. Para-
doxically, programmatic campaigns focusing on improving health services and social
policy benefits might not appeal these voters at all, even if they need these services
the most. While the socioeconomic characteristics of the members of the informal
sector (i.e. low incomes and low-skilled jobs) might suggest that this group would
favor increased spending in health and pension provision, their labor status prevents
them from supporting this type of social spending.

Second, labor market outsiders face limitations in translating their interests into a
coherent set of demands for the expansion of welfare systems. The lack of a collective
identity among informal workers reflects the diversity of their occupational expe-
riences, including everything from street vendors and houseworkers to employees in
small firms and self-employed manual workers. Although these individuals are equally
excluded from social security institutions and programs linked to formal employment,
given that their occupational experiences are vastly different, they do not necessarily
identify collectively or view themselves as a "working class". The absence of this
shared identity also implies that individuals in the informal sector might not perceive
themselves as right holders or entitled to social policy benefits. As a consequence,
members of the informal sector will be less likely to support government involvement
in providing social insurance policies. In contrast, means-tested programs will attract
outsiders even if they are narrower in their scope.

Therefore, the expectation is that informal voters will be less likely to support
increased spending in social security institutions and more likely to support programs
not linked to formal employment. Specifically I test the following hypotheses:

H1a: Members of the informal sector will be less likely to support government in-
volvement in institutions and programs that exclusively benefit individuals in the formal sector.

H1b: Informal workers will favor increased public spending on universal social policies, instead of truncated policies.

H1c: Individuals living in contexts of high economic informality will be less likely to support increased spending on health and pension benefits tied to formal employment.

2.4 Outsiders and Party Identification

The link between low-income voters and political parties have been traditionally theorized to be focused on redistributive issues, and the position of parties toward increased welfare spending and social policy benefits. In advanced democracies, left and labor-based parties have traditionally crafted their campaigns around these issues trying to appeal poor and even middle-class voters. But in contrast to blue collar workers in the industrial sector in advanced economies, individuals in the informal sector tend to work in more isolated and fragmented environments (Rudra, 2005; Levitsky, 2007). Their work environment and labor conditions reduce the likelihood of developing shared class identities, much less articulating them politically. Absent an obvious ideological dimension connecting informal voters’ interests to parties’ political platforms, the development of stable partisan identities is unlikely.

Individuals want to maximize the benefits of political participation. Voters will try to maximize the net benefits they receive from the state (i.e. their public goods consumption or redistributive policies). An individuals decision to invest her time and resources in political activities will be a function of the perceived probability that parties will represent the interests of the group of voters she considers similar to herself. However, individuals might opt to disengage from the electoral process when they anticipate that there is a low probability that parties will implement policies
representing their interests.

Voters might become alienated as a result of candidates platforms being too distant from the voter to compensate for the cost of participating. For instance, Adams et al. (2006) propose a model in which an individual decides to participate only if her utility for her most-preferred candidate exceeds her alienation threshold. This threshold can be modeled as a function of factors theoretically expected to predict turnout (usually education or political efficacy). I argue that a crucial element having an impact on voters alienation threshold is the level of net benefits an individual receives from the state, which will directly affect her expected benefits from voting. Informal workers will have low expectations about redistributive policies and will underestimate political parties capacity to address their interests and needs.

Individual party attachments are based on voters’ perceived relationship between their beliefs and interests, and parties’ platforms and performance (Campbell et al., 1980; Fiorina, 1981; Miller and Shanks, 1996). Voters use available information to determine if any political party represents their interests and will be likely to implement policies that benefit them. If voters perceive that parties’ political programs contribute little to their personal welfare, the likelihood of identifying with a political party will be low and they will remain alienated from the political process. Individuals in the informal sector receive limited net benefits from government social programs. These benefits (or the lack thereof) directly affect their expected utility derived from choosing one party over another. The expectation is that outsiders will have weaker partisan attachments. I contend that net of income, outsider status will be negatively related to partisan identification. It follows that:

**H2a:** Controlling for other factors, voters in the informal sector will be less attached to political parties, and thus will exhibit a lower level of party identification.

**H2b:** In countries with large proportions of informal workers, individual partisanship will be weaker.
2.5 Informality and Electoral Linkages

I argue that the structural features of the informal sector and the characteristics of their members will shape the incentives of political parties to resort to programmatic or clientelistic appeals when catering to low-income voters. The starting point of the argument is the basic assumption that political parties try to maximize electoral support, considering their budget constraints. To do so, parties can implement strategies ranging from political appeals bearing exclusively on particularistic exchanges to programmatic ones proposing mostly non-excludable goods and policies.

Mobilization of voters on the basis of selective incentives entails the provision of excludable goods such as gifts, money, jobs or services to specific groups. In contrast, programmatic platforms appeal to voters in terms of electoral programs and policies they promise to implement if elected, which are not contingent to private exchanges between citizens and politicians (Kitschelt and Wilkinson, 2007). Parties will choose a strategy to maximize their vote using income and occupation status as cues to determine the size of groups of similar voters, as well as their potential preferences (Filer et al., 1993). I propose that a key group characteristic influencing party strategies is the informal sector.

The structural features of the informal sector and the characteristics of their members will shape the incentives of political parties to resort to clientelistic appeals when catering to low-income voters. Given that members in the informal sector will be less likely to articulate a coherent set of class-based preferences, they will tend to be less drawn by ideological programmatic appeals. Members of the informal sector lack risk-hedging mechanisms and have an increased reliance on benefits that can help them better cope with the risks they are exposed to.
In the political realm, this means that programmatic proposals, even if potentially beneficial, are not as attractive as short-term benefits. First, there is a level of uncertainty regarding the actual level of implementation of such policies. Second, members of the informal sector might not benefit from social policies and welfare benefits provided by social security institutions, and even targeted programs might not be accessible to them if they do not fill the eligibility requirements.

Despite their lower incomes and level of economic vulnerability, voters in the informal sector will be less likely to respond to programmatic appeals on the traditional left-right dimension. On the contrary, outsiders may be more willing to accept private benefits in exchange for their vote. The reason is that these goods and favors contribute to hedge them against everyday risks. Therefore, while investment in programmatic campaigns appears difficult and uncertain for parties, the proclivity of informal voters to accept private benefits increases the expected electoral benefits of clientelism. As a consequence, voters living in informality might discount uncertain future gains in favor of short-term material benefits.

In countries with large and poor informal sectors, parties will have fewer incentives to develop programmatic platforms catering to informal workers. In societies where a large segment of the population works in the informal sector, property rights are not well defined (Sarkar, 2010). Given their low incomes and the fact that their economic activities are outside the formal legal system, their vote is conditioned to the political and economic support of local brokers. As a consequence of their economic vulnerability and their place in the labor market, party strategies targeting these voters with selective benefits will be particularly effective in contexts of widespread economic informality. This leads to the following hypotheses:

H3a: *In contexts of high economic informality, parties will be more likely to target voters via vote-buying and clientelistic appeals.*

H3b: *Parties will be more likely to approach members of the informal sector offering
short-term material benefits in exchange for their vote.

H3c: Informal voters will be more likely to switch their vote when offered clientelistic benefits.

2.6 Summary of the argument

In sum, my argument proposes that economic informality shapes political behavior through three main mechanisms: increased livelihood risk, obstacles to class identity formation, and a low expected utility derived from public policies. I explore how these mechanisms articulate the effect of informality on three specific outcomes: redistributive preferences, party identification and citizen-party linkages.

Figure 2.1 presents a diagram of the theory presented in this chapter. First, economic informality directly limits the risk-hedging mechanisms available for the individuals in this sector, increasing their overall level of livelihood risk. Second, informal voters anticipate a low utility from public policy, particularly regarding social services. And third, given their occupational experiences, labor market outsiders face obstacles in forming a collective class identity. Through these mechanisms, informality

Figure 2.1: Model of the effect of economic informality on political behavior.
shapes political behavior outcomes. Given the low utility derived from current social policies, outsiders will have a lower demand for increased spending in social security institutions. Also, the absence of a shared class identity together with increased vulnerability to livelihood risks and an expected low utility from public policies make party identification less likely.

Finally, members of the informal sector will be more sensitive to clientelistic appeals from political parties. The logic here is that these voters simply expect less from the government and parties regarding public policies, and face a greater level of uncertainty when trying to anticipate if social policies will actually benefit them. In addition, economic and livelihood vulnerability make short-term private benefits more attractive than uncertain policy proposals. Political parties’ optimal strategy will be determined by the sensitivity of informal workers to non-programatic appeals and the high costs of comprehensive social policy reforms. Clientelistic linkages are therefore more likely to emerge in contexts of extended informality.

The arguments proposed in this chapter suggest that informality is politically relevant. It not only has economic consequences but also political implications in terms of how citizens think about the redistributive role of the state and their relationship with political parties. I theorize that informality will reduce the demand for traditional welfare spending and weaken ideological attachments between members of the informal sector and political parties. I also expect non-programmatic linkages to be more likely in contexts where economic informality is widespread. In the following chapters I test the propositions presented here drawing upon evidence from Latin America and Mexico.
Social Policy Preferences and Economic Informality

How do citizens form their social policy preferences in contexts of high economic informality and limited redistribution? An enduring puzzle in political economy is the great divergence among levels of welfare provision across countries. A large strand of the literature has explored the structural determinants of social policies (Iversen and Soskice, 2001; Huber and Stephens, 2001; Wibbels, 2006), focusing mostly on redistribution patterns in industrialized democracies. A growing literature now seeks to explain the origins and change of redistribution policies in developing countries, concentrating mostly on the “supply side” of social policies (Segura-Ubiergo, 2007; Mares and Carnes, 2009; Rudra, 2008).

Yet, the analysis of redistributive preferences in developing democracies has received less attention in the literature. While this is a widely studied topic for advanced democracies, we know little about how these preferences are formed in developing democracies. Furthermore, recent studies have found that different factors might shape the formation of preferences for redistribution in less developed democracies. For instance, current evidence for developing countries suggests that individual income has a varying effect on social policy preferences across countries, and that it does not seem to be a strong predictor of redistributive attitudes in Latin America (Dion
and Birchfield, 2010; Blofield and Luna, 2011). I argue that economic informality is an important omitted variable in the literature.

The aim of this chapter is to incorporate the crucial dimension of informal labor status into the analysis of redistribute preferences. Standard political economy models implicitly presuppose that individuals are inserted in formal labor markets and that economic preferences will largely be determined as a function of what they contribute to and receive from the state. The assumption is that in general, individuals consider the trade-off between paying taxes and receiving benefits, according to their position in the economy. Yet, this accounting does not work for large segments of the electorate in Latin America, where a sizable part of the labor force is in the informal sector paying no employment-related taxes and with limited access to public benefits.

I contend that individuals in the informal sector have no incentives to support public spending on welfare systems and social policies that only benefit insiders. Drawing upon individual-level evidence from Latin America and an original survey in Mexico, I show that economic informality is negatively related with support for government involvement in pensions and health provision. In contrast, people in the informal sector favor the expansion of non-contributory policies, such as universal social programs. These findings help explain the puzzling cross-national relationship between income and redistributive preferences.

The chapter is organized as follows. I first review the literature on preferences for redistribution in developing countries and provide a brief overview of economic informality and welfare states in Latin America. Next, I introduce the main hypotheses. In the empirical section, I first present an analysis of outsiders’ redistributive preferences using data from the AmericasBarometer for 17 Latin American countries. I further explore this relationship by testing the effect of informality on specific social policy preferences, drawing upon survey data from Mexico. Overall, the results suggest that individuals in the informal sector oppose public spending on traditional social insurance institutions, and instead prefer alternative mechanisms of redistribution, such
as non-means-tested universal policies.

3.1 Individual Preferences for Redistribution

The literature on individual-level preferences for redistribution has followed three main approaches. A first group of studies has focused on the effect of relative income on support for redistributive policies. Taking the models developed by Meltzer and Richard (1981) and Romer (1975) as a starting point, numerous studies have sought to analyze preferences for redistribution under the median-voter framework. Given that the median voter generally has a lower income than the mean income of the population, an increase in inequality leaves the median voter worse off, increasing general demand for redistribution. The empirical implication of these models is that in democratic societies with large income inequalities, demand for redistribution will be higher. Political competition within the democratic process brings the level of public spending toward the preferred point of the median voter, ultimately leading to an increase in the size of government. Previous studies have found mixed evidence for this hypothesis. On the one hand, some studies have found a negative relationship between inequality in pretax earnings and public spending in OECD countries (Moene and Wallerstein, 2001) or that governments in more equal countries tend to redistribute more (Alesina and Glaeser, 2004). On the other, some analyses find a positive effect of income inequality on redistribution (Milanovic, 2000; Kenworthy and Pontusson, 2005). Furthermore, recent studies suggest that the effect of inequality might depend on the structure of income distribution, with middle-income voters supporting redistributive policies only when they are closer to the poor than to the rich (Lupu and Pontusson, 2011).

A second group of studies has explored the role of social identities in shaping redistributive preferences. For instance, some works suggest that religious voters are more likely to support parties embracing positions close to their preferences on the moral dimension, even though these parties advance economically conservative platforms
(De La O and Rodden, 2008), while other studies claim that religious individuals have entirely different social policy preferences (Scheve and Stasavage, 2006; Norris and Inglehart, 2004). Individual predispositions toward justice and altruism have also been analyzed. Benabou and Tirole (2006) suggest that beliefs in a just world vary greatly across individuals and contexts, with some people being more driven by ideas about the redistributive justice. Similarly, Alesina and La Ferrara (2000) find that altruism makes wealthy individuals more likely to support greater redistribution. A recent area of research analyzes the role of religion and ethnicity in redistribution policies, suggesting that the effect of income is often mediated by other factors. Some of these analyses suggest that religious and ethnic fractionalization reduces the preferred level of redistribution due to intergroup conflict (Alesina et al., 2009; Amat and Wibbels, 2009).

A third set of works has analyzed the implications of labor markets in advanced democracies for individual redistributive preferences. These studies suggest that economic self-interest shapes support for redistribution, but that this effect is conditioned by the structure of the labor market. For instance, there is evidence that socioeconomic status has a stronger effect when class issues are clearly articulated both at the political and organizational level. When union density is higher and redistributive issues are more salient, class attitude differences are clearer (Kumlin and Svalfors, 2007; Rueda and Pontusson, 2010). Other works have found that the type of industry and occupational characteristics also affect preferences regarding redistributive policies. In developed countries, individuals facing higher risk exposure at the occupational level, are more likely to support redistributive policies (Rehm, 2009). Individuals may also consider future utility depending on the level of skill specificity of their occupation and their prospects of social mobility (Iversen 2005, Benabou and Ok 2001, Piketty 1995).

Yet, extending these theoretical frameworks to other regions of the world has various limitations. The first group of works start with the assumption that governments
are indeed capable of providing welfare services and reducing inequality. Furthermore, the basic premise of the Meltzer-Richard model is the existence of a linear tax-transfer mechanism. But this is unlikely in contexts of high informality where large segments of the population are labor market outsiders and where governments have limited taxation capacity. With the notable exception of the United States, most advanced democracies have comprehensive state-led redistributive systems. In contrast, empirical evidence has shown that social insurance in developing countries remains narrow and insufficient, even in contexts of increasing economic integration and high levels of inequality (Wibbels, 2006; Rudra, 2008; Brooks, 2009; Mares and Carnes, 2009). Individuals are thus immersed in contexts with different levels of welfare provision and distinct labor markets, which may in turn affect their strategies and behavior. In fact, recent evidence suggests that the effect of income on attitudes toward redistribution tends to be weaker in less developed countries or LDCs (Dion and Birchfield, 2010; Blofield and Luna, 2011).

The second group of studies advance interesting hypotheses regarding the effect of social identities on redistributive preferences. However, these analyses need to consider that the effect of identities is often reinforced by economic and political structures. First, politicians play a role in making religious and ethnic cleavages politically salient. Previous research has shown that social heterogeneity does not necessarily drive preferences for redistribution when political elites lack incentives to link ethnic or religious identities to social policies (Freeze, 2011). In contexts where social identities have not crystallized in the form of political cleavages, other considerations might have a preeminent impact over redistributive preferences, such as the direct benefits individuals derive from social policies.

The third set of works offer interesting hypotheses about the effect of labor markets on preferences for redistribution. Yet, these approaches have limitations when applied to developing economies where labor markets are highly segmented. For instance, although perceptions about employment stability can certainly shape individual risk-
hedging strategies, these attitudes will not necessarily translate into social policy preferences if current welfare provision is limited. Individual preferences are informed by current levels of social policy supply and the actual benefits people receive from these policies. Similarly, the role of unions tend to be less relevant in developing economies. For instance, union density and the political salience of organized labor have decreased in recent years in the Latin American region (Roberts, 2002). As I explain in the following sections, large segments of the population in Latin America are not inserted in formal labor markets and do not benefit from the main social security programs in the region.

I contend that economic informality is an omitted variable in the literature on redistributive preferences in Latin America. Labor markets in the region are structurally different from the ones in developed countries, affecting the incentives and preferences of individuals regarding specific social policies. I argue that economic informality at the individual level depresses support for social security institutions, reducing the level of demand for comprehensive social policies. Workers in the informal sector lack health insurance and labor benefits, but counterintuitively, these conditions do not translate into support for increased spending in health or pension systems. By considering the effect of economic informality, this chapter seeks to advance the literature linking characteristics of the labor markets and preferences for redistribution in the developing world.

3.2 Informality and Preferences for Redistribution

As described in preceding sections, recent evidence shows that the effect of income on redistributive preferences is less determinant in developing economies, suggesting that there may be other variables shaping individual preferences over social policies in these contexts. Figure C.2 shows the contrasting effect of income on social policy preferences in both sets of countries.
Figure 3.1: Effect of Income on Preferences for Redistribution, Latin America and OECD Countries
To measure redistributive preferences, I resort to the standard question used in the literature to measure redistributive attitudes, i.e. whether the government should be responsible for reducing income differences between the rich and the poor. While individual income is a powerful predictor of redistributive attitudes in OECD countries (panel b), this is not the case for Latin American countries (panel a). Why are poorer respondents in the region as likely as wealthier respondents to support redistribution?

This puzzle shows the limitations of current theories for explaining patterns of redistributive preferences beyond advanced democracies. It is still unclear which individual and contextual factors shape social policy preferences in developing countries and how the scarcity of welfare services may translate into political behavior. I argue that economic informality plays a role in shaping redistributive attitudes and that it remains an omitted variable in the behavioral literature on welfare preferences in developing countries.

There are two main mechanisms linking economic informality and preferences for redistribution. First, informal workers and their families are simply not beneficiaries of social security institutions, which have been the major providers of social services in these countries. As I explain in the next section, health and pension benefits have been commonly tied to formal employment in the region. Therefore, while the socioeconomic characteristics of the members of the informal sector (i.e. low incomes and low-skilled jobs) might suggest that this group would favor increased spending in health and pension provision, their labor status prevents them from supporting this

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1 To produce these graphs, I dichotomize the questions measuring preferences, so that 1 equals the highest score on the given scale (agreement with redistribution) and zero otherwise. I run logit models estimating the effect of income on support for redistribution controlling for gender, age and education. I draw upon 2006 ISSP data for OECD countries and 2010 AmericasBarometer data in the case of Latin America. The ISSP question is: On the whole, do you think it should be or should not be the government’s responsibility to: Reduce income differences between the rich and poor [1. Definitely should not be; 2. Probably should not be; 3. Probably should be; 4. Definitely should be]. The AmericasBarometer question is: The national 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? [1. Strongly disagree - 7. Strongly agree].
type of social spending. Labor market dualization creates a segmentation between individuals working in the formal sector and those working in the informal sector. These groups face specific incentives and will in turn support different social policy combinations. Recent studies suggest that in industrialized democracies, labor is increasingly divided into those with secure employment (insiders) and those without (outsiders) (Esping-Andersen, 1999; Rueda, 2005, 2007). Given that in these contexts, insiders enjoy high levels of protection as a result of labor regulation and low prospects of unemployment, their policy interests and preferences differ from those of outsiders. I build on this literature but I advance an argument that links labor market segmentation to economic informality in developing economies.

The insider-outsider framework is a useful starting point for understanding the redistributive implications of labor market segmentation in Latin America. Yet, there are two key differences in how individual preferences for redistribution are formed in industrialized democracies. The first difference is that in advanced economies, insiders still constitute a sizable traditional working class enjoying a high degree of job protection and less vulnerability to unemployment. Second, insiders are politically relevant in industrialized democracies. Insiders are the core political consistency of social democrat governments. Most importantly, these governments operate in contexts of significant welfare policy provision and strong employment protection (Rueda, 2007). Social and labor policy platforms are clearly articulated by political parties, and voters express their preferences regarding the expansion or retrenchment of already existing welfare and labor entitlements. Welfare systems and the political role of labor have followed a different path in developing democracies. Class cleavages did not crystallize to the same extent as in Western democracies, and labor-party linkages have been relatively weak in the region. In fact, along with market liberalization, the region experienced a process of “programmatic dealignment” and as a result political platforms regarding social policies and labor regulation are less clear to voters. In addition, welfare systems have generally remained limited in coverage
in recent decades (Roberts, 2002, 2011). As a consequence, voters’ expectations in terms of social policy are distinct in Latin America. The labor market segmentation that is relevant for these countries is the one between formal and informal workers. Informal workers are *outsiders* of the main welfare systems in Latin America and have no incentives to support spending in pension and health services linked to social security institutions.

The second mechanism has to do with the organization capacity of informal workers. The diversity of occupations in the informal sector posits a severe collective action problem for outsiders. Higher levels of unionization has long been associated with bargaining capacity and collective action strength, as well as with the ability to mobilize workers to press for labor demands. An extensive literature focusing on advanced democracies has documented the class-based struggles over social and labor benefits that originated and strengthened welfare states (Huber et al., 1993). In these contexts, organized labor has been able to negotiate salaries and employment protection, but also press for the expansion of a variety of welfare benefits from health insurance to pension regimes.\(^2\) Labor linkages with programmatic parties on the left gave leverage and continuity to social policy demands that continue being central issues on the political agenda. Even though in Western democracies unionization rates have steadily declined in recent decades, welfare systems still have enduring sources of support, and have become the status quo that makes retrenchment more costly (Pierson, 1996). In contrast, the sharp decline of labor unions in Latin America limited the capacity of the working class to collectively voice its demands. As previously described, class cleavages eroded in many countries, even in contexts of high economic inequality (Roberts, 2002). The segmentation of the labor market into formal and informal workers further reduced the likelihood of labor organization in the region.

