Trade, Informality and Risk: Correlations from Cross-National Data, Slums in Bangalore and Silicon Valley

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Some preliminaries

- Most PE models start with income/class as a driver of preferences.
  - Actors deploy their votes, lobbying power, etc. to get the state to do what they want.
- Modern notions of class deeply embedded in a model of industrial economies and effective states. But many workers and firm owners the world over operate in the informal sector.
  - Definition: Workers or firms operating outside of the legal system of taxation and regulation.
- For actors in the informal sector, the cost-benefit analysis associated with political action is very different.
  - Evading the state might be more important than trying to capture it via political action.
  - Ex: Informal workers are more conservative than formal ones in both observational and survey experimental settings (Wibbels and Altamirano 2014; Altamirano 2015)
Who Cares?

• A global phenomenon
• Many stories bearing on tertiarization/deindustrialization
  • Trade liberalization/factor price equalization
  • Skill-biased tech change
  • The family and labor supply shocks
• But those stories describe global processes and are, therefore, weakly equipped to explain cross-country/sector/firm/worker variation
• Work is being “informalized” in rich countries
What we want to know:

- Why do countries vary in their level of economic informality?
- What are the implications of informality for the preferences and behavior of workers?
- What are the implications of informality for the preferences and behavior of firms?
Claims

1. Informality is driven by two big factors
   I. Legacies of protective labor markets + trade liberalization
   II. Technological innovation, international competition and firm strategies
Empirics 1: Historically, protectionism produced restrictive labor market regulations
Empirics 1: Labor Market Regulations are Stuck in Time
Empirics 1: Restrictive Labor Regs are Associated with Deindustrialization
Empirics 1: Restrictive Labor Regs are Associated with Deindustrialization and Larger Informal Sectors
Empirics 1: Restrictive Labor Regs are Associated with Dualized Labor Markets In OECD
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1. Informality is driven by two big factors
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2. In countries with a history of protective labor markets, trading and non-trading firms have divergent experiences with informal firms
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3. Work in the informal sector is brutish, nasty and risky
   I. And predisposes workers to short-term, clientelistic “solutions”
Empirics 3: Labor Market Insecurity in the Slums of Bangalore
Empirics 3: Labor Market Insecurity in the Slums of Bangalore
Empirics 3: Labor Market Insecurity in the Slums of Bangalore
Empirics 3: Labor Market Insecurity in the Slums of Bangalore: A List Experiment on Clientelism

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4. Work in rich countries is being unbundled in a way that bears resemblance to informal work. This “trade in tasks” is intimately connected to increased exposure of new sectors to tech and competition.
Empirics 4: Labor Market Insecurity in Silicon Valley
My Old, Sectoral View of Risk

U.S. Unemployment in Three Occupations

Manufacturing Workers

- Occupational Unemployment
- National Unemployment


Engineers

- Occupational Unemployment
- National Unemployment


Health Professionals

- Occupational Unemployment
- National Unemployment

Global markets, firms and labor market risks: the research agenda

• Firm and their strategies:
  • Develop models that make labor contracting choices endogenous
  • Develop tools to measure how work is contracted for

• Worker strategies
  • How do workers understand risk and uncertainty in the new world of decomposable tasks?
  • How do workers understand this risk? And do they think the risk should be socialized?
  • And what are the implications for collective action? Political coalitions?