

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

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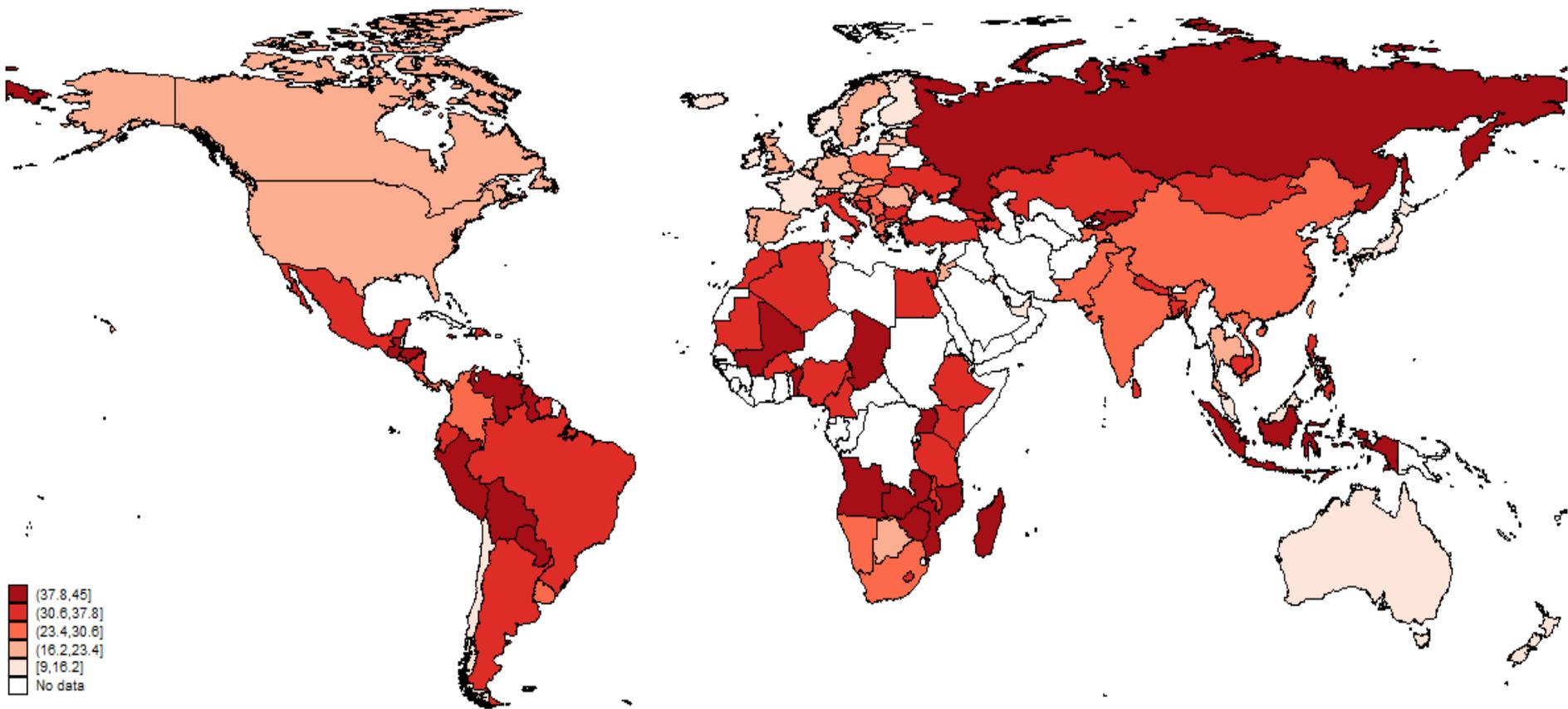
John Ahlquist, UCSD

Erik Wibbels, Duke

# 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)

Size of the Informal Sector (% Economic Activity)