\(^2\) There is a large literature analyzing the effects of union structure and organization on policy and economic outcomes in advanced democracies. For an analysis on the effect of coordination and centralization of trade unions, see Golden (1993).
expansion of their labor benefits, members of the informal sector lack organization
and resources, which reduces their bargaining capacity. Furthermore, outsiders usu-
ally work erratic shifts and often do not share a common workplace with others. The
absence of labor benefits and the precariousness of many of the occupations associ-
ated with informal employment make it more difficult for workers to constitute formal
labor organizations (Centeno and Portes, 2006; Rudra, 2005; Agarwala, 2013).

Contextual conditions may reinforce the effect of informality on preferences for
redistribution. If workers perceive that economic informality is prevalent in the labor
market, expectations about potential benefits derived from social security institutions
might be lower. In a highly dualized labor market, workers in the formal sector are
probably able to anticipate their transit to the informal sector in the near future
(Fernandez-Kelly and Shefner, 2006; Levy, 2008). In contexts where the informal
sector is more prevalent, uncertainty about future labor status will increase. Indi-
viduals will thus perceive that entitlements such as health insurance and pension
benefits linked to formal employment are unstable and less valuable. Therefore, I
argue that individuals in the informal sector will be less likely to support government
involvement in providing social insurance policies. In turn, economic informality will
be associated with increased support for policies with universal coverage, which are
not tied to formal to formal employment. I expect that:

H1a: Members of the informal sector will be less likely to support government in-
volvement in institutions and programs that exclusively benefit individuals in the
formal sector.

H1b: Informal workers will favor increased public spending on universal social poli-
cies, instead of truncated policies.

H1c: Individuals living in contexts of high economic informality will be less likely
to support increased spending on health and pension benefits tied to formal em-
ployment.
3.3 Welfare Systems in Latin America

Social insurance institutions in the region were introduced in the early and mid-20th century. These emergent welfare systems sought to provide comprehensive insurance to workers and their dependents, including health services, old-age pensions, maternity leave and housing credits. Uruguay, Chile, Argentina, Brazil and Costa Rica were pioneers in establishing social security systems with high levels of coverage. Mexico, Peru, Colombia, Panama, Bolivia, Ecuador and Venezuela implemented similar programs in the 1940s and 1950s, albeit with relatively lower coverage. Other countries such as Guatemala, Honduras and El Salvador implemented social policies later on, but did not reach the same levels of provision (Mesa-Lago, 2008). From the beginning, these programs were intended to benefit workers in the private formal sector as well as employees in government institutions and public companies. Governments expected that enrollment and coverage of these contributory institutions would increase along with industrialization and economic development, as the formal sector was expected to expand gradually (Cecchini and Martínez, 2012).

However, social security institutions started facing pressure in the 1980s and 1990s. The decline of the ISI model and the subsequent economic crises constrained public finances and caused a growing deficit. At the same time, worsened economic conditions increased the level of unemployment in the formal sector. In turn, the share of the population working in the informal sector increased steadily over the years. These people were self-employed and domestic workers, but also employees at unregistered small enterprises which evaded payroll taxes and contributory payments to social security institutions. By the end of the 1990s, social insurance systems in the

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3 Differences in the timing of implementation of social security systems continue to have implications for current welfare systems in the region. While countries such as Argentina, Costa Rica, Chile and Uruguay have a more inclusive welfare model (a “stratified universalism”), countries such as Brazil and Mexico exhibit a dual regime, with great disparities in terms of protection levels across regions; and countries such as the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras and Bolivia have been characterized by even more limited and less redistributive welfare efforts (Filgueira and Filgueira, 2002)
region entered a process of retrenchment. The deteriorated state of governments’ finances, together with a series of recommendations from international institutions, led to the privatization of some areas of social security systems and decreased spending on existing services. While some governments reduced spending on social security institutions, they also introduced social programs explicitly targeted toward the poor (Cecchini and Martínez, 2012).

In recent decades, social security systems in the region have undergone a process of retrenchment that has included everything from privatization to decreased spending on existing services. In a parallel process, some governments have expanded non-contributory social programs to reach marginalized groups, which seek to make poverty-reduction compatible with fiscal discipline. While in some countries diminished contributory social security systems coexist with more recent non-contributory programs, some others have greatly expanded social services aiming at universalization. After the economic crisis of the 1990s, governments sought to diversify social spending to reach marginalized groups through targeted antipoverty programs (Haggard and Kaufman, 2008; Huber and Stephens, 2012). These programs seek to make poverty reduction objectives compatible with fiscal discipline requirements. Management efficiency and program effectiveness became top priorities of this new generation of social policies.

Poverty alleviation strategies such as conditional cash transfer programs (CCTs) were explicitly designed to target specific segments of the population, conditioning transfers to certain requirements such as enrolling children in school and getting regular health checkups for them. Yet, the adoption of poverty alleviation programs does not imply an expansion of the welfare system as a whole. According to CEPAL, while investment in CCT programs in Latin America doubled from 2000 to 2009, the proportion of the total population covered by CCTs was approximately 19.3% in 2010. In fact, these programs represent a small proportion of social policy investment
Table 3.1: Social Protection Policies in Latin America

<table>
<thead>
<tr>
<th>Type</th>
<th>Main characteristics</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Contributory</td>
<td>Social protection as part of labor benefits</td>
<td>Social security</td>
</tr>
<tr>
<td></td>
<td>Aimed at individuals in the formal sector</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Tied to formal employment</td>
<td></td>
</tr>
<tr>
<td>b) Non-contributory</td>
<td>Social protection as assistance Means-tested/CCTs</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Aimed at individuals without insurance, below certain income threshold</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Universal coverage</td>
<td>Non-means-tested programs/Universal</td>
</tr>
</tbody>
</table>

in most countries (Cecchini and Madariaga, 2011).\(^4\) Truncated welfare systems currently coexist with CCTs and other targeted programs as well as emerging universal social programs. Table 3.1 shows a description of the composition of current social protection systems in Latin America.

Contributory systems comprise the main health and pension services, while the non-contributory component includes CCTs as well as recent non-means-tested programs that do not have eligibility requirements. Social policy provision is thus highly segmented in the region and individuals’ access to programs and services is highly conditioned by their labor status.

The next sections test the effect of economic informality on preferences regarding government spending in these different types of programs at the individual level, both in a sample within Latin America and in Mexico. In Latin America, I take health and pension provision as a proxy of contributory social policy. I complement the analysis with evidence from Mexico, where I explore the effect of informality on preferences over non-contributory programs.

\(^4\) According to Cecchini and Madariaga (2011), the percentage of social investment destined for CCTs in 2009 ranged from less than 1% (Chile Solidario, started in 2002) to around 19% (Bono de Desarrollo Humano in Ecuador, started in 2003).
3.4 Evidence from Latin America

3.4.1 Dependent Variables

The analysis draws upon survey data from 17 Latin American countries as well as country-level data from official sources. I operationalize preferences for redistribution using three measures. First, I use a general indicator of redistributive preferences. The AmericasBarometer includes a question with the same wording as the standard operationalization used in the literature for OECD countries. Specifically, respondents are asked if the government should implement strong policies to reduce income inequality between the rich and the poor. The detailed question wording of these items and the distribution of responses of the original and recoded variables can be found in the appendix.

The second dependent variable is support for public provision of health services (as opposed to private provision) and the third dependent variable is a similar question asking about public provision of pensions. The three variables are coded on a scale from 1, “strongly disagree” to 7, “strongly agree.” I recoded these indicators into dichotomous variables, so that responses expressing strong support for these social policies are coded as 1 and as 0 otherwise. The distinction between these dependent variables is crucial. While the first variable measures attitudes about redistribution in general, the other two items focus on government spending on particular areas. For the most part, health services and pension systems have been provided through social security institutions in Latin America. These are specific areas of social spending that reflect the truncated structure of welfare states in the region. If my argument is correct, we should observe differences in support for spending on these public services/institutions between labor market outsiders and insiders.

3.4.2 Independent Variables

I operationalize individual economic status using two different measures: 1) a variable indicating the income decile of the respondent in each country (Income) and 2) a
wealth index based on a battery of items asking respondents if they have a series of goods in their household. The index is calculated using principal component analysis within each country. Respondents are then grouped into deciles ranging from lower (1) to higher well-being (10).

Following previous research, I control for demographic and socioeconomic characteristics. *Age* might be related with support for redistributive policies, as individuals might become more economically vulnerable at an older age. Some studies have found that women (*Female*) tend to support redistribution more than men (Jæger, 2009), although this effect might depend on their skills and/or marital status (Iversen and Rosenbluth, 2010; Luttmer, 2001). Individuals with higher levels of *education* might exhibit lower support for redistribution as their prospects of upward mobility improve. Yet, more education might also be related to more altruistic attitudes (Alesina et al., 2009). To test this relationship, I use a variable measuring educational attainment in years.

The type of community where individuals live may affect their preferences for redistribution. Support might be higher in rural areas as access to public goods and services may be insufficient (Ravallion and Lokshin, 2000), and regional economic disparities might become politicized in societies where poverty is geographically concentrated (Kaufman, 2009). I include a dummy (*Urban*) indicating whether the respondent lives in an urban locality (1) or in a rural community (0).

According to some analyses, all other things being equal, religious individuals tend to prefer lower levels of redistribution (Scheve and Stasavage, 2006; Norris and Inglehart, 2004). The AmericasBarometer surveys include a question asking about the importance of religion, ranging from “not at all important” (1) to “very important” (5).[^1]

Finally, previous research in developed countries has identified ideological factors

[^1]: I also ran the analysis using church attendance instead of religiosity measured as importance of religion (How often do you attend religious services? (1) Never or almost never - (5) More than once per week). The results remain the same using this alternative specification.
as relevant predictors of social policy preferences, with leftist orientations being highly correlated with more redistributive attitudes. Yet, some authors argue that left-right orientations might in fact be endogenous to preferences for redistribution (Finseraas, 2009). Furthermore, scholars have suggested that the meaning of ideological labels varies greatly across contexts in Latin America, depending on elite packaging, political sophistication and partisan leanings (Zechmeister, 2006). To operationalize ideology, I use an item asking about self-placement on the left-right dimension, ranging from 1 to 10. Higher values correspond to right-wing positions.

I argue that the structure of labor markets affects individual preferences for redistribution. Countries with large informal sectors are characterized by highly fragmented welfare systems, from which only a small group of insiders are beneficiaries. In contexts with high levels of economic informality, individuals might prefer lower levels of spending on social programs and institutions with a very limited coverage. To test this mechanism, I operationalize economic informality at the aggregate level by calculating its average level for each country in the survey sample.

I also include GDP per capita to control for differences in economic development among countries. Individuals living in countries with more spending capacity might perceive redistribution as more feasible. This indicator comes from the World Development Indicators, and it is calculated in constant 2005 USD. More importantly, as discussed above, a large literature emphasizes the role of inequality in preferences for redistribution. According to standard political economy models, societies with high levels of inequality should face greater pressures for redistribution (Finseraas, 2009). I test the effect of economic inequality using the Gini index from the World Income Inequality Database.

Attitudes toward redistribution and welfare provision might also depend on the extensiveness and quality of existing policy. To test this feedback effect of current welfare institutions/services, I control for the inclusiveness of the associated policy of each dependent variable. Specifically, I model support for government intervention
in reducing income inequalities (Redistribution) including the percentage reduction of inequality after taxes and transfers (% Gini reduction). In the health provision models, I control for a) the percentage of the cost of medical assistance that would be covered via out-of-pocket expenditures in each country in case of an accident or illness; and b) conversely, the percentage of the cost of medical assistance that would be covered exclusively by the government. In the pension models, I control for a) the percentage of the population over 65 years old with access to pension payments and b) the percentage of the economically active population with access to pension benefits.

3.4.3 Empirical Strategy

Given the hierarchical nature of the data, I estimate the effect of informality on preferences for redistribution using a multilevel model. I model support for increased spending in social policies considering individual-level and country-level covariates to estimate both individual and contextual effects.

3.4.4 Results

Table 3.2 shows the results of the multilevel logistic models of preferences for redistribution in Latin America.

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7 These percentages correspond to the average national-level response to the question: “If you had to go to a hospital because of an accident or illness, who would pay for the cost of your care?” Data come from the index reported by Savedoff (2009), using the Gallup World Poll (2007).


9 I use a varying-intercept model to appropriately estimate the effect of country-level variables (Gelman and Hill, 2007; Steenbergen and Jones, 2002). For each individual, the model is specified as follows:

\[ Pr(y_i = 1) = \logit^{-1}(\alpha_j + \beta_i^{informal} + X_i\beta + \epsilon_i), \quad \text{for} \quad i = 1, \ldots, n \]

\[ \alpha_j \sim N(\gamma_0 + \gamma_j^{informality} + U_j\gamma, \sigma^2), \quad \text{for countries} \quad j = 1, \ldots, 17 \]

Where \( j \) indexes the country corresponding to respondent \( i \), and \( n \) is the number of respondents in the survey sample. \( X_i\beta \) is a vector of covariates at the individual level, and \( \beta_i^{informal} \) is the main independent variable of interest. The country level intercepts \( \alpha_j \) are modeled as a function of the aggregate indicator of informality and a vector of country level covariates \( U_j\gamma \).
Table 3.2: Redistributive Preferences and Informality in Latin America

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† significant at $p < .10$; * $p < .05$; ** $p < .01$; *** $p < .001$
Standard errors in parentheses.
All estimators include weights.
The models show that controlling for income and other covariates, being a labor market outsider is associated with decreased support for policies with limited coverage. Models 1 to 3 control for income measured in deciles, while Models 4 to 6 use the wealth index based on household goods. In contrast, economic informality does not have a significant effect on general social policy preferences. That is, labor market outsiders do not seem to oppose redistribution *per se*, but do not favor spending on truncated policies.

Figure 3.2 shows the substantive effect of economic informality on preferences for health and pension spending, controlling for the covariates included in the model. A change in labor status from being a formal to an informal worker is associated with a 5.35% decrease in support for government spending on health systems. Similarly, a change of labor status out of the formal labor market is associated with a 4.56% decrease in support for government spending in pensions.

At the country level, Models 1 to 6 show that controlling for other factors (including informality at the individual level), individuals living in countries with large informal sectors are less likely to support public spending on policies with limited coverage. This confirms the hypothesis presented above that the structure of the labor markets has an effect on expectations and political preferences at the individual level. Taken together, the findings across these models provide strong evidence about the effect of economic informality on preferences both at the micro and at the macro level. Labor market outsiders prefer a lower level of spending on policies that exclude them and individuals living in countries where informality prevails will also be less likely to support truncated policies.

As expected, age is positively associated with support for increased spending on health and pension systems. The effect of gender varies across specifications. Women tend to prefer less spending on public health systems, but this effect does not extend to pensions or redistribution in general.
Figure 3.2: Effect of Informality on Social Policy Preferences in Latin America
Education does not have a significant effect on preferences for redistribution, neither in general, nor in the case of particular policies. The effect of ideology is not clear cut either. The sign of the association between rightist positions and preferences changes depending on the policies at stake. Similarly, individuals in urban localities tend to support increased spending on redistributive policies, but this effect disappears when controlling for wealth (i.e. the index of goods in the household). Although income and wealth seem to be negatively associated with support for redistribution, the significance of the effect varies across specific policies and is also sensitive to the operationalization of economic status (income or wealth).

Contrary to the relationship predicted in standard political economy models, inequality has a negative effect on preferences for redistribution at the individual level. Higher values in the country-level Gini index are associated with decreased support for spending on policies with limited coverage. Although the effect is not significant in the case of general redistributive attitudes, results show that individuals in highly unequal countries are less likely to support public spending on health and pension systems. There is no clear effect of economic development on redistributive preferences. GDP per capita only reaches significance in a few specifications.

Table 3.3 introduces specific country-level controls for each dependent variable. Model 1 estimates the effect of informality controlling for a proxy of redistributive effectiveness, i.e. the reduction of inequality at the national level after taxes and transfers. As in previous models, labor status does not seem to have a significant impact on support for government intervention in reducing inequalities, but the results show that individuals living in countries with more effective levels of redistribution tend to favor more government involvement in reducing income inequality. Similarly, Models 2 and 3 show that in those contexts where access to health services has been expanded to a larger part of the population, support for welfare systems is more extended.
Table 3.3: Redistributive Preferences and Informality in Latin America II

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† significant at p < .10; *p < .05; **p < .01; ***p < .001. (Standard errors in parentheses).
All estimators include weights.
Individuals living in countries where government services cover most of the expenditures related to illnesses and accidents tend to support increased spending on health systems. Conversely, in those countries where citizens cover health costs mostly through out-of-pocket expenditures, individuals are less likely to support existing health systems. Informality at the individual level is significant in these models. But interestingly, after controlling for the percentage of inequality reduction, the effect of country-level informality loses significance.

Models 4 and 5 focus on preferences for pension systems. Results confirm that in countries with a higher proportion of pension coverage, individuals are more likely to support increased government spending on pensions. Model 4 shows this effect for pension coverage of people over 65 years old, while Model 5 suggests that the current level of pension coverage matters as well. The effect of informality both at the individual and at the macro level remains positive and significant across these models.

3.5 Evidence from Mexico

My main argument is that labor market outsiders have a distinct demand pattern regarding redistributive policies. The previous section tests this claim using survey items asking about health and pension systems in Latin America as proxies of social policies with limited coverage in the region. To test my hypotheses more directly, I draw upon original survey data from Mexico.

Before discussing the variables and results of the analysis, the next section gives a brief overview of the structure of the welfare state and some of the current social policies in Mexico.

3.5.1 Social Policies and Informality in Mexico

There are two main social insurance institutions in the country. The Mexican Social Security Institute (IMSS) provides social security and services for private sector
workers, while the State’s Employees’ Social Security and Social Services Institute (ISSSTE) focuses exclusively on national public servants. Through these two institutions, individuals working in formal private enterprises (or governmental institutions) have access to health insurance, old-age pensions, housing credits and other labor benefits. Only formal workers are eligible for enrollment and labor benefits at IMSS and/or ISSSTE (Dion, 2008). The most recent (2010) census indicates that approximately 40% of the national population is entitled to health services at these institutions.\textsuperscript{10} A very small share of the population has private health insurance and coverage by state institutions for local government employees is also limited.\textsuperscript{11}

Besides contribution-based institutions, there is a combination of means-tested and emergent universal programs aimed at workers and their dependents in the informal and agricultural sector. According to the Mexican National Institute of Statistics and Geography (INEGI) estimates, the informal employment rate (TIL1) in the country was 59\% in December 2014.\textsuperscript{12} This rate is calculated based on: a) the proportion of individuals working in enterprises that are not formally registered (that do not pay taxes or mandatory social security contributions), and b) the proportion of workers without access to health services and labor benefits.

While some informal workers have access to non-contributory programs, none of these provides comprehensive social insurance. Oportunidades is the main conditional cash transfer program (CCT) in the country. It delivers a monthly amount of money to female heads of eligible households, who are required to take their children for regular health check-ups and attend meetings related to the program. Households are selected based upon specific criteria according to poverty thresholds. In recent

\textsuperscript{10} See: http://www.inegi.org.mx/sistemas/olap/Proyectos/bd/censos/cpv2010/

\textsuperscript{11} Only 2.8\% of the population with health insurance has a private provider. Approximately 1.2\% is enrolled in local social insurance institutions for government employees and 1.5\% in institutions for members of military/defense institutions.

\textsuperscript{12} The most recent estimate of the informal employment rate (TIL1) corresponds to the first trimester of 2014. See: http://www.inegi.org.mx/inegi/contenidos/espanol/prensa/comunicados/ocupbol.pdf
years, the government started a new program directed at individuals who are not beneficiaries of social policy programs and do not have social security coverage. Seguro Popular offers basic health care and medical attention for a list of eligible diseases. Given the large share of the population that is uninsured, enrollment in this program has increased substantially in the last five years. In 2007, the federal government started a program aimed at older adults (70+) living in rural areas. The program was expanded in 2012 to include adults living in urban areas and the age eligibility threshold was lowered to 65 years. In contrast to Oportunidades, this is an universal, non-means-tested program (NMT), meaning that any older adult is eligible for enrollment. By definition, these programs consist of a benefit paid to all individuals who qualify by citizenship once they reach a designated age (Willmore, 2007).

To summarize, as in other Latin American welfare systems, the structure of social security institutions and programs in Mexico is currently a combination of contributory programs, means-tested programs and emergent universal policies. In the next sections, I refer to IMSS benefits as an example of truncated welfare policies, to Oportunidades as a case of means-tested CCTs, and to the recent old-age pensions program as a universal policy.

3.5.2 Dependent Variables

I test the effect of economic informality on social policy preferences drawing upon individual level data from the State of Mexico. The survey included four questions regarding specific social policies in Mexico. The first one asked respondents about their preferred level of spending on IMSS. The response scale for this item ranges from “spend much less” (1) to “spend much more” (5). Given the categorical nature of this dependent variable (spending on IMSS), I estimate an ordered probit model.

The three other items asked respondents to distribute a hypothetical amount of 100 Mexican pesos among three different types of social programs/institutions: a) truncated policies (e.g. the IMSS and the ISSSTE system), b) targeted CCTs
(e.g. *Oportunidades*), and c) *universal* programs (e.g. NMT old-age pensions). Respondents allocated an amount to each of these programs, which I use as proxies of their preferences regarding spending on each of these specific policies. I run linear models to estimate the effect of informality on these three variables.

### 3.5.3 Independent Variables

To operationalize economic informality, I use a dichotomous variable that takes a value of 1 if the respondent does not have health insurance or a labor contract, and 0 if she has access to these labor benefits. The survey questions ask explicitly about health insurance provided by the employer, which is directly tied to formal employment in Mexico.

I consider a similar vector of covariates as in the cross-national models. For each respondent, I control for demographic and socioeconomic characteristics: *age, gender, type of community (rural vs. urban), religiosity*. I use an economic status measure equivalent to the one in the multilevel models for Latin America: a wealth index based on a battery of items asking respondents if they have a series of goods in their household.

### 3.5.4 Results

Table 3.4 shows the results of the models estimating the effect of informality on social policy preferences. Overall, the findings support the hypothesis that individuals in the informal sector have different preferences regarding redistributive policies. Models 1, 2, 7 and 8 show that informal workers prefer lower levels of public spending on social security institutions (*IMSS*). In contrast, members of the informal sector tend to support budget increases for universal programs (Model 3). This result holds either controlling for the wealth index, for reported income (not shown) and religiosiy. Interestingly, informality does not have an effect on the preferred level of spending regarding CCTs.
Figure 3.3: Effect of Informality on Social Policy Preferences in Mexico.
In order to better visualize the effect of informality on preferences for redistribution, Figure 3.3 shows the substantive effect of a change in labor status on support for increased spending on IMSS and the amount allocated to the non-means-tested pension program, i.e. a universal social policy. Probabilities are calculated varying labor status, while keeping all the other predictors at their means or mode values. That is, the calculation is made for a woman, living in an urban locality, with an average age and income.

The graph on the top panel shows the distributions of the difference of predicted probabilities (calculated via simulation) under two scenarios: formal and informal labor status for each category of one of the dependent variables, and support for spending on IMSS. This estimation allows us to observe the effect of informality on the probability of each outcome category with its associated uncertainty. For instance, the dotted curve (spend much more) is centered at about -0.1, that is, the difference between the predicted probability for formal and informal respondents is on average -0.1.

Someone who is in the informal labor market is less likely to support increased spending in the truncated welfare system (IMSS) compared with someone in the formal labor market, and there is a low chance that this difference is actually equal to zero. There is an opposite effect in the case of universal policies. As shown in Model 3, informal workers allocated more money to the NMT pension program. The graph on the bottom panel shows this statistically significant difference in the allocation between formal and informal workers. In contrast to respondents in the formal sector, informal workers allocated more than a third of their total budget to this program.
Table 3.4: Determinants of Social Policy Preferences in Mexico

<table>
<thead>
<tr>
<th></th>
<th>IMSS</th>
<th>Universal program</th>
<th>Budget CCTs</th>
<th>Budget Truncated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Model 1</td>
<td>Model 2</td>
<td>Model 3</td>
<td>Model 4</td>
</tr>
<tr>
<td>Outsider</td>
<td>-0.15*</td>
<td>-0.15*</td>
<td>1.89*</td>
<td>1.88*</td>
</tr>
<tr>
<td></td>
<td>(0.07)</td>
<td>(0.07)</td>
<td>(0.82)</td>
<td>(0.83)</td>
</tr>
<tr>
<td>Education</td>
<td>-0.01</td>
<td>-0.02</td>
<td>-0.28</td>
<td>-0.16</td>
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<td>(0.04)</td>
<td>(0.04)</td>
<td>(0.45)</td>
<td>(0.45)</td>
</tr>
<tr>
<td>Wealth</td>
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<td>-0.01</td>
<td>0.38*</td>
<td>0.38*</td>
</tr>
<tr>
<td></td>
<td>(0.01)</td>
<td>(0.01)</td>
<td>(0.15)</td>
<td>(0.16)</td>
</tr>
<tr>
<td>Married</td>
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<td>0.75</td>
<td>0.90</td>
</tr>
<tr>
<td></td>
<td>(0.07)</td>
<td>(0.07)</td>
<td>(0.82)</td>
<td>(0.83)</td>
</tr>
<tr>
<td>Female</td>
<td>0.04</td>
<td>0.02</td>
<td>-1.51</td>
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</tr>
<tr>
<td></td>
<td>(0.06)</td>
<td>(0.07)</td>
<td>(0.79)</td>
<td>(0.82)</td>
</tr>
<tr>
<td>Age</td>
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<td>0.00</td>
<td>-0.04</td>
<td>-0.03</td>
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<td>(0.00)</td>
<td>(0.00)</td>
<td>(0.03)</td>
<td>(0.03)</td>
</tr>
<tr>
<td>Urban</td>
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<td>-0.05</td>
<td>0.68</td>
<td>0.81</td>
</tr>
<tr>
<td></td>
<td>(0.05)</td>
<td>(0.05)</td>
<td>(0.58)</td>
<td>(0.59)</td>
</tr>
<tr>
<td>Religious</td>
<td>0.03</td>
<td>-0.21</td>
<td>-0.27</td>
<td>-0.27</td>
</tr>
<tr>
<td></td>
<td>(0.02)</td>
<td>(0.23)</td>
<td>(0.22)</td>
<td>(0.22)</td>
</tr>
<tr>
<td>(Intercept)</td>
<td>35.18***</td>
<td>34.52***</td>
<td>35.17***</td>
<td>35.35***</td>
</tr>
<tr>
<td></td>
<td>(2.61)</td>
<td>(2.65)</td>
<td>(2.42)</td>
<td>(2.46)</td>
</tr>
</tbody>
</table>

**Notes**

- AIC: 3082.26, 3048.88
- Log Likelihood: -1530.13, -1512.44
- No. obs.: 1,148, 1,134
- R²: 0.02, 0.02, 0.02, 0.02, 0.01, 0.01
- Adj. R²: 0.01, 0.01, 0.01, 0.01, 0.01

† significant at p < .10; *p < .05; **p < .01; ***p < .001. Standard errors in parentheses.

All estimators include weights.
Socioeconomic variables do not appear as relevant factors in explaining social policy preferences. There is no significant effect of economic status measured either as income or as the household goods index. Education only reaches significance in the case of CCTs’ budget (it has a negative effect).

Taken together, these results confirm the findings in the previous section. Individuals in the informal sector are less likely to support social insurance institutions/programs, and instead favor spending on universal social programs.

These results indicate that even after controlling for income, informality is a relevant cleavage explaining redistributive demands in the Latin American region. Labor markets in these countries are currently divided into insiders and outsiders and the empirical results suggest that each group prioritize social spending differently.

3.6 Robustness checks

To make sure that the main results are not dependent on particular model specifications or observations, I conducted a series of robustness checks. First, given that multilevel model coefficients might be sensitive when there are a small number of second-level units, I re-estimate the effect of informality at the individual level on support for spending on health services. Specifically, I ran Model 6 in Table 3.2, leaving out the observations of one country at a time. I then extracted the coefficients of informality both at the individual and at the macro level.

Figure 3.4 shows the estimated coefficients of informality at the individual and at the macro level when a given country (indicated on the x-axis) is left out of the model (other variables’ coefficients are not shown). Black lines correspond to individual-level coefficients while gray lines indicate macro-level coefficients. The graph shows that the effect of informality at the individual level (black lines) holds up independently of the sample of countries used in the estimation. Its impact is negative and significant in all models. At the macro level (gray lines), the effect of informality remains negative and significant when leaving out individual countries, and only appears to be sensitive
to the exclusion of Costa Rica, Uruguay and Venezuela. These results suggest that the impact of informality on redistributive preferences is robust, regardless of the specification.

I also estimated models replacing the dependent variables with similar indicators but recoded on the 1-7 range used in the original questions. General results for informality at the individual level remain unchanged. Only in one specification (replicating Model 3 in Table 3.2) informality loses significance. Yet, the effect of informality at the national level is more sensitive to this alternative codification: in the two models of health provision it loses significance. We must remember, however, that there is little variation in the responses on these items, with the majority of the observations concentrating on the higher end of the scale. This poses more difficulties when trying to model these variables in their full scale.

Taken together, the results of these robustness tests give confidence about the effect of labor status at the individual level, suggesting that labor status does condition the demand for welfare provision and specific combinations of social policies.
3.7 Conclusion

Although various studies have emphasized the importance of economic informality for economic development and productivity, we still know little about the political implications of the prevalent informal sectors in many Latin American countries. The findings in this chapter attempt to contribute to the literature on preferences for redistribution by incorporating the crucial dimension of informal labor status into the analysis. Traditional models in political science presuppose that voters take into account what they contribute to and receive from the state when evaluating parties’ political platforms. However, in many developing countries, these crucial assumptions preceding individual preferences are simply missing.

I argue that labor market outsiders have distinct preferences regarding the redistributive role of the state. Specifically, I contend that individuals in the informal sector will be less likely to support increased spending on social insurance policies and institutions. The results suggest that economic informality, both at the individual and at the macro level, in fact debilitates support for government involvement in pension and health provision.

The findings open avenues for future research. First, the causal mechanism outlined here might help explain the weak relationship between income and social policies preferences. The evidence suggests that economic informality is a crucial dimension shaping low-income voters’ preferences for redistribution in the developing world. Second, the individual-level results presented here might have larger implications in terms of the strategies of governments and political parties. If voters in the informal sector oppose social public spending via social security institutions, governments might have fewer incentives to expand the tax base of contributory programs and invest in comprehensive social policies.
Partisanship and Labor Market Outsiders

The development of stable party systems is a crucial component of democratic consolidation, which remains a challenge in many developing countries. Stable linkages between citizens and political parties are relevant because they allow the integration and channeling of diverse interests in society. Strong party systems have been associated with regime legitimacy (Diamond et al., 1989), the quality of democracy (Kitschelt, 1999; Mainwaring, 1998), and higher barriers of entry for populist and demagogic leaders (Tavits, 2005). Party identification might also be beneficial for voters and parties when electoral competition develops around political parties (Aldrich, 1995). In contrast, when voters are weakly attached to parties, long-term policy commitments are less likely.

While Latin American democracies have been relatively stable since the third wave of democratization, the generally low levels of support for parties in power suggests that partisan attachments are still fragile in the region. Although partisanship erosion in Venezuela and Argentina are prominent examples of this phenomenon, there are significant differences in individual levels of party identification within countries (Lupu, 2013; Morgan, 2011; Magaloni, 2005). What accounts for the variation in individual partisan attachments in the region?
According to a vast literature in sociology and political science, party systems emerge and crystalize around enduring social cleavages (Lipset and Rokkan, 1967; Bartolini and Mair, 1990; Rueschemeyer et al., 1992). These cleavages reflect economic interests, which are traditionally derived from voters’ social class. In turn, the notion of class structure rests upon the assumption that one’s occupation and position in the income distribution will determine one’s preferences along the traditional left-right/redistributive dimension (Meltzer and Richard, 1981; Bartolini and Mair, 1984). Parties are expected to develop political platforms attending to these preferences, seeking to strengthen their linkages with particular constituencies by representing their economic interests.

However, these visions of democracy implicitly suppose that individuals are inserted in formal labor markets and that class cleavages will largely be determined as a function of what they contribute to and receive from the state. That is, these models assume that individuals consider the trade-off between paying taxes and receiving benefits when choosing among political platforms and parties. Yet, this does not work for large segments of the electorate in Latin America, where a sizable part of the labor force is in the informal sector. These voters do not pay employment-related taxes and have limited access to public benefits. This chapter explores the effect of economic informality on partisanship. I contend that given that informal workers are outsiders of the main social security systems and thus not clear beneficiaries of welfare benefits, they will not have a clear orientation when it comes to the redistributive dimension. I test this mechanism at the individual level and show that economic informality weakens partisan attachments.

The chapter is organized as follows. I first examine the literature on party identification. Next, I introduce economic informality as a determining factor explaining partisan attachments in new democracies. Then, I explore the patterns of party identification in Latin America in the recent years. In the empirical section, I present an analysis of party identification at the individual level using data from the Amer-
icasBarometer for 17 Latin American countries. Overall, the results suggest that individuals in the informal sector have weaker partisan attachments and trust less in political parties.

4.1 Theories of Party Identification

A vast literature in political science and social psychology has focused on the origins and development of party identification. There are two predominant views regarding its determinants. A first strand of the literature conceives partisanship as a long-term psychological attachment with a party. Early work on this subject suggested that party identification develops early in life and is highly stable over time. (Campbell et al., 1980; Miller, 1976). Scholars in this tradition thought of partisanship as a strong identity, which parents were able to pass on their children through socialization in the private realm. Party ID was also perceived as independent from vote choice, with individuals sometimes switching their vote to a different party without changing their party identification. Later studies argued that partisanship is in fact endogenous and thus an accumulation of one’s political experiences as well as personal evaluations of politics (Fiorina, 1981; Franklin and Jackson, 1983). In this view, party identification is an information shortcut that voters can continuously update and adjust according to rational evaluations. Individuals use a “running tally” to evaluate and choose a specific party close to their ideological position. Thus, while some scholars suggest that partisanship is an “unmoved mover” (Green et al., 2005), others argue that electoral volatility contradicts the idea of party identification as an enduring political attachment (Thomassen, 1976). Taken together, these psychological and behavioral approaches agree that partisanship is a core determinant of political behavior and that stable democracies should exhibit similar levels of party identification. Yet, in many of these works there is the assumption that parties in fact structure meaningful political platforms appealing to specific groups of voters, who then develop ideological or psychological attachments to specific parties. Also,
it is commonly supposed that parties (and their ideological platforms and policy offers) are stable over time. However, political parties in many developing countries lack the necessary level of institutionalization to create strong intergenerational partisan identities. In addition, political platforms and parties’ positions on key issues are sometimes volatile and unclear for voters (Lupu, 2013). These factors make it difficult to understand partisanship as a purely individual psychological attachment independent from the political context.

A second strand of the literature has explored the connection between the economic and social characteristics of societies and the political identities of their citizens. A large number of studies have studied the implications of social identities, economic fluctuations and institutions in stabilizing party identification (Evans and Whitefield, 1993; Roberts and Wibbels, 1999; Huber et al., 2005). In these accounts, political attachments are derived from preexisting social structures that are important for voters. Group divisions based on social identities and interests crystallize over time into cleavages that often become politically salient. Given that political parties have incentives to organize their political platforms around salient cleavages in society, partisan alignments are reinforced through democratic electoral competition. Traditionally, the literature has focused on three main electoral cleavages that determine partisan alignments to a great extent across societies: religion, ethnicity and class. The role of religion and ethnicity in the formation of partisan attachments is particularly important in societies with salient historical divisions along these dimensions. Yet, in the case of relatively homogeneous contexts we might expect religion and ethnicity to play a less central role in shaping partisan identities. There are two reasons for this. First, individuals do not necessarily think about political issues and platforms in the light of ethnicity and religion if these dimensions are not salient. Second, political parties have fewer incentives to frame their political platforms along these lines when these particular historical cleavages are absent. As I further discuss in subsequent sections, ethnic and religious cleavages have not been predominantly salient for electoral
competition in the majority of Latin American countries (Dix, 1989).

Aside from these dimensions and particularly relevant to this work, economic and class cleavages have had an especially prominent role in the literature. Previous studies have suggested that in advanced democracies, political preferences are strongly influenced by occupational structure (Lipset and Rokkan, 1967). Workers favor higher levels of redistribution and insurance, labor benefits and protection from risks, and these interests determine their position on the left-right ideological scale. The logic underlying this framework is that workers consider the trade-off between paying taxes and receiving benefits and services from the government (a logic also implied by Meltzer and Richard (1981)). This fundamental division of interests is expected to be crucial for understanding the interaction between redistributive demands and partisan alignments. However, we know little about how workers articulate their demands or the implications for party strategies when large segments of the population work without labor and health benefits and do not pay employment-related taxes. The Latin American region is an interesting example of stark economic inequalities that have not translated into clear class cleavages. The process of economic liberalization following the collapse of the import-substitution industrialization (ISI) model was a parallel process to the expansion of the informal sector in developing countries. The decline of labor unions limited the capacity of the working class to collectively voice its demands and weakened parties of the left with bases in the labor movement. Consequently, class cleavages eroded in many countries, even in contexts of high economic inequality. The dualization of the labor market implied that in some countries many low-income voters became outsiders of the main social security systems. Economic liberalization and the subsequent erosion of corporatist institutions triggered a process of territorialization of politics (Roberts, 2002). Parties had to establish territorially based networks as a substitute for class-based corporatist organizations.

As I explain in the following sections, economic informality weakens class cleav-
ages and erodes partisan attachments. Specifically, I argue that individuals in the informal sector will be less likely to identify with political parties, independently of their socioeconomic status.

4.2 Economic Informality and Partisanship

I claim that a crucial element having an impact on partisanship is the level of net benefits an individual receives from the state. As discussed in the previous section, in new democracies parties and political platforms are less institutionalized, making it difficult for voters to establish party identities as purely psychological attachments and pass them on from one generation to the next. In addition, democracies in developing countries are often more recent, and party identities are less solidified. In contrast, partisanship in these contexts responds more to voters’ rational evaluations (Brader and Tucker, 2001). First, individual party attachments are based on voters’ perceived relationship between their beliefs and interests, and parties’ platforms and performance (Campbell et al., 1980; Fiorina, 1981; Miller and Shanks, 1996). These evaluations do not necessarily require a high level of political sophistication. Instead, voters use available information to determine if any political party represents their interests and will be likely to implement policies that benefit them.¹ Second, voters decide to identify with a given party only if the utility derived from this exceeds a certain alienation threshold. This threshold can be modeled as a function of factors theoretically expected to predict turnout (usually education, race or political efficacy) (Adams et al., 2006). If voters perceive that parties’ political programs contribute little to their personal welfare, the likelihood of identifying with a political party will be low and they will remain alienated from the political process. Individuals in the informal sector receive limited net benefits from government’s social programs. These benefits (or the lack thereof) directly affect their expected utility derived from

¹ As Brader and Tucker (2001) argue, voters will identify with a party only if it is not predominantly inconsistent with their preferences. This relaxes the assumption that voters have to choose the party that is predominantly or most consistent with their preferences.
choosing one party over another. To the extent that informal workers have low expectations about redistributive policies, they will underestimate political parties capacity to address their interests and needs.

Although there are few analyses on how the informal sector conditions electoral politics, recent work on outsider/insider politics in the OECD offers valuable insights. In advanced democracies labor is increasingly divided into those with secure employment and those without. This division has generated a group of insiders, insulated from the fluctuations of the level of unemployment; and a group of outsiders, lacking labor stability and protection from economic shocks (Rueda, 2005, 2006). While the characteristics of the labor market and the modes of political competition are distinct in OECD countries, the theoretical distinction between labor market outsiders and insiders is helpful for understanding the relevance of labor force dynamics for political behavior, partisan strategies and ultimately political outcomes.²

I argue that economic informality has an effect on voters attachments to political parties. Voters try to maximize the benefits of political participation, and specifically the net benefits they receive from the state (i.e. their public goods consumption or redistributive policies). An individual’s decision to participate is a function of the perceived probability that parties will represent the interests of the group of voters whom she considers similar to herself. However, individuals might opt to disengage from the political process when they anticipate that there is a low probability that parties will implement policies representing their interests. Voters might become alienated as a result of candidates platforms being too distant from the voter to compensate for the cost of participating. Most informal workers are not beneficiaries of welfare systems, and their income is not properly taxed by the state, in clear contradiction with the assumptions of traditional models of redistribution and democracy (Meltzer and Richard, 1981).

² I use the terms outsider (of the formal labor market) and informal worker/members of the informal sector interchangeably.

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At the individual level, I expect voters in the informal sector to have weaker partisan attachments. I contend that outsider status will have an effect on the propensity to participate electorally, increasing the alienation threshold of these voters. Economic informality may also be relevant at the macro level. If workers perceive that economic informality is prevalent in the labor market, their partisan attachments might be weaker. There are exit and exclusion factors in informal labor markets, and workers might end up in the formal or the informal sector as macroeconomic conditions vary Levy (2008). That is, in a highly dualized labor market, workers in the formal sector are probably able to anticipate their transit to the informal sector in the near future (Fernandez-Kelly and Shefner, 2006). I expect that in those countries where the informal sector is more prevalent, uncertainty about future labor status will increase, lowering the prospects of strong ideological linkages between voters and political parties. The effect of informality at the individual level can be mediated by the net benefits voters receive. In recent decades social policies in Latin America have consisted more of targeted expenditures and conditional cash transfers programs (CCTs) instead of broad programs relying on progressive personal income taxes (Williamson and Kuczynski, 2003). Participation in CCTs may have an impact on the alienation threshold of outsiders. By increasing the net benefits obtained from the state, I expect CCTs to lower the level of alienation of the members in the informal sector and thus moderate the effect of economic informality.

H2a: Controlling for other factors, voters in the informal sector will be less attached to political parties, and thus will exhibit a lower level of party identification.

H2b: In countries with large proportions of informal workers, individual partisanship will be weaker.

H2c: The effect of economic informality on party identification at the individual level will be moderated by alternative net benefits received from the state, such as CCTs.
4.3 Party Identification in Latin America

In contrast to developed democracies, party systems across Latin America did not emerge from clear ethnic, religious or cultural cleavages, and their trajectory has not been continuous. Instead, Latin American countries have relied more on catch-all structures, developing pragmatic linkages with voters without necessarily appealing to specific cleavages in society (Dix, 1989; Roberts, 2002). Party alignments in the region have thus been less stable and also characterized for relatively high levels of electoral volatility (Hawkins, 2010; Morgan, 2011; Lupu, 2013).

There is considerable variation in the levels of party identification across and within countries. Figure 4.1 gives a glimpse of the distribution of partisan attachments in the region. Panel (a) reports the proportion of respondents who identify with a political party in 17 Latin American countries. The figure shows that while more than half of the respondents identify with a political party in countries such as Uruguay and Costa Rica, around 20% or less of respondents have partisan attachments in countries such as Argentina, Guatemala, Ecuador or Chile.