# 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

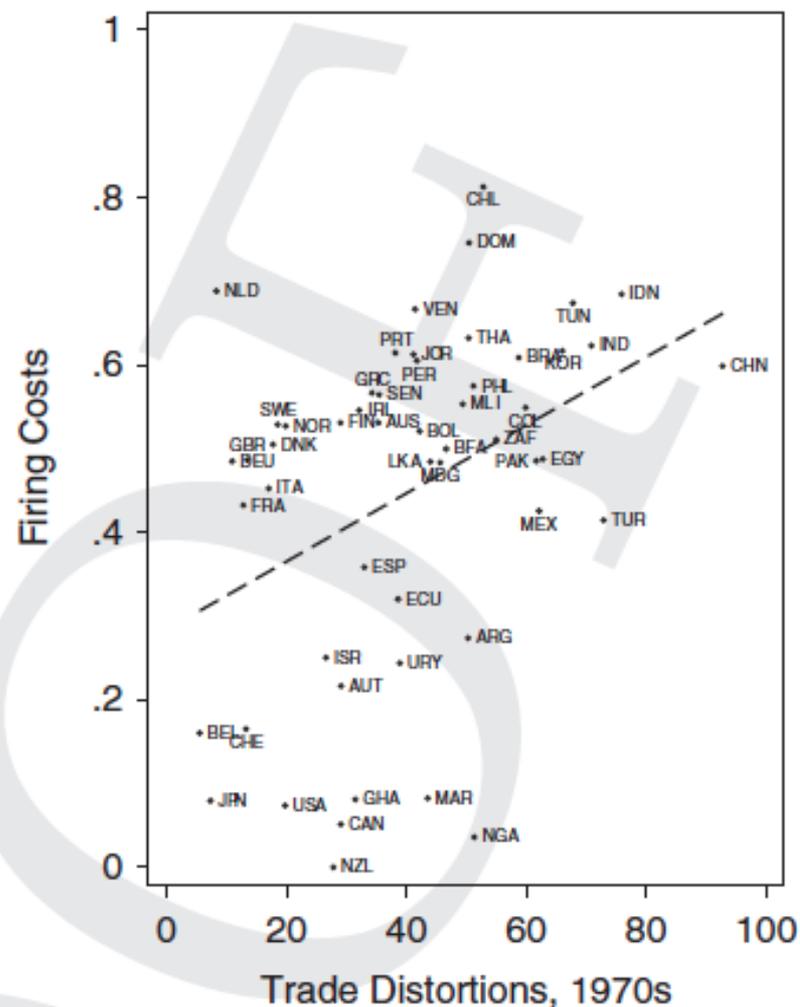
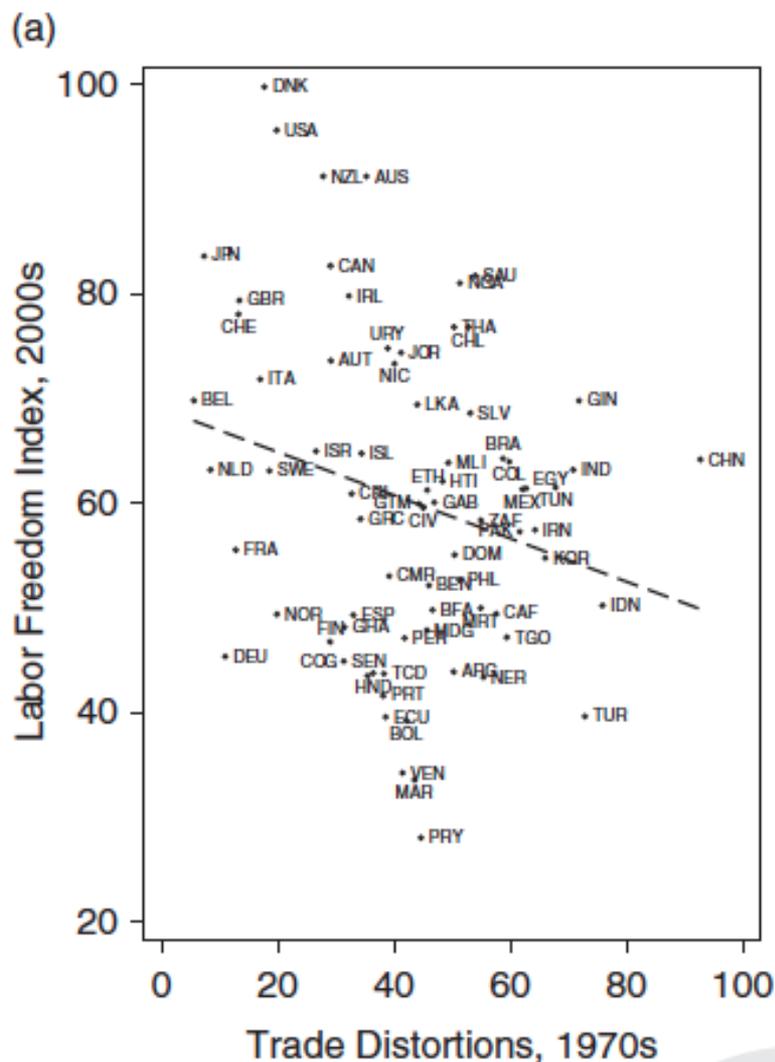
## What we want to know:

- 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?