Analyzing partisanship is especially relevant because high electoral volatility and party breakdown can be seen as a reflection of weak attachments between voters and political parties (Tavits, 2005). Panel (b) plots the level of legislative electoral volatility against average levels of party identification. It shows that there is substantial variation in the region in terms of party support and also that on average, those countries with higher levels of electoral volatility tend to have lower levels of party identification (Guatemala, Peru) and vice versa (Uruguay, Costa Rica).

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3 Specifically, I use the following question from the 2010 Americas Barometer (LAPOP): VB10. Do you currently identify with a political party? (1) Yes (2) No. Volatility indicators correspond to the most recent estimate available in the data compiled by Alcántara (2010).
(a) Party ID in Latin America

(b) Figure 4.1: Party Identification Patterns in Latin America
What explains the varying levels of partisanship in the Latin America? I argue that in the absence of relevant sociocultural cleavages, economic considerations take a predominant place in shaping voters' individual linkages with political parties. I claim that in these contexts, economic informality helps explain the erosion of party attachments within countries.

In the next sections I explore the relationship between informality both at the individual and at the macro level, and provide evidence suggesting that being in the informal sector decreases the likelihood of establishing partisan attachments.

4.4 Empirical Evidence

4.4.1 Dependent variable

Partisanship is operationalized using a classic question on party identification (Do you currently identify with a political party?). Together with questions asking about party closeness (Barnes et al., 1988) this is a standard measure of party attachments at the individual level. The resulting variable is dichotomic, taking a value of 1 if the respondent identifies with a political party and 0 otherwise. As shown in Figure 4.1, there is substantial variation in the average levels of party identification in the region. While in Ecuador only 16% of the respondents identify with a political party, 66% of Uruguayans express some sort of partisan attachment.

4.4.2 Independent Variables

The key independent variable is economic informality. I measure informal labor status with a dichotomous variable taking a value of 1 if the respondent does not have access to health care and 0 otherwise. Following previous research, I control for demographic and socioeconomic characteristics. For each respondent, I control for age, gender, income, type of community (rural vs. urban), religiosity, ideology [right wing], political interest and a variable indicating if the respondent receives CCTs.4

The question on CCTs was included in a selection of countries: Brazil, Colombia, Ecuador, Bolivia, Mexico, Peru, Venezuela, Chile, Argentina and Uruguay.
There is variation in the levels of informality among Latin American countries. The aggregate level of economic informality might shape individuals’ behavior even if they are not currently in the informal sector. If employment status is not stable, an individual will not be certain about whether she will continue in a formal job in the future. In the case of countries with high levels of economic informality, we would expect people to update their preferences and re-evaluate their preferences regarding political parties even if they are currently employed in the formal sector.

I use two indicators of economic informality. First, I rely on the country percentages of LAPOP’s item on social insurance (the same operationalization I use at the individual level). Second, I draw upon on recent estimates on employment in the informal economy, published by the International Labour Organization (ILO) in a comprehensive report for 47 medium and low-income countries (ILO, 2011).

I include GPD per capita to control for differences in economic development among countries. These data come from the World Development Indicators. Previous studies have also emphasized the importance of considering not only the level of economic development but also the distribution of wealth within each country. I measure economic inequality using the Gini index. Data come from the World Income Inequality Database.

I also consider the role of CCTs at the macro level. As discussed above, in recent years CCTs have been a prominent social policy strategy among Latin American governments, and are now available in 18 countries. Yet, the programs differ in terms of their coverage, the strictness of their rules, and the benefits they provide to their members. For instance, while in Ecuador the main CCT program, Bono de Desarrollo Humano, covers approximately 44% of the population, the Peruvian program Juntos covers only 7.6%. Given that receiving CCTs could mitigate the impact of informality, the scope of these programs at the national level might also have an effect on partisanship at the individual level. I test the effect of three indicators: percentage of the total population covered, percentage of the total population in
poverty covered, and CCTs’ size as a share of GDP. Data come from Cecchini and Madariaga (2011).

4.4.3 Empirical Strategy

I estimate the effect of informality on the probability of identifying with a political party using two models. First, I test the effect of individual level predictors on the party ID variable. Given the dichotomous nature of the dependent variable across specifications, I use a logit model. All models include country fixed effects to account for country specific factors that are not controlled for by the independent variables in the models.

In the second part of the analysis, I model party identification considering macro-level variables as well. Given the hierarchical nature of the data, I use a varying-intercept model to appropriately estimate the effects of country-level variables (Gelman and Hill, 2007; Steenbergen and Jones, 2002).\(^5\)

4.5 Results

Table 4.1 shows the results of the maximum likelihood logistic model of party identification. Overall, the results of Models 1 to 6 provide support for my argument. Controlling for other individual level factors, being in the informal sector is negatively associated with partisanship.

In order to have more meaningful estimates of the impact of economic informality, I calculate its substantive effect for quantities of interest.\(^6\) Panel a) in Figure 4.2

\(^5\) For each individual, the model is specified as follows:

\[
Pr(y_i = 1) = \text{logit}^{-1}(\alpha_j[i] + \beta_i^{\text{informal}} + X_i\beta + \epsilon_i), \quad \text{for} \quad i = 1, ..., n
\]

\[
\alpha_j \sim N(\gamma_0 + \gamma_j^{\text{informality}} + U_j\gamma, \sigma^2), \quad \text{for countries} \quad j = 1, ..., 17
\]

Where \(j[i]\) indexes the country corresponding to respondent \(i\), and \(n\) is the number of respondents in the survey sample. \(X_i\beta\) is a vector of covariates at the individual level, and \(\beta_i^{\text{informal}}\) is the main independent variable of interest. The country level intercepts \(\alpha_j\) are modeled as a function of aggregate indicators of informality and a vector of country level covariates \(U_j\gamma\).

\(^6\) The graphs plot a thousand predicted probabilities generated via simulation for each scenario.
shows an individual’s probability of identifying with a political party (top panel) at different levels of income. The calculations were based on the models above, controlling for significant covariates and including country fixed effects. More importantly, the graph compares these predicted probabilities for two identical respondents: one in the informal sector (dashed line), and one in the formal sector (black line). All other variables were kept at their means (or modes, in the case of dichotomous variables). The figure shows that at all levels of income, individuals in the informal sector are less likely to identify with a political party.

Holding all other variables at their means and median values, simulations estimate that a change in labor status from being a formal to an informal worker is associated with a 9% decrease in the likelihood of identifying with a political party. This result suggests that economic informality indeed weakens partisan identities among voters. Net of income, ideology or political sophistication, individuals in the informal sector tend to feel less attached to political parties.

Interestingly, CCTs do appear to have a mitigating effect. Model 4 shows that those respondents who are beneficiaries of CCT programs are more likely to have ties to political parties, and this effect clearly lessens the impact of informality. The graph on panel b) in Figure 4.2 compares the probability of party identification of a CCT recipient (gray line) to that of a non-recipient (black line). An individual with identical characteristics appears to be more likely to identify with a political party if she receives CCT benefits. Yet, given the slight overlap between the confidence intervals of both types of respondents, this effect is less certain.
Table 4.1: Economic Informality and Party Identification in Latin America

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Standard errors in parentheses
† significant at $p < .10$; *$p < .05$; **$p < .01$; ***$p < .001$

All estimators include weights and fixed effects.
Figure 4.2: Probability of party identification conditioned by informal status and CCT participation, by income decile
Income and Age are positively associated with party identification across all models. In contrast, religiosity (Models 3 to 5) does not appear to have an effect on partisanship in this cross-national Latin American sample. Gender (Female) has a negative effect on partisanship in Models 1 to 3, but the variable loses significance when controlling for additional covariates. Models 3 to 5 introduce ideology and political interest variables. Respondents identifying as right wing appear to have weaker partisan attachments, while those who are more interested in politics are more likely to identify with a political party.

Table 4.2 presents the tests of the relationship between partisanship and economic informality both at the individual and at the contextual level. In these models, I include the same individual level predictors discussed in the previous models and add the country level predictors described in the data section. The models give general support for the argument on the effect of the economic context on the likelihood of identifying with a political party.

Controlling for other factors (including informality at the individual level), people who live in countries where economic informality is prevalent seem to be less likely to identify with a political party. Informality estimates from ILO, La Porta and Shleifer (2008), and LAPOP have a negative and statistically significant impact on partisanship at the individual level.

The effect of economic informality at the individual level remains robust, as in the previous specifications. Both the level of inequality and the level of economic development appear to have a positive effect on partisanship. In sum, the evidence provided by these models suggests that economic informality, both at the individual and at the macro level, erodes partisan attachments among voters in Latin America.
Table 4.2: Party Identification and Informality, with Country-Level Covariates

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† significant at \( p < .10 \); * \( p < .05 \); ** \( p < .01 \); *** \( p < .001 \). (Standard errors in parentheses).
All estimators include weights.
Table 4.3 shows three models estimating the effect informality on partisanship controlling for CCTs’ coverage at the macro level. Model 1 tests the effect of CCT’s coverage using the percentage of the total population covered, Model 2 uses the percentage of total population in poverty covered, and Model 3 uses CCT’s size as a share of GDP. The effect of informality at the individual level remains robust across these alternative specifications. Individuals in the informal sector are less likely to establish partisan attachments regardless of the scope of the scope conditional cash transfer programs in their countries. The effect of informality at the macro-level also remains negative and significant in all models, suggesting that the despite the expansion of some CCT programs in the region, the size of the informal sector is a crucial factor undermining partisanship prospects for a large part of the population.

Contrary to the counteracting effect observed at the individual level, CCTs’ scope at the national level appears to be inversely related with party ID. This result suggests that the mitigating effect of CCTs might be specific to their recipients, without necessarily having an overall generalized effect on individual partisanship for all voters. Nonetheless, this finding would need to be retested using additional specifications, ideally with alternative indicators on CCTs’ coverage.

4.6 Economic Informality and Trust in Political Parties

The central argument in this chapter is that economic informality reduces the likelihood of establishing strong partisan linkages. The previous section tests this claim estimating the direct effect of economic informality on party ID at the individual and at the macro level. The results show evidence of the undermining effect of informality across specifications and controlling for a variety of relevant covariates at both levels.
Table 4.3: Party Identification and CCT Coverage

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Standard errors in parentheses
† significant at $p < .10$; *$p < .05$; **$p < .01$; ***$p < .001$

All estimators include weights.
In this section I test an additional implication of my argument. The discussion above suggests that members of the informal sector are less likely to identify with a political party because they have limited expectations regarding political platforms and potential policy benefits associated with having these parties in office. An observable implication of this argument is that individuals in the informal sector will also be less trustful of political parties. To test this relationship, I run a series of additional models estimating the effect of informality on trust in political parties. As in previous models, I include variables both at the individual and at the national level. I use a varying-intercept model to appropriately estimate the effects of country-level variables.

4.6.1 Dependent Variable

Trust in political parties is operationalized using an item in LAPOP 2010 asking respondents how much they trust political parties in their country. The variable is coded on a scale from 1 “not at all” to 7 “a lot.” Levels of trust in political parties also vary substantially within and across countries. While in Uruguay the mean trust score is around 4.06, in Ecuador is only 2.62.

4.6.2 Results

Table 4.4 shows the results of the models on trust in political parties. The statistically significant coefficient (p<0.05) for the economic informality variable at the individual level indicates that being in the informal sector, reduces the probability of trusting political parties. Models 1 and 2 control for respondents’ reported level of income, while Models 3 and 4 use a wealth index based on household assets. Models 2 and 4 control for two context-level variables: inequality and GDP per capita.

---

7 The exact question is [To what extent do you trust the political parties?] Responses are given on a scale of 1-7
Table 4.4: Economic Informality and Trust in Political Parties

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Individual-level variables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal</td>
<td>-0.06* (0.03)</td>
<td>-0.07* (0.03)</td>
<td>-0.06* (0.03)</td>
<td>-0.06* (0.03)</td>
</tr>
<tr>
<td>Age</td>
<td>0.00 (0.00)</td>
<td>0.00* (0.00)</td>
<td>0.00 (0.00)</td>
<td>0.00* (0.00)</td>
</tr>
<tr>
<td>Female</td>
<td>0.00 (0.02)</td>
<td>0.01 (0.02)</td>
<td>0.00 (0.02)</td>
<td>0.01 (0.02)</td>
</tr>
<tr>
<td>Education</td>
<td>-0.02*** (0.00)</td>
<td>-0.02*** (0.00)</td>
<td>-0.01*** (0.00)</td>
<td>-0.01*** (0.00)</td>
</tr>
<tr>
<td>Urban</td>
<td>-0.18*** (0.03)</td>
<td>-0.17*** (0.03)</td>
<td>-0.17*** (0.03)</td>
<td>-0.16*** (0.03)</td>
</tr>
<tr>
<td>Income</td>
<td>0.02*** (0.01)</td>
<td>0.02** (0.01)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wealth</td>
<td></td>
<td></td>
<td>0.00 (0.00)</td>
<td>0.00 (0.00)</td>
</tr>
<tr>
<td></td>
<td>Country-level variables</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informality</td>
<td>-0.63 (0.45)</td>
<td>-0.67 (0.69)</td>
<td>-0.72 (0.45)</td>
<td>-0.78 (0.68)</td>
</tr>
<tr>
<td>Gini</td>
<td>0.01 (0.02)</td>
<td></td>
<td>0.01 (0.02)</td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>0.00 (0.00)</td>
<td></td>
<td>0.00 (0.00)</td>
<td></td>
</tr>
<tr>
<td>(Intercept)</td>
<td>3.80*** (0.29)</td>
<td>3.31* (1.43)</td>
<td>3.88*** (0.29)</td>
<td>3.45* (1.40)</td>
</tr>
<tr>
<td>AIC</td>
<td>97671.53</td>
<td>93559.28</td>
<td>108297.52</td>
<td>103207.35</td>
</tr>
<tr>
<td>BIC</td>
<td>97753.24</td>
<td>93656.82</td>
<td>108380.26</td>
<td>103306.05</td>
</tr>
<tr>
<td>Log Likelihood</td>
<td>-48825.76</td>
<td>-46767.64</td>
<td>-54138.76</td>
<td>-51591.67</td>
</tr>
<tr>
<td>No. obs.</td>
<td>26142</td>
<td>25043</td>
<td>28964</td>
<td>27600</td>
</tr>
<tr>
<td>No. groups: country</td>
<td>17</td>
<td>16</td>
<td>17</td>
<td>16</td>
</tr>
</tbody>
</table>

Standard errors in parentheses

† significant at \( p < .10 \); * \( p < .05 \); ** \( p < .01 \); *** \( p < .001 \)

All estimators include weights.
The negative effect of economic informality at the individual level on trust in political parties remains robust across all models, controlling for socioeconomic indicators at both levels. Interestingly, informality does not seem to have an effect at the macro level. This suggests that levels of trust at the individual level are not necessarily conditioned by the size of the informal sector.

Nonetheless, the robust result at the individual level is consistent with the findings presented in the previous sections. Members in the informal sector seem to have lower expectations regarding the role of political parties as entities representing their interests. If individuals outside the formal labor market tend to trust less in the role of parties, ideological linkages will be less likely. The discussion above suggests that this is indeed the case.

4.7 Robustness Checks

As a robustness exercise, and to check for sensitivity to specific second-level units, I re-estimated the effect of informality on party identification varying the group of countries included in the sample. I ran Model 2 in Table 4.2, leaving out the observations of one country at a time. I then extracted the coefficients of informality both at the individual and at the macro level.

Figure 4.3 shows the estimated coefficients of informality at the individual and at the macro level when a given country (indicated on the x-axis) is left out of the model (other variables’ coefficients are not shown). Black lines correspond to individual-level coefficients while gray lines indicate macro-level coefficients. The graph shows that the negative effect of informality at both levels remains robust regardless of the sample of countries used in the estimation. These results provide additional evidence that labor status indeed weakens partisan attachments, and that this effect is not sensitive to the number of second-level units.
4.8 Conclusion

Traditional models in political science presuppose that voters take into account what they contribute to and receive from the state when evaluating parties’ political platforms. However, in many developing countries, these crucial assumptions preceding voters’ linkages to political parties are simply missing. I argue that labor market outsiders will be less likely to develop partisan attachments.

Given that informal workers are not obvious beneficiaries of the main welfare programs, party identification along the redistributive dimension will be less likely. Individuals in the informal sector receive limited net benefits from government’s social programs. These benefits (or the lack thereof) directly affect their expected utility derived from choosing one party over another. The results suggest that in fact, economic informality, both at the individual and at the macro level, debilitates partisan attachments. While CCT benefits seem to lessen this negative effect, it is unclear if large-scale CCTs are necessarily associated with a more engaged citizenry. Results also show that informality reduces voters’ trust in political parties. Taken together,
the findings presented in this chapter suggest a politically alienating effect of economic informality. Labor market outsiders seem to have lower expectations regarding the role of political parties as entities representing their interests. As a consequence, they opt to disengage from the electoral process when they anticipate that there is a low probability that parties will implement policies benefiting them.

The causal mechanism outlined here suggests that voters are particularly sensitive to social policy benefits, which complements the findings on the previous chapter, analyzing how outsiders form their preferences for redistribution. The micro-level mechanism tested here has greater implications in terms of the strategies of political parties. If voters in the informal sector become indifferent to political parties or skeptical of redistributive policies, parties might opt for non-programmatic appeals when approaching this segment of the electorate. The next chapter addresses this exact question. It explores how parties respond to voters’ behavior in contexts of extended informality, where programmatic platforms are costly and uncertain in terms of electoral benefits.
Why are clientelistic linkages more prevalent in some contexts than in others? And how do economic factors shape clientelistic political strategies? A vast body of work has focused on the dynamics of non-programmatic exchanges in new democracies. The literature has extensively analyzed the strategic choices of political parties, brokers and voters engaging in clientelism (Fox, 1994; Auyero, 1999, 2000; Kitschelt, 2000; Brusco et al., 2004; Calvo and Murillo, 2004; Stokes, 2005; Stokes et al., 2013; Nichter, 2008). Less is known about the structural economic conditions that contribute to the resilience of clientelistic linkages in developing economies. This chapter analyzes the effect of economic informality on clientelism and follows other work exploring how contextual factors might condition politicians’ non-programmatic strategies (Remmer, 2007; Magaloni et al., 2007; Kitschelt and Wilkinson, 2007; Bustikova and Cordeanu-Huci, 2009; Weitz-Shapiro, 2012).

Developing countries have undergone parallel processes of labor market dualization and democratization in recent decades, which are usually studied separately. The aim of this chapter is to connect these processes and explore the implications of economic informality for citizen-politician linkages. I argue that labor market segmentation and the growth of economic informality generate conditions that reinforce clientelistic...
While lower incomes are considered one of the preconditions driving clientelistic exchanges, informality posits additional incentives for politicians to target voters in this sector. In contrast to a large segment of the working class in most advanced democracies, the informal workforce in the developing world is particularly vulnerable because of a lack of social insurance. Social policy benefits, even if conditioned on electoral support, are especially attractive for voters when informality is widespread. As a consequence, individuals in the informal sector are more likely to respond to clientelistic appeals.

The analysis draws upon cross-national survey data for 17 Latin American countries and an original survey conducted in Mexico in 2014. The chapter is organized as follows. I first review the literature on clientelism in new democracies. Next, I present the argument connecting informality and clientelistic linkages, and introduce the main hypotheses. In the empirical section, I first present an analysis of informality and clientelistic exposure in Latin America, and show that, controlling for income, voters across countries are more likely to be target of vote-buying attempts in contexts where economic informality is prevalent.

Then, to further analyze the micro-logic connecting informality and clientelism, I leverage data from an original survey data carried out in Mexico, a country that reflects broader trends of informality and increased electoral competition observed in many developing democracies. By disaggregating the type of particularistic offers voters might receive, and introducing measures designed to capture the propensity of voters to switch their vote, these data allow me to examine more carefully the effect of informality. I test whether members of the informal sector are targeted with specific types of clientelistic offer, and whether they are more sensitive to clientelistic offers involving access to health services and social programs. Overall, the results suggest that by politically manipulating access to health and social programs, parties gain electoral leverage with a large pool of informal voters.
5.1 Clientelism in New Democracies

Politicians approach voters through a variety of mechanisms that range from programmatic policies to clientelistic exchanges. Although there is a large repertoire of benefits that citizens might receive when voting for a particular candidate or party, clientelistic exchanges continue to be more common in new democracies (Kitschelt and Wilkinson, 2007; Resnick, 2012). The question is why are clientelistic linkages are more prevalent among some groups of voters than in others, especially when their socioeconomic conditions are rather similar.

There is a vast literature focusing on the logic behind clientelistic relationships between voters and politicians (Fox, 1994; Auyero, 1999, 2000; Kitschelt, 2000; Kitschelt and Wilkinson, 2007; Brusco et al., 2004; Calvo and Murillo, 2004; Stokes, 2005; Stokes et al., 2013; Nichter, 2008; Remmer, 2007; Magaloni et al., 2007; Weitz-Shapiro, 2012). Following Kitschelt and Wilkinson (2007), clientelism is defined as a particular type of exchange of votes for particular benefits between citizens and politicians. This exchange is characterized for being contingent, direct and usually taking place over time. Parties that resort to clientelistic strategies mobilize voters mostly on the basis of selective incentives for specific groups. In contrast, programmatic linkages entail the implicit exchange of votes for policies. This exchange, however, is not contingent on voters’ individual behavior (Kitschelt and Wilkinson, 2007). Public policies in programmatic contexts are delivered to constituencies regardless of the particular vote of specific individuals. That is, electoral competition revolves around political platforms that establish priorities in terms of policies, and citizens choose among platforms knowing that policy outcomes will not be contingent upon their vote.

Prior research has consistently found an association between the prevalence of clientelism and the level of economic development. Studies suggest that the relationship is reinforced by demand-side and supply-side factors (Kitschelt and Wilkinson, 2007; Hicken, 2011). Non-programmatic appeals are often targeted primarily at low-
income voters (Kitschelt, 2000; Kitschelt and Wilkinson, 2007; Wantchekon, 2003; Calvo and Murillo, 2004; Brusco et al., 2004; Stokes, 2005). The argument is that people with scarce resources tend to place a higher value on short-term material offers, especially over the uncertainty of long-term potential benefits derived from programmatic policies. This implies that parties can maximize electoral returns while reducing the cost of clientelistic investments. Therefore, the effectiveness of clientelistic appeals diminishes substantially at higher levels of income. Individuals with better economic prospects are not easily persuaded by relatively inexpensive goods and handouts. In addition, as levels of income and education increase, individuals are more likely to realize the long-term costs of clientelism, including the under-investment in programmatic policies that could benefit them (Kitschelt and Wilkinson, 2007).

The capacity of politicians to provide clientelistic goods has also been theorized as a function of economic development. Although patrons might access a higher amount of resources as contextual wealth increases, the amount of resources necessary to persuade voters will also increase. Electoral costs might also rise as the economy grows. When non-programmatic investments imply economic transfers from the middle classes to the poor, a segment of the electorate might be willing to punish clientelistic parties at the ballot box (Kitschelt and Wilkinson, 2007; Stokes, 2007; Hicken, 2007). In addition, as the economy improves and citizens’ expectations of government performance rise, normative concerns toward clientelistic practices and corruption will contribute to elevate their cost (Kitschelt and Wilkinson, 2007; Kitschelt et al., 2010).

While these theoretical accounts have provided important insights, we still have a limited knowledge about why are some voters are more likely to be targeted than others, especially when they are inserted in socioeconomic contexts that appear quite similar. For instance, studies focusing on ideological and party preferences as determinants of clientelistic appeals implicitly assume that voters have some level of party identification. The debate about clientelistic resources being allocated to core (Cox and McCubbins, 1986) or/and swing voters (Dixit and Londregan, 1996; Lind-
beck and Weibull, 1987) rests on the assumption that there is at least a critical mass of voters strongly identifying with the party (core voters). However, many recent democracies in Latin America are characterized for having low levels of partisanship, which are often paired with high levels of electoral competition. This suggests that parties have to compete against each other over clients and that voters can expect to receive material offers and handouts from more than one party. This actually resonates with empirical evidence suggesting that parties often resort to clientelism even in very competitive electoral environments where party loyalty is expected to be low (Van de Walle, 2007).

Poverty and scarce resources are an important factor accounting for clientelistic exchanges. Yet, socioeconomic conditions only explain part of the variation in the incidence of clientelistic practices. There are competing causal mechanisms behind the observed relationship between economic conditions and clientelism, and previous research has not thoroughly tested their observable implications (Hicken, 2011). Furthermore, it is unclear if there are omitted variables conditioning the linkages between political parties and low income voters. Existing work in developing countries tends to study lower classes as a block, with similar preferences and behavior. But as I suggest in the following sections, a crucial dimension is their level of vulnerability to risk which is not necessarily determined by their incomes. Second, current research has not thoroughly explored the logic behind the type of goods and favors that poor voters get via clientelistic exchanges. Traditional accounts of clientelistic relationships often depict clients as part of social networks where trust and reciprocity develop between voters and politicians/brokers (Auyero, 2000). But there is great variation in the type of favors and goods voters receive as part of clientelistic exchanges. While some voters get access to jobs or better services for their communities, other individuals are simply targeted with one-off small gifts or even cash.

This chapter seeks to disentangle the mechanisms connecting economic conditions and clientelism by focusing on the dimension of economic informality. While
low income may constitute a relevant characteristic of potential clients, I argue that informality poses additional incentives for politicians to target voters in this sector.

5.2 Informality and Clientelistic Linkages

Politicians seek to maximize the electoral returns of their investment in programmatic and non-programmatic strategies. Candidates face budget restrictions, and allocating resources toward clientelistic offers necessarily has associated costs. Investment in vote-buying practices implies diminishing resources that could have been directed toward other electoral efforts, including programmatic campaigns. In addition, voters might accept gifts and favors without being persuaded to change their vote choice. Therefore, politicians look to invest in those voters who after being offered material benefits, are more likely to vote in the expected direction. I claim that when making the strategic decision of whom to target via clientelism, individuals in the informal sector constitute a particularly attractive pool of potential clients.

Individuals in the informal sector face higher levels of risk, compared with individuals in the formal sector with the same level of income. Although the poor are often studied as a homogeneous block with similar preferences, low-income voters differ greatly in terms of their level of exposure to risk, and this is directly conditioned by their access to social protection. Members of the informal sector are more vulnerable to events such as illness, unemployment, injury and old age. The key difference for these individuals is the absence of risk-hedging mechanisms provided by social security institutions. In these contexts, informal workers above the poverty line still do not benefit from social policies. While investment in conditional cash transfer programs (CCTs) has increased substantially in recent decades, these programs still represent a small proportion of social policy investment in most countries.

These differences in provision imply that there are varying levels of vulnerability for citizens in unequal countries, and that some segments of the population face higher risks even if they are not the poorest. This increased vulnerability has political
implications. Members of the informal sector have an increased reliance on benefits that can help them cope better with the risks they are exposed to. In the political realm, this means that programmatic proposals even if potentially beneficial are not as attractive as short-term benefits. First, there is a level of uncertainty regarding the actual level of implementation of such policies. Second, members of the informal sector might not benefit from social policies that are channeled via social security institutions, and even targeted programs might not benefit them if they do not fill the eligibility requirements. As a consequence voters living in informality might discount uncertain future gains in favor of short-term material benefits.

Given the characteristics of voters in this sector, economic informality will condition parties’ electoral strategies. Individuals facing relatively high livelihood risks are more likely to engage in clientelistic exchanges if they perceive short-term benefits as a way to partly cope with uncertainty. These benefits may range from cash to offers regarding selective access to social programs. Members of the informal sector might be more willing to accept these goods and favors simply because they contribute to hedge them against everyday risks. For parties, this proclivity directly increases the potential electoral benefits of clientelistic offers among this set of voters. Seminal models of clientelistic targeting suggest that under certain conditions, some groups might have an advantage in the distribution of particularistic benefits, being more appealing to parties seeking to maximize their investments.

Building upon the theoretical framework of Dixit and Londregan (1996), I argue that members of the informal sector have certain characteristics that make them more attractive for parties engaging in clientelism. First, as described above, given their increased level of vulnerability, informal voters’ marginal utility of private benefits is higher. Therefore, they are more willing to compromise any political preferences in exchange for private benefits. Second, informal work environments and labor conditions reduce the likelihood of developing shared class-identities. As a consequence, informal workers tend to care less about party ideology relative to private consump-
tion benefits. As shown in Chapter 4, members of the informal sector have weaker party attachments.

When engaging in clientelistic relationships, the expectation is that voters in the informal sector will be more sensitive to offers involving access to social programs. The literature on non-programmatic competition has already documented the existence of a vast array of goods and favors offered and delivered as part of clientelistic exchanges. However, we still know little about what type of particularistic benefits might be more appealing to a given group of potential clients. I claim that individuals in the informal sector will be more likely to accept offers involving social programs. When dealing with members of the informal sector, parties might find it more profitable to tailor clientelistic appeals around social programs, rather than delivering other type of goods, such as public works and infrastructure improvements for the community. While this argument suggests that parties do take into account redistributive needs when targeting informal voters, the key point is that parties will choose to condition social programs as part of clientelistic exchanges and not through programmatic platforms.

In sum, I argue that the incidence of clientelistic linkages is more likely in contexts where economic informality is prevalent, and that individuals in the informal sector are especially sensitive to clientelistic electoral appeals. The following working hypotheses emerge from the previous discussion.

**H3a:** In contexts of high economic informality, parties will be more likely to target voters via vote-buying and clientelistic appeals.

**H3b:** Parties will be more likely to approach members of the informal sector offering short-term material benefits in exchange for their vote.

**H3c:** Informal voters will be more likely to switch their vote when offered clientelistic benefits.
5.3 Clientelism in Latin America

An extensive literature has documented the persistence of clientelistic practices in Latin America. Even when high levels of electoral competition and free elections are now the norm in the majority of countries in the region, clientelism has proven to be compatible with democracy (Kitschelt et al., 2010; Luna, 2007). But as discussed in previous sections, there is considerable variation in the scope and characteristics of clientelistic linkages across countries.

The clandestine nature of clientelistic exchanges increases the difficulty of measuring the phenomenon and establishing clear comparisons across units of analysis. As a consequence, a number of studies have adopted indirect measures as a proxy of clientelism, often focusing on patterns at the community level. Nonetheless, recent research efforts have started to gather data in a more systematic manner. To give an overview of the phenomenon in the region, in this section I rely on both LAPOP individual-level data and the country estimates of the global expert survey on Democratic Accountability and Linkage Politics (DALP) that covers the same set of Latin American countries.¹

LAPOP 2010 includes a question asking respondents if they have been exposed to vote buying attempts. Panel (a) in Figure 5.1 shows the percentage of respondents in each country declaring having been exposed to clientelism.² There is considerable variation in clientelism exposure across and within countries. While in Bolivia and Argentina almost one in five respondents said they have been offered material benefits in exchange for their vote, less than 10% of respondents report similar experiences in countries such as Costa Rica, Chile, Nicaragua or Uruguay.

¹ In total, the DALP global expert survey covers 88 countries and was completed by 10 to 40 respondents in each country. More information about the dataset is available at the projects website at https://web.duke.edu/democracy/.

² The specific question is: In recent years and thinking about election campaigns, has a candidate or someone from a political party offered you something, such as a favor, food, or any other benefit or thing in return for your vote or support? Has this happened often, sometimes or never? (1) Often (2) Sometimes (3) Never.
(a) Vote-buying in Latin America

(b) Figure 5.1: Incidence of Clientelistic Efforts in Latin America
Panel (b) plots these percentages against the DALP index of clientelistic efforts. The survey asked experts to rate the effort of politicians from each party in terms of offering and/or providing targeted material benefits to individuals in exchange for their vote. The index summarizes experts’ evaluations for each country. The graph shows that although these two measures capture different dimensions of clientelism (i.e. broad evaluations of clientelism at the party level vs. vote-buying experiences at the individual level), there is a remarkable consistency between both indicators ($r=0.63$). Those countries with higher values on the DALP index tend to have higher percentages of respondents reporting clientelistic attempts and vice versa. For instance, while Argentina, Panama and Paraguay score high on both measures, clientelism seems to be contrastingly low in countries such as Uruguay and Chile.

These measures provide a glimpse of the distribution of clientelistic linkages in the region. The indicators presented in this section show that a) while the incidence of clientelism varies significantly, it is still a common electoral strategy in many countries and that b) individual and aggregate measures provide a fairly consistent picture of this phenomenon, lending support for survey items addressing vote-buying at the individual level. In the next sections I present data and results showing the link between informality and increased exposure to clientelistic offers, as well as evidence suggesting that voters in the informal sector are more likely to switch their vote due to clientelistic efforts.

5.4 Evidence from Latin America

5.4.1 Dependent Variable

To explore the effect of informality on clientelism exposure in Latin America, I draw upon LAPOP’s item asking about past experiences with political parties offering gifts or favors in exchange for votes and electoral support. This measure has some limitations. First, the measure does not disaggregate the types of goods and favors offered in clientelistic exchanges. This distinction is important because it allows us
to examine the different clientelistic strategies followed by parties, and whether some individuals are more sensitive to certain types of clientelistic exchanges. Second, given the social negative associations with clientelism, voters might want to show a favorable image and deny their participation in questionably activities. Due to this social desirability bias, measures based in respondents’ responses to items asking directly about vote buying tend to underestimate the overall incidence of clientelism.

However, as discussed in the previous section, the remarkably high correlation between this item with an alternative measure, the DALP index, constitutes a favorable validity test and suggests that this operationalization is indeed reliable.\(^3\)

5.4.2 Independent Variables

The key independent variable in the analysis is economic informality. The main argument in this chapter is that given their labor status and level of vulnerability, informal voters are especially sensitive to clientelistic appeals and that political parties have incentives to approach voters in the informal sector through clientelistic offers. This hypothesis implies that politicians are able to target groups of voters that are likely to be part of the informal sector. That is, in contexts where the pool of informal workers is larger, we might expect clientelistic offers to be more generalized.

I operationalize economic informality using three measures. At the contextual level, I use two indicators of economic informality. First, I rely on the country percentages of LAPOP’s item on social insurance (the same operationalization I use at the individual level). Second, I draw upon on ILO’s recent estimates on employment in the informal economy, published in a comprehensive report for 47 medium and low-income countries (ILO, 2011). At the individual level, I focus on one crucial dimension. Individuals in the informal sector tend to get substantially lower net benefits from the state, including health insurance. Studies on labor regulation in

\(^3\) The DALP index is based on a comprehensive definition of clientelism and covers five dimensions: (1) gifts to voters, (2) social policy benefits (access to health care, disability insurance, public rental apartments or student scholarships), (3) public sector employment, (4) favorable regulatory decisions, and (5) procurement contracts.
the region have emphasized that a current feature of social protection systems in the region is that health insurance (together with other benefits) is linked to formal employment. That is, the major part of social insurance is provided through contributory programs in Latin America (Bertranou and Gasparini, 2004; Cecchini and Martínez, 2012). LAPOP surveys include a question about health insurance provided by the government, which I use as a proxy of informality. I measure informal labor status with a dichotomous variable taking a value of 1 if the respondent does not have access to health care and 0 otherwise. The percentage of respondents falling into this category in the total cross-national sample is approximately 60%.

Following previous research, I control for demographic and socioeconomic characteristics. For each respondent, I control for age, gender, education, and type of community (rural vs. urban). I operationalize individual economic status using two different measures: 1) a variable indicating the income decile of the respondent in each country (Income) and 2) a wealth index based on a battery of items asking respondents if they have a series of goods in their household. The index is calculated using principal component analysis within each country. Respondents are then grouped into deciles ranging from lower (1) to higher well-being (10).

Control variables at the contextual level include GDP per capita to control for differences in economic development among countries. This indicator comes from the World Development Indicators, and it is calculated in constant 2005 USD. I also account for the role of inequality using the Gini index from the World Income Inequality Database.

Given the hierarchical nature of the data, I estimate the effect of informality on the level of exposure to clientelistic offers using a multilevel model.\textsuperscript{4}

\textsuperscript{4} I model individual exposure to clientelism considering individual-level and country-level covariates to estimate both individual and contextual effects. I use a varying-intercept model to appropriately estimate the effect of country-level variables (Gelman and Hill, 2007; Steenbergen and Jones, 2002).
5.4.3 Results

Table 5.1 shows the results of the multilevel models estimating the effect of informality on clientelism exposure. Overall, the findings provide support for my main hypothesis linking economic informality and clientelistic strategies.

Results across models show a robust effect of informality at the contextual level. The findings also suggest that the effect of informality at the individual level is conditioned by the overall size of the informal sector. Models 1 and 2 use the LAPOP informality measure at both levels controlling for the direct income measure and the wealth income respectively. The coefficients show a strong positive effect of informality on the probability of being exposed to clientelistic offers. All else being equal, individuals living in countries where informality is widespread are more likely to have been offered gifts and favors in return for their vote.

This effect is robust even when controlling for other covariates at the aggregate level, such as the level of economic development and inequality. Models 4 and 5 use ILO’s data as an alternative operationalization of informality. Again, the findings show a strong relationship between the contextual level of informality and the prevalence of clientelistic experiences at the individual level.

These results suggest that economic informality is a relevant dimension with political and electoral implications. Although people in the informal sector tend to have lower income and therefore there is a certain overlap between informality and poverty, the effect of informality has an independent effect on the likelihood of clientelistic practices even controlling for the level of economic development.

For each individual, the model is specified as follows:

\[
Pr(y_i = 1) = \text{logit}^{-1}(\alpha_j[i] + \beta_i^{\text{informal}} + X_i\beta + \epsilon_i), \quad \text{for} \quad i = 1, ..., n
\]

\[
\alpha_j \sim N(\gamma_0 + \gamma^{\text{informality}} + U_j\gamma, \sigma^2), \quad \text{for countries} \quad j = 1, ..., 17
\]

Where \(j[i]\) indexes the country corresponding to respondent \(i\), and \(n\) is the number of respondents in the survey sample. \(X_i\beta\) is a vector of covariates at the individual level, and \(\beta_i^{\text{informal}}\) is the main independent variable of interest. The country level intercepts \(\alpha_j\) are modeled as a function of the aggregate indicator of informality and a vector of country level covariates \(U_j\gamma\).
Table 5.1: Clientelistic Offers and Informality in Latin America

<table>
<thead>
<tr>
<th></th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
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<td>0.00***</td>
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<td>(0.00)</td>
<td>(0.00)</td>
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</tr>
<tr>
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</table>

† significant at $p < .10$; *$p < .05$; **$p < .01$; ***$p < .001$. (Standard errors in parentheses). All estimators include weights.
This shows that countries where labor benefits are scarce are a more fertile ground for clientelism than contexts where low-income workers and their families have access to social security benefits.

The effect of informality at the individual level is less robust across models. Individual labor status does have a positive effect on the likelihood of being target of clientelistic appeals in half of the models, but this effect seems to be sensitive to different specifications. It should be noted however, that the main hypothesis of this chapter refers to parties’ optimal political strategy when informality is generalized. As discussed above, the vote-buying measure included in the survey does not distinguish among types of clientelistic offers, which might undermine the observed effect of informality at the individual level if people in this sector are targeted more often with specific types of clientelistic exchanges. Results at the macro level show that the density of the informal sector does provide incentives to parties to approach voters via clientelistic offers.

Taken together, these results provide strong evidence for the link between economic informality and clientelism. To explore the effect of informality in more detail, Figure 5.2 plots quantities of interest based on the models in Table 5.1. The figures present predicted probabilities varying the level of economic informality while all other covariates are held at their respective means and modes.

The two upper panels show the substantive effect of informality on the likelihood of receiving a clientelistic offer using LAPOP estimates (Model 1 in Table 5.1), while the bottom panels are based on ILO’s estimates (Model 4 in Table 5.1). The top-left panel shows the predicted probability of receiving a clientelistic offer at different levels of informality at the national level. The effect of informality is clear. Individuals living in countries with high levels of economic informality are almost twice as likely to become targets of clientelistic appeals.

The top-right panel plots density estimates of the incidence of clientelistic offers under two scenarios, one with low economic informality (1st quartile) and the second
with high informality (3rd quartile). In both scenarios, the continuous independent variables were kept at their means, while the dichotomous variables were set at their mode. The simulation allows us to visualize the distribution of predicted values with its associated uncertainty. I generated 1,000 predicted values for both scenarios. The density estimates for both scenarios do not overlap, showing that the means of the two distributions are statistically distinguishable. These results further demonstrate that there is a different pattern of clientelism at different levels of economic informality.

The two bottom panels replicate the analysis using the coefficients in Model 4 based on ILO’s operationalization of informality. The bottom-left panel shows that individuals living in contexts where informality is widespread are substantively more likely to receive clientelistic offers from political parties. Again, the bottom-right panel plots density estimates based on simulations under scenarios of high and low informality.\(^5\) The results confirm the findings of the previous models. The distribution of the density estimates shows a strong effect of informality on the likelihood of clientelistic practices, even after taking into account the uncertainty associated with predicted values.

Results regarding the rest of the covariates in the models are generally consistent with previous findings in the literature on clientelism. Individuals with lower incomes and low levels of household wealth as well as those living in rural communities are more likely to be offered material benefits in exchange of their vote. In contrast, women and older people seem to have less experience regarding clientelistic offers, while education does not seem to have a significant effect on targeting.

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\(^5\) The procedure for these simulations was similar. I generated 1,000 predicted values for both scenarios. All other covariates were held at their means and modes.
Figure 5.2: Density Plots Comparing Predicted Probabilities of Receiving a Clientelistic Offer.
5.5 Evidence from Mexico

In the following sections I present additional evidence of the relationship between economic informality and clientelism drawing upon data from the original survey I designed and implemented in Mexico.

I first show that members in the informal sector are more sensitive to clientelistic offers involving health and social benefits. I then present findings suggesting that informal respondents are also more likely to switch their vote when exposed to these types of offers.

5.5.1 Clientelistic linkages in Mexico

Clientelistic practices have long been present in Mexican elections. Numerous studies have focused on the emergence and dynamics of vote buying and other forms of clientelism during the dominant party regime led by the PRI until 2000 (Magaloni et al., 2007; Magaloni, 2005; Greene, 2007). During the authoritarian period, clientelism was characterized by the official incorporation of social groups into the political system. The government systematically mobilized public employees, peasant producers, and popular organizations during elections using government programs and subsidies to guarantee their electoral support (Fox, 1994).

Two changes took place in the mid-1990s. First, economic liberalization and the subsequent erosion of corporatist institutions triggered a process of “territorialization” of politics (Roberts, 2002). Previous social groups lost political relevance, weakening the linkages between the PRI and its corporatist base of support. As a consequence, the regime established territorially based networks as a substitute for class-based corporatist organizations. Second, the level of electoral support for the PRI started to decline in this period and the regime had to gradually accept electoral defeats, first at the local level and eventually in federal elections. Also, along with other Latin American countries, Mexico implemented a series of electoral reforms during this decade (Remmer, 2008), which contributed to increase the level of political
competitiveness and electoral uncertainty within the system (Molinar and Weldon, 2001; Becerra et al., 2000). Opposition parties and electoral institutions strengthened the monitoring of elections and the overall perception of electoral transparency improved significantly in the next decade, peaking right after the defeat of the PRI in the presidential election of 2000.\footnote{The percentage of respondents in telephone surveys who considered federal elections to be “clean/very clean” reached 79\% after the 2000 presidential election (Cruz, 2001).}

Yet, clientelism has proved to be compatible with the democratic transformations that have taken place in Mexico in recent years (Cornelius, 2004; Hilgers, 2008, 2012; Nichter and Palmer-Rubin, 2015). Complaints about vote buying have been present in recent local elections, and even the last presidential election of 2012 was filled with allegations of vote buying and fraud (Guzmán, 2012; Quintero, 2012; Hernández, 2012). In addition, the PAN and the PRD have repeatedly been accused of clientelistic practices, especially in local elections (Reyes, 2014; Quadratín, 2014; Arvizu, 2013). This suggests that non-programmatic linkages not only persist but have been widely adopted by the main parties in the Mexican political system. Although some studies have begun to explore parties’ non-programmatic strategies and the profile of clients in Mexico after the democratic transition (Aparicio and Corrochano, 2005; Schedler, 2004), we still know little about which structural factors contribute to perpetuate clientelistic exchanges. In the next sections I explore how economic informality undermines programmatic linkages by generating incentives for parties to approach potential voters with clientelistic appeals. I first show that parties approach voters in the informal sector with clientelistic appeals, and then examine the effectiveness of this strategy by testing whether respondents in this sector switch their vote after receiving such offers.

### 5.5.2 Dependent Variables

I explore the relationship between informality and non-programmatic linkages on two dimensions. First, I analyze how individuals without formal employment and
labor benefits might be likely targets of certain types of clientelistic offers. To do so, I disaggregate the type of goods and favors that parties may offer in exchange of electoral support. Respondents were asked if in recent elections (in exchange of their vote) they have been offered a) the development of public works/projects in their community, b) cash, c) a social program card, and d) help to get a job. The idea is to capture the variety of private and public goods that are offered in clientelistic settings, and examine if people in the informal sector are more likely to be offered a particular type of good. Therefore, the first set of models test the effect of informality on each of these binary variables, which take a value of 1 if the respondent was offered that good and zero otherwise.

Second, I examine whether individuals in the informal sector are more likely to switch their vote if they are offered clientelistic goods instead of public goods. Respondents are first asked which party they would vote for if the next election were held today. Then, the interviewer asks if they would change their decision and vote for another party if they were offered a) selective access to a health program, b) the development of public works/projects in their community, c) a social program card or d) an increase in public spending to address the main problems in their community. These questions differentiate between programatic (b and d) and non-programmatic offers (a and c), and allow me to test directly whether individuals in the informal sector are more sensitive to clientelistic offers. I use these items as dependent variables in the second set of models. Each variable takes a value of 1 if the respondent would switch her vote after receiving a particular offer and zero otherwise.

I estimate logistic models for the two sets of dependent variables. Table 5.2 shows

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7 Both the PRI and the PRD candidates in the 2011 Mexico State election promoted cards that were supposed to give access to a number of social programs in the event the particular party won the election. The PRI candidate, Eruviel Ávila offered a card called “La efectiva” while the PRD candidate Alejandro Encinas promoted the card “La cumplidora.” Although both candidates declared that the card was only symbolic and that access to the programs would not be limited to cardholders, during the campaign it was not always entirely clear to voters that the card was not a prerequisite to become beneficiaries of such programs (García, 2011; Camacho and Acosta, 2011; López et al., 2013).
Table 5.2: Incidence of Clientelistic Exposure and Vote Switching in Mexico

<table>
<thead>
<tr>
<th></th>
<th>Has been offered...</th>
<th>Would change vote if offered...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public works in the community</td>
<td>26%</td>
<td>16%</td>
</tr>
<tr>
<td>Social program card</td>
<td>30%</td>
<td>19%</td>
</tr>
<tr>
<td>Cash</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>A job</td>
<td>12%</td>
<td></td>
</tr>
<tr>
<td>Access to health services</td>
<td></td>
<td>19%</td>
</tr>
<tr>
<td>Increase in public spending</td>
<td></td>
<td>17%</td>
</tr>
</tbody>
</table>


the incidence of clientelistic offers and vote switching. Two points are worth noting. First, respondents were asked directly about clientelistic offers, which probably underestimated the level of clientelistic exposure, due to social desirability issues. Yet, in despite of the question format, a relatively high percentage of respondents acknowledged being target of clientelistic practices. Roughly one in three individuals has been offered cash, a social program card or public works in their community in exchange for their vote, and one in ten has been offered help to get a job. Second, roughly one in five respondents, after declaring a specific vote choice, would switch her vote if another party offers a particular good or service. The subsequent analysis tests whether informality makes a difference as to whether programmatic or non-programmatic offers are more appealing.

5.5.3 Independent Variables

To operationalize economic informality, I use a dichotomous variable that takes a value of 1 if the respondent does not have health insurance or a labor contract, and 0 if she has access to these labor benefits. The survey questions ask explicitly about health insurance provided by the employer, which is directly tied to formal employment in Mexico.

I consider a similar vector of covariates as in the cross-national models. For each respondent, I control for demographic and socioeconomic characteristics: age, gender,
type of community (rural vs. urban), and civil status. I control for economic status using a wealth index based on a battery of items asking respondents if they have a series of goods in their household.

5.5.4 Results

Table 5.3 shows the logit models estimating the effect of informality on the four measures of clientelistic exposure. Results indicate that respondents in the informal sector are more likely to be target of spot-market clientelism. Individuals without labor benefits have a higher probability of being offered cash in exchange for their vote (Models 3 and 4). That is, people without labor benefits are more likely to be approached by political parties offering money to buy their vote. In contrast, it is clear that respondents in the informal sector are no more likely to participate in exchanges with parties offering to develop public works or longer-term commitments, like helping them get a job.

I also find that women and older individuals are more likely to be target of clientelistic offers involving social program cards, which could be capturing another political implication of the lack of labor-related benefits. Parties might be targeting older people with conditional access to social programs given the low level of pension coverage in Mexico.

Overall, the findings complement the results of the cross-national models discussed in previous sections. Clientelistic exchanges are more likely when voters experience the level of vulnerability associated with economic informality. Political parties resort to clientelism when informality is generalized, and choose to approach informal voters via spot-market offers.
Table 5.3: Clientelistic Offers and Labor Market Outsiders in Mexico

<table>
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<tr>
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<th>Cash</th>
<th>Social program card</th>
<th>A job</th>
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<td>Model 4</td>
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<td>0.00</td>
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<td>(0.08)</td>
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<td>(0.07)</td>
</tr>
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</tr>
<tr>
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<td>(0.03)</td>
<td>(0.03)</td>
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<td>(0.03)</td>
</tr>
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<td>0.11</td>
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<td>0.04</td>
</tr>
<tr>
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<td>(0.13)</td>
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<td>-744.52</td>
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<td>1,167</td>
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† significant at $p < .10$; *$p < .05$; **$p < .01$; ***$p < .001$. Standard errors in parentheses.
All estimators include weights
Furthermore, the results suggest that the level of investment in clientelistic exchanges might be low: parties attempt to buy outsiders’ vote offering small quantities of money, instead of making larger investments such as public works in their community (e.g. paving roads, building a school or a bridge). This effect is robust after controlling for wealth and reported income (not shown); and remains significant after considering whether the respondent’s lives in an urban community (Model 4).

In order to better visualize the effect of informality on clientelistic exposure, Figure 5.3 shows the substantive effect of a change in labor status on the probability of being target of clientelistic offers. Probabilities are calculated for a typical respondent, varying labor status while keeping all the other predictors at their mean or mode values. That is, the calculation is made for a woman, living in an urban locality, with an average age and wealth.

The graph on the top panel shows the effect of economic informality on the likelihood of being offered cash, controlling for the covariates included in the model. The predicted probability that an average respondent in the formal sector will be targeted with money is 0.33. This probability increases to 0.40 if that same respondent is in the informal sector. A change in labor status from being a formal to an informal worker is associated with a 21% increase in the probability of being offered cash in exchange for her vote. The graph on the bottom panel shows a similar exercise now considering the case of cards giving access to social programs. The average respondent has a probability of 0.25 of being offered a social program card that increases to 0.31 if that same respondent is a member of the informal sector. A change of labor status is associated with a 24% increase in the probability of being offered a social program card in exchange for electoral support.
(a)

Figure 5.3: Effect of Informality on Clientelistic Exposure in Mexico.
Table 5.4 reports the results of the set of logit models estimating the effect of informality on vote switching after clientelistic exposure. Results across models suggest that members of the informal sector are more likely to vote for a party offering social policy benefits in exchange for electoral support. Specifically, individuals in this sector would change their vote decision if a party offered them access to a health program or a social program card. After indicating which party they would vote for if elections were held today, respondents are asked if they would switch their vote for a party offering certain goods/making certain policy proposals. Models 1 and 2 show that members of the informal sector are more likely to switch their vote if a party offers them access to a health program for their family. Similarly, Models 5 and 6 demonstrate that individuals without formal employment are more likely to change their vote choice if offered a card giving access to a set of social programs. In contrast, Models 2 and 3 suggest that members of the informal sector are no more likely to switch their vote if a party offers to make long-term investments in their community by developing public projects, such as building a hospital or a school. Furthermore, individuals living in economic informality are no more likely to change their electoral decision and vote for a party offering an increase in public spending directed toward the specific problems of their community.

Taken together, these results show that members of the informal sector are more sensitive to short-term non-programmatic offers related to their lack of labor benefits. The level of vulnerability associated with economic informality makes clientelistic offers involving access to social programs and health services more attractive to informal voters. In this context, programmatic exchanges involving long-term benefits and infrastructure are less appealing. Second, the findings reveal the potential level of effectiveness of clientelistic appeals related to social policy benefits. Parties that offer access to social programs and benefits conditioned on political support will be particularly appealing to people in the informal sector.

The implications of this finding are particularly relevant. Given the high level of
informality in the country, the results suggest that by politically manipulating social programs, parties gain electoral leverage with a large pool of informal voters.\textsuperscript{8}

Figure 5.4 shows the substantive effect of a change in labor status on the probability of vote switching. As in previous models, probabilities are calculated for a typical respondent, varying labor status while keeping all the other variables at their means or mode values. The graph on the top panel shows the effect of economic informality on the likelihood of vote switching after being offered access to health services. The predicted probability that an average respondent in the formal sector will switch her vote is 0.17.

This probability increases to 0.22 if that same individual is in the informal sector. A change in labor status from being a formal to an informal worker is associated with a 29\% increase in the probability of vote switching after being offered access to health services. The graph on the bottom panel shows the same exercise now estimating the probability of vote switching after being offered access to social programs. The average respondent has a probability of 0.16 of switching her vote, but if the same respondent is a member of the informal sector this probability increases to 20\%. That is, a change of labor status is related to a 25\% increase in the probability of vote switching when a party offers a social program card.

\textsuperscript{8} According to the Mexican National Institute of Statistics and Geography (INEGI) estimates, the informal employment rate (TIL\textsubscript{1}) was 59\% in December 2014. This rate is calculated based on: a) the proportion of individuals working in enterprises that were not formally registered (that do not pay taxes or mandatory social security contributions), and b) the proportion of workers without access to health services and labor benefits. See: http://www.inegi.org.mx/inegi/contenidos/espanol/prensa/comunicados/ocupbol.pdf
Table 5.4: Economic Informality and Vote Switching in Mexico

<table>
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<tr>
<th></th>
<th>Health program</th>
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<th>Social program card</th>
<th>Public spending</th>
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<tr>
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<td>Model 3</td>
<td>Model 4</td>
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<td>0.42*</td>
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</table>

1 significant at $p < .10$; *$p < .05$; **$p < .01$; ***$p < .001$. Standard errors in parentheses.

All estimators include weights.
Figure 5.4: Effect of Informality on Vote Switching due to Clientelistic Appeals
5.6 Robustness Checks

To check for sensitivity to specific second-level units in the multilevel models estimating the effect of contextual informality in Latin America, I re-estimated Models 2 and 5 in Table 5.1 varying the group of countries included in the sample. I left out the observations of one country at a time and then extracted the z-values of the ILO and LAPOP informality data.

![Figure 5.5: Sensitivity Analysis, Models 2 and 5, Table 5.1](image)

Figure 5.5 shows the z-values of the ILO and LAPOP contextual informality variables when each country (indicated on the x-axis) is left out of the model (other variables’ coefficients are not shown). Black lines correspond to LAPOP data while gray lines indicate ILO data, and the dotted line denotes the threshold of significance at the 5% level. The graph demonstrates that the positive and significant effect of contextual informality on clientelistic exposure remains robust regardless of the sample of countries used in the estimation. The results suggest that the relationship between informality and clientelism is not contingent on the inclusion of certain second-level units.
5.6.1 A Note about Party Positions on Redistribution in Mexico

As discussed in Chapter 2, one of the components of the argument linking economic informality and clientelism is that in contexts of high informality and low levels of redistribution, ideological connections between redistributive issues and political platforms are less likely to appear. In Latin America, the main social security institutes are tied to formal employment, and any programmatic offer to expand coverage requires a very large amount of public resources. In contrast, selective access to non-contributory social programs is substantially less expensive. As I show in Chapter 4, these incentives are then reinforced by the relative disinterest of informal voters in political parties, which makes clientelistic strategies even more attractive. This section explores voters’ perceptions of political platforms regarding redistribution.

Recent studies on economic issue voting in Latin America suggest that voters are able to distinguish political parties’ platforms at some degree when considering issues such as privatization and free market reforms (Baker and Greene, 2011). Yet, we know little about whether voters perceive some parties as more redistributive than others. I claim that while privatization and trade liberalization are salient economic issues for many voters in Latin America when evaluating parties, redistribution is not.

In Mexico, parties have not necessarily campaigned on these topics, and do not seem to differentiate themselves in terms of their competence to address social policy. I suggest that in contexts of economic informality programmatic politicization of the social policy dimension is less likely. Political parties have few incentives to campaign on their competence to deliver comprehensive social policies when the costs of reform are high and the beneficiaries are electorally disperse. As a consequence, voters do not perceive clear ideological differences between parties’ redistributive agendas.

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9 It is important to distinguish between the ideological politicization of social policy agendas and the distribution of social policy benefits conditioned to political criteria. While the former entails a programmatic linkage between parties and voters (in spite of potential electoral rewards), the latter is clientelistic in nature (Kitschelt and Wilkinson, 2007; Fox, 2012).
Redistributive issues have had a secondary role in Mexican political platforms and the public agenda in recent campaigns. While the conservative National Action Party (PAN), the left-wing Democratic Revolution Party (PRD) and the Institutional Revolutionary Party (PRI) have taken opposite positions on economic issues like electricity privatization, oil reform and economic integration, their proposals regarding social policy have not been remarkably different. For instance, although the presidential election of 2006 was polarized on key economic issues, parties did not necessarily differentiate themselves in terms of their redistributive agendas.

While the PRD placed poverty alleviation as one of the main objectives of its government plan, social policy was not necessarily a divisive issue with its opponents. In fact, all candidates seemed to agree on the need to provide health access to the population without social insurance. But there was very limited discussion about how to reform the social security system. Instead, the campaign was mostly centered on whether the PRD carried a populist and unfeasible agenda or whether the PAN and the PRI sought to perpetuate power-holders’ privileges and corrupt practices (Greene, 2009; Beltrán et al., 2009).

Redistributive issues were not central in the 2012 presidential election either. Again, the PAN, the PRI and the PRD placed social security expansion as a policy objective, but did not actually seek to contrast specific proposals on this topic during the campaign. Furthermore, electoral platforms in this election did not show important ideological differences regarding this issue. The PRI’s political platform touched upon the issue of informality and the fact that only 30% of the economically active population is in the formal sector and proposed expanding social security membership to achieve universal coverage. Similarly, both the PAN and the PRD

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10 An analysis of candidates’ political proposals on social issues in the 2006 campaign showed a relatively high level of agreement (83%) regarding general objectives such as increasing health coverage, but little debate about specific social programs, their feasibility and potential reforms to the health system (López and Cárdenas, 2009).

proposed an expansion of the social security system that would guarantee health services access and pensions to the entire population. Yet, neither party discussed the specifics of these reforms in their platforms. Debates about welfare policy were practically absent in the campaign, with candidates focusing more on economic issues pertaining to the oil sector and structural reforms (Olson, 2012; Flores-Macías, 2013). The past two elections show that although Mexico is characterized by its high levels of inequality, redistributive issues are simply not salient in electoral campaigns and political platforms.

To explore Mexican voters’ perceptions of partisan positions on the redistributive dimension, I formulated a series of questions contrasting redistribution-related issues with other economic issues. Respondents were asked to rate each of the three main political parties according to their level of agreement with a) inequality reduction; b) universal health provision; c) the implementation of value-added taxes; and d) private investment in PEMEX, Mexico’s state-owned oil company. Figure 5.6 shows the distribution of party locations given by respondents on the four issues. The top row plots the two policy issues that are traditionally considered when evaluating the redistributive dimension, while the bottom row shows party positions regarding private investment in PEMEX and value-added tax (VAT) collection.

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13 The PRI and the PRD mention insufficient health coverage as a pending issue in their 2012 electoral platforms, even after the implementation of Seguro Popular, a social policy initiative implemented by the then president Felipe Calderón, intended to expand coverage to the uninsured population. The PAN also acknowledged the limitations of the program: its platform proposed to work to guarantee a “minimum standard” in the infrastructure of the public clinics serving patients in Seguro Popular as well as expanding the supply of medicines for chronic and metabolic diseases (PAN, 2012 Electoral Platform, pp. 64-65). http://www.ine.mx/archivos3/portal/historico/contenido/Plataformas-electorales/

14 The specific question is: *To what extent do you think the... (PAN/PRI/PRD) seeks to...* a) Reduce inequalities between the rich and the poor; b) Give mexicans universal access to health services; c) Implement value-added taxes on food and medicine; d) Allow private investment in PEMEX. Respondents ranked each party on each of these issues. The response scale ranges from 0 (strongly disagree) to 10 (strongly agree).

15 Given the consumption patterns of low-income population segments, a VAT applicable to basic foods and medicines would be considered highly regressive if public spending is not made progressive
In general, we observe a fairly high level of overlap among the perceived party positions on redistributive issues. Voters do not perceive large differences among parties’ proposals regarding universal health provision (upper-right panel). While a larger number of respondents perceive that the PRD is in favor of reducing inequalities between the rich and the poor, voters do not perceive that parties are especially polarized over this issue either (upper-left panel). In contrast, respondents clearly locate the PRI and the PAN at the right of the spectrum on the issue of private investment in PEMEX. In the case of the VAT, voters also perceive the PAN and the PRI as clearly in favor and the PRD in the contrary position. The difference between the leftmost and the rightmost mean party placement is 4.6 points on the scale in the case of private investment in PEMEX (PRD mean=4.04, PRI mean=8.60), while this difference is only 1.24 in the case of inequality reduction (PAN mean=3.76, PRD mean=5.0). That is, in contrast with to countries where redistributive issues are highly politicized, voters in Mexico do not see large differences on this dimension. I hypothesize that informality plays a role in the disconnect between the demand for redistribution and political platforms and electoral campaigns. Parties have few incentives to campaign programmatically on these topics in contexts with high levels of informality. In contrast, non-programmatic exchanges represent a more attractive electoral strategy.

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enough to offset its effect. This issue has long been controversial in the Mexican political agenda. Parties’ positions have gradually changed on this issue. While the PRI rejected such VAT proposals during the PAN administration, it proposed its implementation in 2012, once in power (Reuters, 2012).
Figure 5.6: Distributions of Voters’ Perceptions of Party Positions on Four Issues Related to Redistribution
5.7 Conclusion

Clientelistic exchanges have proved to be adaptive to new democratic settings and increased political competition. Yet, we still know little about the economic conditions that contribute to their resilience. In this chapter I argue that labor market segmentation and the growth of economic informality reinforce clientelism. Politicians seek to maximize the electoral returns of their investment in programmatic and non-programmatic strategies. Given the characteristics of individuals in the informal sector, parties will adapt their electoral strategies when informality is prevalent. Absent a clear set of programmatic set of preferences unifying informal voters, parties will turn to alternative mechanisms in order to appeal this sector.

Contrary to the working class in most advanced democracies, the informal workforce in the developing world is particularly vulnerable because of the lack of social insurance. Social policy benefits, even if conditioned on electoral support, are especially attractive for voters when informality is widespread. Together, these factors make clientelistic strategies more attractive when informality is generalized. While lower incomes are usually common among potential clients, informality poses additional incentives for politicians to target voters in this sector. Individuals in the informal sector are therefore more likely to engage in clientelistic relationships, as they are more dependent on social policy handouts.

To test my argument, I draw upon cross-national survey data for Latin America and an original survey conducted in Mexico. I first demonstrate that voters are more likely to be target of vote-buying attempts in contexts where economic informality is prevalent. The results indicate that informality is a structural factor that erodes programmatic linkages between parties and voters, making clientelistic exchanges more likely. I then show that voters in the informal sector are more sensitive to clientelistic offers involving health and social benefits. The level of vulnerability associated with economic informality makes access to social programs and health
services especially attractive to the individuals in this sector. Finally, I show that members of the informal sector are also more likely to switch their vote when offered these types of favors. The findings suggest that by politically manipulating social programs, parties gain electoral leverage with a large pool of informal voters. This poses an incentive for parties to continue investing in clientelistic efforts related to social policy benefits, thus reinforcing the status quo.
Conclusions

Economic informality is characteristic of labor markets in developing countries and its implications have been widely studied in the economics literature. In recent years, scholars and analysts have continuously pointed out the costs of informality in terms of productivity and growth. For instance, in 2014 *The Economist* called into question a series of structural reforms implemented by the Mexican federal government, warning that leaving out specific measures to formalize the economy was a mistake, because “[t]he main reason for Mexico’s mediocre economic performance [...] is low productivity. And the most plausible explanation for it is the prevalence of a huge informal economy of unregistered and mainly small businesses, in which three Mexicans in five work.”\(^1\) Other studies have reached similar conclusions about the negative economic impact of the informal sector in other developing countries.\(^2\)

This dissertation argues that informality has political costs as well. I develop a theory suggesting that the characteristics of the informal sector prevent the formation of programmatic linkages between voters and parties in new democracies. Standard models in political science assume that pressure for redistribution will be stronger in

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\(^1\) *The Economist*. 2014. “The reform that got away.”

\(^2\) See, for example, de Carvalho Filho and Estevao (2012) for the case of Brazil, and Peña et al. (2010) for the case of Colombia.
democratic contexts of high inequality (Boix, 2003; Acemoglu and Robinson, 2006). But empirical evidence have shown that the poor are not necessarily more likely to support increased redistribution in developing countries (Dion, 2008; Blofield and Luna, 2011). I claim that informality interferes with the expected link between low income, demand for redistribution and programmatic social policy platforms. This relationship is contingent on what voters receive and contribute to the state. The answer to the puzzle of why demand for redistribution is not higher in a region as unequal as Latin America is that the majority of low income voters receive low benefits from social policies, and at the same time, are politically disorganized and do not perceive parties as vehicles to represent their economic interests. Labor market outsiders are not beneficiaries from the main social security institutions, and have limited or no access to health care services and pension programs. These conditions imply that increases in social policy spending do not necessarily translate in better services for individuals in this sector.

This project shows that members of the informal sector have a lower demand for spending in social security and welfare systems, even if they need it the most. I argue that labor market outsiders will find it difficult to articulate strong redistributive preferences when benefits are extremely uncertain. Furthermore, ideological attachments will be less likely if voters perceive a disconnect between between their economic interests and needs, and political platforms and public policies. As a consequence, informal workers will be less ideologically attached and will tend to trust less in political parties. In these contexts, programmatic linkages between voters and parties will not easily emerge. Economic informality will instead pose incentives to political parties to focus on non-programmatic strategies. In the face of weak pressure for programmatic redistribution and political alienation among informal voters, parties have incentives to approach them through private benefits. I suggest that vote-buying strategies are more common when informality is generalized, and show that members of the informal sector are indeed more sensitive to particularistic offers.
6.1 Argument and Main Findings

I argue that three aspects of economic informality intervene in shaping political behavior and party strategies: high livelihood risk, a low utility derived from public policies and the obstacles to collective identity formation among informal workers. Together, these factors contribute to weaken demand for redistribution and undermine programmatic linkages between voters and political parties. First, economic informality directly limits the risk-hedging mechanisms available for the individuals in this sector, increasing their overall level of livelihood risk. Second, informal voters anticipate a low utility from public policy, especially regarding social services. And third, given their occupational experiences, labor market outsiders face obstacles to form a collective class identity.

Informality conditions voters’ expected payoffs from public policies, and, as a consequence, labor market outsiders will have a lower demand for increased spending in social security institutions. The labor status of those in the informal sector, apart from their low income, implies that they are more likely to discount future redistributive policies in favor of short-term material offers because they do not have access to social protection. Also, although members of the informal sector are equally excluded from social security institutions and programs linked to formal employment, given that their occupational experiences are vastly different, they do not necessarily identify collectively or view themselves as a “working class”. The absence of this shared identity also implies that individuals in the informal sector might not perceive themselves as right holders or entitled to social policy benefits.

Strong partisan attachments will also be less likely in the absence of a shared class identity and low expectations regarding potential social policies. In contrast to blue collar workers in the industrial sector in more advanced economies, individuals in the informal sector tend to work in more isolated and fragmented environments. This reduces the likelihood of developing shared class identities, much less articulating
them politically. Absent an obvious ideological dimension connecting informal voters’ interests to parties’ political platforms, the development of stable partisan identities is unlikely. In addition, if voters perceive that parties’ political programs contribute little to their individual welfare, the likelihood of identifying with a political party will be low and they will remain alienated from the political process.

Political parties will have few incentives to develop programmatic appeals to voters in contexts of extended economic informality. Given the lack of clear programmatic preferences among outsiders, the emergence of a coherent agenda of policy proposals appealing to these individuals will be more difficult. Parties will find it more profitable to turn to alternative strategies when appealing these voters such as providing selective incentives to gain electoral leverage. Specifically, in contexts of widespread informality, parties will be less likely to develop programmatic platforms in the redistributive dimension and more likely to approach voters via clientelistic offers.

To test my argument, I draw upon individual data from Latin America and Mexico. The Latin America region is suitable for this analysis for several reasons. This is a set of relatively new democracies exhibiting high levels of inequality, a context where we would expect voters’ economic interests to structure political competition and provide parties with incentives to develop programmatic linkages with the electorate. There is also substantial variation in terms of levels of economic informality within and across countries. In addition, the Mexican case provides an excellent setting to delve further into the political implications of informality. Given the stability of its political system, it is well suited to explore the linkages between redistributive preferences and political platforms and strategies. A current limitation for the study of attitudes and behavior among members of the informal sector is the lack of survey instruments containing both political items and questions regarding labor status. Furthermore, questions bearing upon redistributive preferences often follow formats used in surveys designed for developed countries, where individuals clearly associate the role of the state with welfare policies. These approaches are not ideal
for developing countries where social policies are highly fragmented and voters do not necessarily perceive that efforts to reduce economic inequality imply increases in welfare spending and taxation. To overcome these limitations, and to assess more carefully the effect of informality on political behavior, I designed an original survey aimed at better capturing individual attitudes in the context of a truncated welfare state.

I find that informality significantly affects social policy preferences and reduces the demand for traditional welfare spending (Chapter 3). Results suggest that, counterintuitively, voters in the informal sector are no more likely to support increased spending in social security and welfare institutions, and tend to favor only social programs with no eligibility requirements. This result contributes to clarify some of the findings in previous works regarding negative and inconsistent relationships between low-income and demand for redistribution in Latin American countries. Even at low levels of income, members of the informal sector are no more likely to support the expansion of traditional social security systems. Evidence from Mexico further shows that labor market outsiders instead favor social programs with no eligibility requirements. These findings suggest that in dualized labor markets, redistributive preferences are weakly articulated, and therefore parties will be able to overlook the redistribution dimension at a low electoral cost.

Chapter 4 explores the implications of economic informality for partisan attachments. The findings show that members of the informal sector are less likely to identify with political parties across Latin America. As previously discussed, the low utility derived from social policies and the obstacles to class identity formation associated with informality both contribute to depress ideological attachments between voters and political parties. Individuals in the informal sector will find it more difficult to programmatically connect with political parties if their economic interests are not articulated into specific social policy demands, and when existing political platforms and proposals fail to address the significant livelihood risks they face. The
findings suggest that party identification will thus tend to be less stable in contexts with large pools of labor market outsiders.

Finally, I study the strategies followed by political parties when approaching members in the informal sector (Chapter 5). Clientelistic linkages consist of short-term material benefits that can be delivered without resorting to any ideological reference or political commitments, becoming especially effective in the case of politically disengaged voters in the informal sector. I show that parties are indeed more likely to resort to non-programmatic appeals when informality is generalized. In lieu of programmatic offers, clientelistic strategies become more attractive in scenarios of extended economic informality. Voters in the informal sector appear particularly sensitive to some types of clientelistic offers. I find that outsiders are indeed more likely to switch their vote to candidates offering private benefits.

6.2 Theoretical Implications

This dissertation aims to bridge the comparative politics and the political economy literatures by analyzing how economic informality profoundly shapes party strategies and political behavior. The project makes several theoretical contributions.

First, by incorporating the crucial dimension of economic informality, this project advances our understanding of the formation of individual preferences and expectations regarding the role of the state in the developing world. Current theoretical and empirical work on redistributive preferences assumes that citizens receive a certain level of benefits through government policies and that they contribute to finance social and public services via income taxes. Consequently, voters are expected to consider the costs and benefits of redistributive policies when choosing among parties at the voting booth. This project shows that this logic does not follow when labor markets are greatly dualized, and that in contexts of extended economic informality, low-income voters do not have incentives to support increased spending in welfare systems. These findings have important implications for current theories
linking processes of democratization, demand for redistribution, and welfare provision. If low-income voters lack a coherent set of preferences over welfare provision, politicians will have little incentive to focus on redistributive issues, even in contexts of high economic inequality. While inequality and economic deprivation might constitute a threat to authoritarian elites and a concern for democratic governments, this dissertation suggests that redistributive demands might not be the main driver behind political transitions and policy change.

Second, this dissertation demonstrates the relevance of analyzing how labor status and economic vulnerability condition political behavior among low-income voters. Current research usually conflates the working class into a single category, ignoring crucial differences among the poor. The theoretical framework presented in this project suggests that low-income voters in the informal sector face a different set of incentives compared with their counterparts in the formal sector. By limiting their access to public policy benefits, economic informality greatly increases the vulnerability of individuals in this sector, decreasing their support for existing welfare systems and raising their demand for social services even if these are delivered through non-programmatic channels. This distinction is important in accounting for varying behavior patterns among seemingly similar groups of voters and their relationship with political parties. At the same level of income, an individual with greater access to risk-hedging mechanisms will react differently from another individual without social insurance. While low income voters in the formal sector are more likely to evaluate political parties and government in terms of the policies they provide to them, unprotected individuals might find it more useful to choose parties providing them with particularistic benefits.

Third, by exploring the consequences of economic informalization for party strategies, this dissertation contributes to our understanding of patterns of political competition in the developing world. In recent years there have been major transformations in party systems across Latin America. A growing literature is now focusing on the
determinants of party system dealignment. The arguments and evidence presented in this research show the value of analyzing the consequences of labor market transformations for electoral competition in new democracies. While the processes of labor market dualization and democratization are often studied separately, the evidence presented here suggests that increased informalization has had a negative impact on democratic competition. Recent analyses suggest that party system instability might be a consequence of the lack of meaningful differences among parties in their platforms and policy proposals. The results of this study show that informality places additional constraints and few electoral incentives to focus on social policy provision, making it even more difficult for parties to differentiate among themselves on the redistributive dimension. The lack of clear political positions regarding redistributive issues makes it even more difficult for voters to identify which parties address their economic interests, further weakening partisan attachments. Populist alternatives appear to be more politically feasible in these contexts.

6.3 Policy Implications

The argument and findings in this dissertation have at least two broad implications in terms of public policy. The first concerns social policy reform. While welfare programs in some countries are increasingly programmatic, in others they continue to be driven by political criteria. In recent years, a broad consensus has emerged among governments of different political orientations about the benefits of implementing and expanding CCTs. In contrast, initiatives to universalize social security systems face enormous funding challenges. Although left- and right-leaning governments might agree on the need to expand social insurance, financing strategies to achieve universal coverage are politically divisive. Future policy proposals along these lines should recognize that in contexts with large informal sectors, low levels of taxation do not guarantee enough resources to increase coverage. The findings in this dissertation suggest that informality increases uncertainty regarding the redistribution of these
resources. Also, given the low level of demand for redistribution among members of the informal sector, parties will face significant challenges to build strong electoral coalitions pushing for substantial reforms of existing welfare systems.

The second implication has to do with the quality of political competition in new democracies. The almost parallel processes of democratization and labor market flexibilization in developing countries have produced mixed results in terms of the quality of democratic accountability and the linkages between citizens and politicians. The evidence presented in this project shows that non-programmatic appeals might prevail when informality is widespread. Public policy attempts to increase electoral transparency would benefit from considering how voters in the informal sector perceive political parties and the mechanisms through which they might be respond more to particularistic benefits. Social programs are particularly important in this respect. The results in Chapter 5 suggest that labor market outsiders are especially sensitive to electoral exchanges conditioning access to social benefits. The process of diversification of social policies might leave margin for clientelistic exchanges. While some social programs have been successful in targeting beneficiaries on programmatic criteria, politicians are still able to manipulate social policy access, especially when benefits are not universal. This underscores the need for effective monitoring mechanisms to guarantee the transparency in the distribution of these programs.

6.4 Future Research

The results in this study open interesting avenues for future research. First, the analysis presented here should be generalizable to a broader set of developing countries. Economic informality is not an exclusive feature of Latin American labor markets, and therefore the argument advanced here applies to other countries in the developing world. Second, future iterations of this project might benefit from incorporating additional methodological approaches to test the effect of livelihood risk and lack of social insurance among individuals in developing countries. For instance, future
analyses could draw upon experimental approaches to sharpen comparisons between individuals receiving different levels of social policy benefits, and Bayesian estimators might help to better assess the contextual effect of informality.

Future work should also analyze how economic informality may have an effect on voting patterns at the macro level. If partisan attachments are weak and parties resort primarily to clientelistic appeals to gain electoral support, we may expect more electoral volatility in regions with high economic informality. Previous research has suggested that class cleavages are important determinants of electoral stability. The existence of clear (and politicized) class cleavages facilitates the articulation of voters positions on social policy issues. But if outsiders are ideologically detached from political parties and more likely to respond to selective incentives in contexts with large informal sectors, electoral volatility might be more likely. An interesting line of subsequent research would examine whether party systems stabilize at low levels of economic informality.

Finally, the results raise new research questions about our understanding of the ideological spectrum in contexts of limited redistribution. Studies on this topic traditionally assume that voters perceive redistributive issues as part of the left-right continuum, and that left-leaning positions imply increased support for redistribution. However, the results presented in this work suggest that this might not be the case. Voters do not necessarily think of parties in terms of their positions on social policy issues and redistributive preferences are not always well articulated in the first place. Paradoxically, redistribution does not appear to be a salient dimension for individuals operating in contexts where informality prevails. Future studies might reassess the meaning and relevance of the left-right scale in these contexts, and explore when and why parties choose to focus on the redistributive issues over alternative dimensions.

Overall, the argument and main findings in this work suggest that informality is politically relevant and that it plays an significant role in shaping political behavior and party strategies. This dissertation is therefore a first step in advancing our un-
derstanding of the implications of labor market dualization, and its potential negative consequences for democratic consolidation.
Appendix A

Variables and Coding

2010 Latin American Public Opinion Project (LAPOP)

Role of the government

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?

ROS5. The (Country) government, more than the private sector, should be primarily responsible for providing retirement pensions. How much do you agree or disagree with this statement?

ROS6. The (Country) government, more than the private sector should be primarily responsible for providing health care services. How much do you agree or disagree with this statement?

To answer, we will use the following ladder, where 1 means strongly disagree and 7 means strongly agree. A number in between 1 and 7 represents an intermediate score.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>Strongly Agree</th>
</tr>
</thead>
</table>

143
VB10. Do you currently identify with a political party?
(1) Yes [Continue]
(2) No [Go to POL1]
(88) DK [Skip to POL1]
(98) DA [Skip to POL1]

B21. To what extent do you trust the political parties?

On this card there is a ladder with steps numbered 1 to 7, where 1 is the lowest step and means NOT AT ALL and 7 the highest and means A LOT. For example, if I asked you to what extent do you like watching television, if you don’t like watching it at all, you would choose a score of 1, and if, in contrast, you like watching television a lot, you would indicate the number 7 to me. If your opinion is between not at all and a lot, you would choose an intermediate score. So, to what extent do you like watching television? Read me the number. [Make sure that the respondent understands correctly].

| Not at all | 1 | 2 | 3 | 4 | 5 | 6 | 7 | A lot |

CLiEN1. In recent years and thinking about election campaigns, has a candidate or someone from a political party offered you something, like a favor, food, or any other benefit or thing in return for your vote or support? Has this happened often, sometimes or never?
(1) Often [Continue with CLiEN2]
(2) Sometimes [Continue with CLiEN2]
(3) Never [Skip to ED]
(88) DK [Skip to ED] (98) DA [Skip to ED]
ED. How many years of schooling have you completed?

None 0
Primary 1 2 3 4 5 6
Secondary 7 8 9 10 11 12
University 13 14 15 16 17 18+
Post-secondary, not university 13 14 15

Q10. Into which of the following income ranges does the total monthly income of this household fit, including remittances from abroad and the income of all the working adults and children? [10 deciles based on the currency and distribution of the country]

(00) No income
(01) Less than $25
(02) $26-$50
(03) $51-$100
(04) $101-$150
(05) $151-$200
(06) $201-$300
(07) $301-$400
(08) $401-$500
(09) $501-$750
(10) More than $751

To conclude, could you tell me if you have the following in your house: [read out all items]

R1. Television (0) No (1) Yes
R3. Refrigerator (0) No (1) Yes
R4. Landline telephone (not cellular) (0) No (1) Yes
R4A. Cellular telephone (0) No (1) Yes
R5. Vehicle/car How many? (0) No (1) One (2) Two (3) Three or more
R6. Washing machine (0) No (1) Yes
R7. Microwave oven (0) No (1) Yes
R8. Motorcycle (0) No (1) Yes
R12. Indoor plumbing (0) No (1) Yes
R14. Indoor bathroom (0) No (1) Yes
R15. Computer (0) No (1) Yes
R16. Flat panel TV (0) No (1) Yes
R18. Internet (0) No (1) Yes

SAL1. Do you have medical insurance? [Pre-test wording in each country]
   (1) Yes [Continue]
   (2) No

SAL2. Is the medical insurance [Read options]
   (1) From the government, as part of social security
   (2) Another government plan,
   (3) Is it a private plan

Q5A. How often do you attend religious services?
   (1) More than once per week
   (2) Once per week
   (3) Once a month
   (4) Once or twice a year
   (5) Never or almost never
CCT. Do you or anyone in your family receive monthly support as part of a governmental program?

(1) Yes

(2) No
Now I am going to read to you the names of some health and social programs. Every year the government has to decide how much money to put in these programs, and which of them should get more resources and which should get less. If you could decide on this matter, would you say that the government should spend much less, less, more or much more on?

- Oportunidades program
- IMSS and ISSSTE health facilities
- 65 y mas, the program to help elderly people

(1) Should spend much less
(2) Should spend less
(3) Should spend more
(4) Should spend much more

Now imagine that the government has 100 pesos to spend in social programs and health services. Considering the following programs, how much money would you assign to each program?

- Social programs like Oportunidades
- Program to help elderly people like 65 y mas
- IMSS and ISSSTE health services

Do you have access to health benefits from the following services/institutions?

- Social Security (IMSS)
- ISSSTE
• Health services at PEMEX, army or the navy.

• Health services for state workers

• Seguro Popular

• Private health insurance

Now I am going to ask you and about parties’ positions regarding several public issues. Please consider what you have heard from politicians from each party and also what you have seen about their work once they are in office.

• To what extent do you think that the ... is trying to get the rich to pay more taxes?

• To what extent do you think that the ... wants to introduce taxes for food and medicine?

• To what extent do you think that the ... wants to extend health services to the entire population?

• To what extent do you think that the ... is trying to reduce inequalities between the rich and the poor?

• To what extent do you think that the ... agrees with private investments in PEMEX?

To answer, we will use the following ladder, where 1 means NOT AT ALL and 7 means A LOT. A number in between 1 and 7 represents an intermediate score. Please answer using this ladder to evaluate the positions of each of the following political parties.

| Not at all | 1 | 2 | 3 | 4 | 5 | 6 | 7 | A lot |
VF.-If presidential elections were held today, who would you vote for?
(1) PRI  (2) PAN  (3) PRD  (4) PVEM  (5) Nueva Alianza  (6) Movimiento Ciudadano  (7) Partido del trabajo (PT)

You said that you would vote for [PARTY OR CANDIDATE FROM ANSWER FROM QUESTION VF] for president if election were held today. Suppose that a candidate from other party offers you something from the following the list. Please tell me, if a candidate of party offered you [READ EACH ITEM] would you change your decision and switch your vote to this other party?

• Start public works to improve the municipality and your community such as a school or a hospital
• Help you to get access to a health program for you and your family
• Increase public spending to address the main problems in your community
• A card giving you access to programs and benefits from the government

RESPONSE OPTIONS:
• Yes, I would change my decision
• No, I wouldn’t change my decision

VB.- Political parties sometimes give away gifts or favors during electoral campaigns. Has a candidate or someone from a political party offered you something of the following list in return for your vote or support? Have you been offered [READ EACH ITEM]? 

• A gift or favor like a bag of groceries or household accessories?

• Help to start public works such as fixing street lighting or paving

• Cash

• Help to get a job

• A card to have access to a social program to get help from the government

Marital Status
(1) Single
(2) Divorced
(3) Domestic Partnership
(4) Married
(5) Widow
(99) DK

SOC3. What was the highest level of education you completed?
(1) None
(2) Incomplete elementary school
(3) Complete elementary school
(4) Incomplete middle school
(5) Complete middle school
(6) Incomplete high school
(7) Complete high school
(8) Incomplete technical training
(9) Incomplete college
(10) Complete technical training
(11) College
(12) Graduate degree
(98) DK
(99) NA

SOC4.- To conclude, could you tell me if you have the following in your house:
[read out all items]

• Television
• Refrigerator
• Landline telephone (not cellular)
• Cellular telephone
• Microwave oven
• Indoor plumbing
• Indoor bathroom
• Computer
• Flat panel TV
• Internet access
• Boiler
• Cable
• Credit Card

• Vehicle/car, if Yes, How many? (0) No (1) One (2) Two (3) Three or more

REL2. How often do you attend religious services?
(1) Never or almost never
(2) Once a year
(3) Twice to 10 times a year
(4) Once a month
(5) More than once per month
(6) Once per week or more
(99) DK/DA

SOC5. Considering the income earned by of all the working adults in this household, which is the monthly total income in your household?
(1) Sal. Mn. (0 2,019)
(2) 1-3 Sal. Mn. (2,012 6,057)
(3) 3-5 Sal. Mn. (6,058 10,095)
(4) 5-7 Sal. Mn. (10,096 14,133)
(5) 7-10 Sal. Mn. (14,134 20,190)
(6) 10-30 Sal. Mn. (20,191 60,570)
(7) 30-+ Sal. Mn. (60,571 - +)
(99) NS/NC
Cross-national Indicators

To measure the size of the informal sector across countries, I rely on ILO’s the Statistical update on employment in the informal economy, a comprehensive report for 47 medium and low-income countries, which makes important methodological distinctions which allow quantifying the number of people employed in the informal sector as well as those working informally in enterprises considered part of the formal sector (ILO 2012).
Appendix B

Mexico Survey Methodology

Survey Information

The 2014 Mexico survey was carried out by BGC, Beltrán, Juárez y Asociados, a leading public opinion firm based in Mexico City. The survey was applied in the State of Mexico, a south-central state adjacent to Mexico City. Figure B.1 shows a map of the municipalities in the state. It is surrounded by eight states: Michoacán, Guerrero, Morelos, Puebla, Tlaxcala, Hidalgo, Querétaro and Mexico City (Federal District, or D.F.). According to 2014 estimates, the State of Mexico has the highest population density as well as the largest population in the country.

The survey consisted of face-to-face interviews of 1,200 adults Mexican adults (18 years old+) living in housing units within the State of Mexico. Interviews were carried out using structured pencil and paper questionnaires. The survey was administered between January 25 - 30, 2014.

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1 BGC’s website: http://www.bgc.com.mx/

2 Map source: INEGI. Marco Geoestadístico Municipal 2010, version 5.0. The names of the municipalities corresponding to the INEGI codes on the map are listed at the end of the Appendix

3 By 2014, approximately 14% of inhabitants in Mexico lived in the State of Mexico (16,651,171). The state is followed in population by Mexico City with 7.4% (National Institute of Statistics and Geography (INEGI) and CONAPO).

4 The survey instrument was approved under the Duke University IRB protocol [B0795] Economic
The sample has a ±2.8 margin of error for a 95% confidence interval. Interviewers provided information about the objective of the survey, and respondents were also informed about the measures taken to protect the confidentiality of the information provided in the survey. Participants were assured about the anonymity of their responses, both in terms of data collection and processing.\footnote{The following is the statement that interviewers read at the beginning of the interview: “Good morning/afternoon. My name is (...) and I work for BGC, a public opinion firm. We are conducting a survey for researchers at Duke University to know your opinion about the current situation of the country, employment benefits and the role of the government in providing social services. You may skip questions you don’t feel comfortable answering and you may stop the interview at any time. We will not keep a record of your name and we will group individual answers in our report for Duke. I will not take more than 35 minutes of your time. I am happy to answer any questions you may have before proceeding with the survey. Thank you.}}
Sampling Procedure

The sampling design consisted of a multistage stratified procedure. In the first stage, electoral sections were randomly selected with a probability of selection proportional to their population size, which is determined by the list of eligible voters. Table B.1 shows the distribution of selected electoral sections across rural and urban localities.

Table B.1: Sample Distribution

<table>
<thead>
<tr>
<th>Domain</th>
<th>Urban</th>
<th>Rural</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electoral sections</td>
<td>104</td>
<td>16</td>
<td>120</td>
</tr>
<tr>
<td>Interviews</td>
<td>1,040</td>
<td>160</td>
<td>1,200</td>
</tr>
</tbody>
</table>

The selected electoral sections are the Primary Sampling Units (PSUs) across municipalities. Each PSU corresponds to a non-overlapping sample stratum based on regions defined by their level of social security coverage and level of electoral competitiveness. Table B.2 shows the sample distribution across strata.\(^6\)

Table B.2: Sample Distribution across Strata

<table>
<thead>
<tr>
<th>Electoral competitiveness</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social security coverage</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Level 1</td>
<td>100</td>
<td>120</td>
<td>180</td>
<td>400</td>
</tr>
<tr>
<td>Level 2</td>
<td>70</td>
<td>180</td>
<td>150</td>
<td>400</td>
</tr>
<tr>
<td>Level 3</td>
<td>230</td>
<td>100</td>
<td>70</td>
<td>400</td>
</tr>
<tr>
<td>Total</td>
<td>400</td>
<td>400</td>
<td>400</td>
<td>1,200</td>
</tr>
</tbody>
</table>

In each selected electoral section, blocks were counted and randomly selected using a table of random numbers. In each block selected, housing units were randomly selected using a systematic interval and a random starting point. Finally, within selected housing units, respondents were randomly chosen depending on their birth

\(^6\) The level of competitiveness was estimated using the effective number of parties index (ENP). The level of social security coverage corresponds to the proportion of the population without access to social security services (IMSS).
date. The adult in the household with the most recent birthday was selected. If the selected individual was not home at the moment of the visit, interviewers made a second attempt, returning to the household later in the day. If the selected respondent was not successfully contacted upon the second attempt, or if she refused to answer the survey, the household was replaced with an adjacent housing unit.

Response Rate

Table B.3 shows the observed refusals per survey completed as well as the total number of contacts needed to gather the total sample. The response rate is calculated as the proportion of effective interviews relative to the total number of contacts made. Conversely, the refusal rate is the proportion of refusals relative to the total number of potentially eligible cases.

Table B.3: Non-Response Rate

<table>
<thead>
<tr>
<th>Refusals</th>
<th>Frequency</th>
<th>Percent</th>
<th>Total Refusals</th>
<th>Total Contacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>421</td>
<td>35.08</td>
<td>0</td>
<td>421</td>
</tr>
<tr>
<td>1</td>
<td>517</td>
<td>43.08</td>
<td>517</td>
<td>1,034</td>
</tr>
<tr>
<td>2</td>
<td>224</td>
<td>18.67</td>
<td>448</td>
<td>672</td>
</tr>
<tr>
<td>3</td>
<td>32</td>
<td>2.67</td>
<td>96</td>
<td>128</td>
</tr>
<tr>
<td>4</td>
<td>4</td>
<td>0.33</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>0.08</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>8</td>
<td>1</td>
<td>0.08</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,200</strong></td>
<td><strong>100</strong></td>
<td><strong>1,090</strong></td>
<td><strong>2,290</strong></td>
</tr>
</tbody>
</table>

\[
Response_r = \frac{Interviews}{Contacts} = \frac{1,200}{2,290} = 0.52
\]

\[
Rejection_r = \frac{Refusals}{Contacts} = \frac{1,090}{2,290} = 0.47
\]
Data Processing

After the implementation procedure was completed, questionnaires were validated to check for any inconsistencies or errors during the interview. The validating process looked for mistakes or omissions such as inconsistencies regarding sociodemographic identifiers or errors in the implementation of questions with a filter.

If issues were detected in an interview, further verification was conducted by checking the complete batch of questionnaires conducted by the interviewer in question. Given the sampling design utilized in the study, and to ensure the representativeness of the data, observations were weighted to reflect observed gender and age rates in the population.
<table>
<thead>
<tr>
<th>INEGI code</th>
<th>Municipality</th>
<th>Cabecera Municipal</th>
</tr>
</thead>
<tbody>
<tr>
<td>001</td>
<td>Acambay</td>
<td>Acambay</td>
</tr>
<tr>
<td>002</td>
<td>Acolman</td>
<td>Acolman</td>
</tr>
<tr>
<td>003</td>
<td>Aculco</td>
<td>Aculco de Espinoza</td>
</tr>
<tr>
<td>004</td>
<td>Almoloya de Alquisiras</td>
<td>Almoloya de Alquisiras</td>
</tr>
<tr>
<td>005</td>
<td>Almoloya de Juárez</td>
<td>Almoloya de Juárez</td>
</tr>
<tr>
<td>006</td>
<td>Almoloya del Río</td>
<td>Almoloya del Río</td>
</tr>
<tr>
<td>007</td>
<td>Amanalco</td>
<td>Amanalco de Becerra</td>
</tr>
<tr>
<td>008</td>
<td>Amatepec</td>
<td>Amatepec</td>
</tr>
<tr>
<td>009</td>
<td>Amecameca</td>
<td>Amecameca de Juárez</td>
</tr>
<tr>
<td>010</td>
<td>Apaxco</td>
<td>Apaxco de Ocampo</td>
</tr>
<tr>
<td>011</td>
<td>Atenco</td>
<td>San Salvador Atenco</td>
</tr>
<tr>
<td>012</td>
<td>Atizapn</td>
<td>Santa Cruz Atizapán</td>
</tr>
<tr>
<td>013</td>
<td>Atizapn de Zaragoza</td>
<td>Ciudad López Mateos</td>
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<td>014</td>
<td>Atlacomulco</td>
<td>Atlacomulco de Fabela</td>
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<td>015</td>
<td>Atlautla</td>
<td>Atlautla de Victoria</td>
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<tr>
<td>016</td>
<td>Axapusco</td>
<td>Axapusco</td>
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<td>017</td>
<td>Ayapango</td>
<td>Ayapango</td>
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<td>018</td>
<td>Calimaya</td>
<td>Calimaya de Díaz González</td>
</tr>
<tr>
<td>019</td>
<td>Capulhuac</td>
<td>Capulhuac de Mirafuentes</td>
</tr>
<tr>
<td>020</td>
<td>Coacalco de Berriozbal</td>
<td>San Francisco Coacalco</td>
</tr>
<tr>
<td>021</td>
<td>Coatepec Harinas</td>
<td>Coatepec Harinas</td>
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<td>Cocotitlán</td>
<td>Cocotitlán</td>
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<td>Cuautitlín</td>
<td>Cuautitlín</td>
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<td>025</td>
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<td>026</td>
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<td>032</td>
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<td>037</td>
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<td>Huixquilucan de Degollado</td>
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<td>Tlazala de Fabela</td>
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<td>Ixtapaluca</td>
<td>Ixtapaluca</td>
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<td>040</td>
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<td>Ixtapan de la Sal</td>
</tr>
<tr>
<td>041</td>
<td>Ixtapan del Oro</td>
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</table>
Table B.5: State of Mexico Municipalities (Continuation I)

<table>
<thead>
<tr>
<th>INEGI code</th>
<th>Municipality</th>
<th>Cabecera Municipal</th>
</tr>
</thead>
<tbody>
<tr>
<td>042</td>
<td>Ixtlahuaca</td>
<td>Ixtlahuaca de Rayón</td>
</tr>
<tr>
<td>043</td>
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Appendix C

Semi-structured Interviews

As part of this project, I conducted a series of interviews with members of the informal sector in Mexico. This exercise had two main goals. First, it served to improve the design of the survey instrument carried out in the State of Mexico and second, it allowed me to gain a better understanding of the preferences, experiences and attitudes of labor market outsiders. Through these interviews, I was able to study more closely the risks they face and the hedging mechanisms they use to cope with contingencies. While the information gathered in these interviews is not representative in a statistical sense, it provides an insight on the attitudes of a segment of the informal sector, their views toward the role of government, as well as their expectations regarding political parties and their redistributive political platforms.

Study Characteristics

Study locations were intended to reflect the preferences and behavior of labor market outsiders living and working in different contexts. The interviews were conducted between July and September, 2013 in Mexico City and the capital city of the state of Oaxaca. The study consisted of semi-structured interviews focusing on questions about work conditions, labor benefits, access to social services, perceptions about
inequality, the government, and political parties. The complete questionnaire is shown at the end of this Appendix. In many cases, the questions served as prompts leading to longer conversations about respondents’ daily lives, struggles and aspirations.

Mexico City and the city of Oaxaca were selected because of their contrasting levels of economic informality and their contextual differences regarding other economic indicators. Mexico City is the national capital, and the largest city in the country with around 8.85 million people.\(^1\) It also has the highest level of economic development in the country, according to the Human Development Index (HDI) produced by the United Nations.\(^2\) Mexico City’s informal employment rate (TIL1) estimated by the Mexican National Institute of Statistics and Geography (INEGI) was 50% at the moment of the study. The state of Oaxaca is located in the southern region of the country. It has the highest informal employment rate, with around 80% of the labor force working in the informal sector, according to 2013 INEGI estimates. Its level of economic development is substantially lower compared with Mexico City. According to the most recent HDI estimates, Oaxaca remains one of the three poorest states in the country.

I carried out 92 interviews, 65 in Mexico City and 27 in Oaxaca. In total, I interviewed 47 women and 45 men. The mean age of respondents was 39.8. Interviews in Mexico City were carried out at three main locations: 1) at one street market located in Alvaro Obregón\(^3\), 2) outside the General Hospital of Mexico, a medical center operated by the Health Ministry of Mexico (Secretaría de Salud)\(^4\), and 3) with


\(^2\) According to the United Nations Development Programme, the “Human Development Index (HDI) is a summary measure of average achievement in key dimensions of human development: a long and healthy life, being knowledgeable and have a decent standard of living.” See: http://hdr.undp.org/en/content/human-development-index-hdi

\(^3\) Alvaro Obregón is one of the 16 boroughs (delegaciones) in Mexico City, located on the southwest area of the city. The street market is held every Saturday on Tacala street, starting on the corner with Tamaulipas Avenue. The second panel on Figure C.3 shows the market’s approximate location.

\(^4\) The General Hospital of Mexico offers medical care to people without social security. Given
workers at a construction site in the Mixcoac area.\footnote{The Mixcoac area is located in the Benito Juárez borough.}

In Oaxaca, interviews were conducted outside two main markets: the Benito Juárez Market, located two blocks southwest from the city main square, and the Central de Abastos Market. All interviewees in Oaxaca were vendors located on the streets surrounding established markets. Figure C.4 shows the location of the state of Oaxaca and the approximate location of the markets where interviews took place.

Summary of Qualitative Findings

*Economic Situation and Perceived Risks*

In general, the informal workers I interviewed evaluated negatively the state of the economy and expressed pessimism about the future. Respondents noted a deterioration of the economic conditions in the country and no direct benefit from the economic reforms implemented by the federal government. They also noted a loss of purchasing power, and mentioned how this affects them not only in terms of their household finances but also indirectly, by reducing their sales when customers cannot afford to buy their products anymore. When asked to evaluate their current economic situation, several informal workers mentioned that “money buys less now than it did before” and that “things do not seem to be improving” for them in terms of their income and work conditions.

While this perception was common among respondents both in Oaxaca and in Mexico City, Oaxacan respondents expressed more dissatisfaction and emphasized the lack of economic dynamism in their state, which most perceive to be stagnant since many decades. One respondent from the Central de Abastos Market mentioned that federal and local governments have historically failed to implement policy strategies to boost economic development: “The process of industrialization never reached the large demand for health services at the hospital, patients and their families gather outside the hospital for hours, waiting for their appointments or to hear from relatives undergoing treatment or hospitalization. Interviews were conducted on the main area in front of the hospital.
south of Mexico, and together with the neglected state of education, most of the people in the state have remained in poorly paid jobs, such as vending” (Félix, fruit vendor, 46 years old, Central de Abastos, Oaxaca).

Interviewees were also concerned about their personal economic prospects. Many respondents mentioned the instability of their income, which, in the case of street vendors, might be highly variable depending on the season, weather, or arrangements with local officials. This makes it more difficult for their households to plan ahead financially. In Mexico City some vendors mentioned that although there are hardships in informal vending, they are hopeful that their children will have access to better opportunities. This contrasts with responses in Oaxaca, where the general perception is that there is a lack of economic mobility across generations: “Effort does not pay off. I’ve seen many mothers working as street vendors for years to send their children to school. But then their children can’t find a job” (Juana, produce vendor, 66 years old, Central de Abastos, Oaxaca).

Access to Health Services and Social Policies

When talking about their working conditions and lack of insurance, respondents acknowledged the variety of risks they face everyday. The great majority of the informal workers I interviewed do not have access to any kind of pension or retirement plan. Almost none of them are entitled to health services at IMSS or ISSSTE. To get health care, they resort to a variety of services depending on the seriousness of their health issues. One of the options on which they rely the most for basic medical attention is the set of services available at discount drugstore chains.⁶ These pharmacies offer medical consultations for about $2 and lab services with prices ranging from $10- $60.⁷ At such prices, informal workers are able to afford the consultations paying

⁶ The largest discount pharmacy chain in the country is Farmacias Similares. In recent years Farmacias del Ahorro has emerged as a competitor, also offering doctor consultations in adjacent clinics to their drugstores.

⁷ Prices at Farmacias Similares as of spring-summer 2015.
out-of-pocket, even if they usually have to buy a list of prescribed drugs and vitamin supplements at the same pharmacy. Given the limitations in public health provision in the country, this business model has expanded significantly in recent years.\(^8\)

Many respondents mentioned having recently affiliated with the program Seguro Popular, aimed at those outside the IMSS and ISSSTE health care system. They perceive this program as an attractive alternative to get basic health care, although some of the interviewees mentioned that similarly to what happens in other public health services, there is often a shortage of medicines, variation in service quality, and long waiting times.\(^9\) In the case of illnesses requiring hospitalization and chronic diseases, informal workers have to rely on the specialty medical centers part of the Ministry of Health network, which are located in the main capitals and face an excess demand.

*The Redistributive Role of the State*

Although almost all respondents agreed that the government should implement policies to reduce inequalities and redistribute income, it was less clear for them how to do so. Respondents associate policies on the economic dimension with measures to increase employment and promote investment and growth, and less with redistributive measures. Interviewees gave general answers as to which redistributive policies would be desirable. When asked, they broadly mentioned that “the government should create more jobs” or that “it should reduce prices in basic goods such as food, gas and electricity”. That is, many respondents did not necessarily think about social policy when given a prompt about policies aimed at reducing inequality.

When asked more specifically about the role of the state in providing social services, a prevalent response was that the government should improve health services, increase the medical staff and medicine supply. Most respondents mentioned that

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\(^8\) See: Hayden (2007) and ILO’s report at http://www.social-protection.org

\(^9\) For a discussion on waiting times across medical facilities in the Mexican public health system, see Contreras-Loya et al. (2015).
the government should work to guarantee universal health coverage to all Mexicans. In general, public health services are perceived as following an inertial path, with governments making only minor adjustments in terms of facilities, equipment and resources. This is especially the case in Oaxaca, where many people still have to travel long distances to get medical attention, sometimes in Mexico City. For labor market outsiders in this state, the situation of public health care provision has been in crisis for decades. Respondents both in Mexico City and Oaxaca mentioned lack of funding, insufficient coverage and deficient quality as the main challenges for an effective public provision of health services in their communities.

Perceptions about Political Parties

Political parties are not necessarily perceived as vehicles to implement substantial reforms to the social policy system. Rather, respondents expressed skepticism regarding parties’ political platforms and observed little differences among parties’ proposals and government actions on social policy provision. One of the questions in the interview asked respondents to rank each of the three main parties (PRI, PAN and PRD) according to the importance they place on reducing socioeconomic inequalities. I asked respondents to evaluate each party on a 1-10 scale, with 1 being “low importance” and 10 “high importance.” In general, informal workers gave similar evaluations to all parties, arguing that there was no substantial variation among their priorities, and that alternation in power had not necessarily brought innovation in terms of parties’ strategies to tackle persistent economic inequality.

I also asked whether parties had different policy proposals/approaches on issues such as health policies, education and social policy provision. Again, respondents emphasized that the three parties have not pushed distinctive proposals on this area. On the contrary, respondents identified these areas as highly neglected, with governments adjusting the public budget and the level of funding for certain programs and services, but not necessarily following political strategies based on ideological
differences.

Many respondents acknowledged having been offered material benefits or having been promised something in return for their vote. This experience is almost normalized among many of the respondents I interviewed. For many informal workers, clientelistic practices are part of the electoral process, observed routinely during electoral campaigns. While there is a sense about its undesirability, clientelistic exchanges are perceived as an additional way in which parties connect with voters.
Figure C.1: Interview sites, Mexico City, Mexico
Figure C.2: Interview sites, Oaxaca de Juárez, Mexico
Semi-structured Questionnaire

Introduction

Good morning/afternoon. I am working on a study about labor conditions and economic perceptions in Mexico. Would you mind answering a few questions? I will not take more than 35 minutes of your time. You may skip questions you don’t feel comfortable answering and you may stop the interview at any time.

1. What is your first name?

2. What is your main occupation?

3. Could you tell me the name of the municipality/community/borough where you live?

4. How did you start working here?

5. How long have you been working at this location?

6. Are you an employee or are you self-employed?

7. How many hours do you usually work each day?

8. Do you have health insurance? If so, which one?

9. What is the coverage of your insurance?

10. Have you ever (or a close family member) needed hospitalization? If so, where did you receive medical care?

11. How would you rate the quality of the health care you received?

12. Have you ever used the medical services offered by discount pharmacy chains? If so, how would you rate this service?
13. Do you have a retirement savings account? If you are married, does your husband/wife have a retirement savings account?

14. How would you evaluate the economic situation in Mexico?

15. Compared with 6 years ago, do you think the economy is getting better or worse?

16. And compared with 6 years ago, do you think your personal finances are getting better or worse?

17. How large would you say is the gap between the rich and the poor in Mexico?

18. What should be the role of the government in reducing economic inequality?
   Do you think that the government should do more or less on this issue?

19. Do you think that the government should provide health care services or that each individual should pay for her care?

20. Do you currently receive benefits from any government social program? Which one(s)?

21. Which social programs would you consider the best? Why?

22. What about health care programs, which one(s) would you consider the best? Why?

23. Do you (or any member of your family) receive: Programa 65 y más? If so, how do you evaluate this program?

24. Do you (or any member of your family) receive: Oportunidades? If so, how do you evaluate this program?

25. Do you (or any member of your family) receive: Apoyo a adultos mayores (D.F.)? If so, how do you evaluate this program?
26. Now we will use the following ladder, where 1 means NOT AT ALL and 10 means A LOT. A number in between 1 and 10 represents an intermediate score. Please answer using this ladder to evaluate the positions of each of the three main political parties. To what extent do you think that the ... is trying to reduce inequalities between the rich and the poor?

27. How different are parties’ proposals/policies regarding: Health care services

28. How different are parties’ proposals/policies regarding: Education

29. How different are parties’ proposals/policies regarding: Social programs

30. Do you vote regularly?

31. What are the issues/policies that matter the most for you when deciding your vote?

32. What do you expect from the government in terms of: Health care services

33. What do you expect from the government in terms of: Education

34. What do you expect from the government in terms of: Social programs

35. Do you identify with any political party?

36. Political parties sometimes give away gifts or favors during electoral campaigns. Has a candidate or someone from a political party offered you something in return for your vote or support?
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Biography

Melina Altamirano Hernández was born in Mexico City, Mexico, on December 8, 1981. She earned a Bachelor of Arts in Political Science from the Centro de Investigación y Docencia Económicas (CIDE) in 2006. She received a Master of Arts in 2012 and a PhD in Political Science in 2015, both from Duke University. Her research interests include the political economy of the informal sector; redistributive politics and social policy transformation in developing countries; gender and politics, and comparative political behavior. Prior to starting her graduate studies, she worked at a leading public opinion firm based in Mexico City.