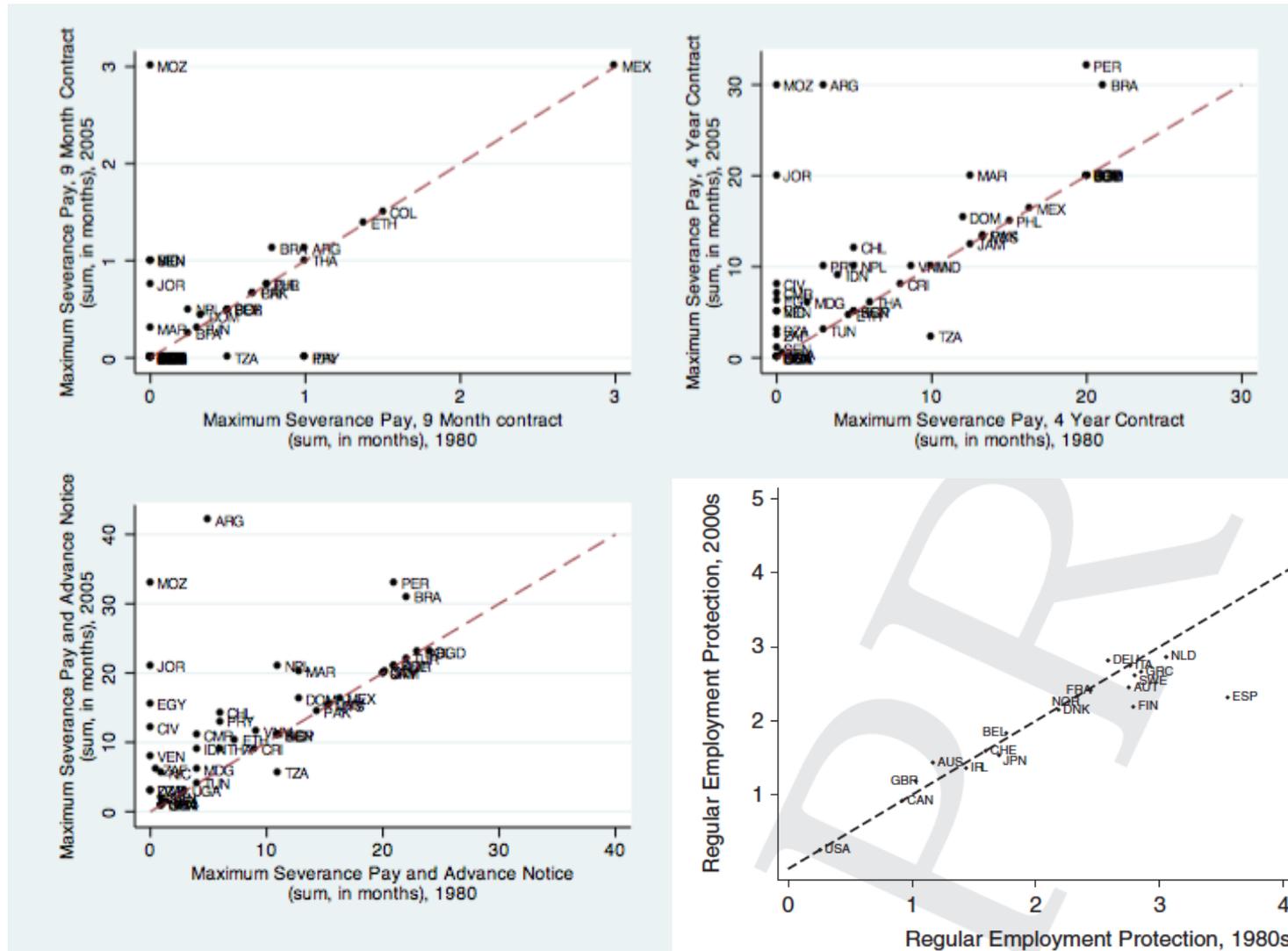
# Claims

1. Informality is driven by two big factors
  - I. Legacies of protective labor markets + trade liberalization
  - II. Technological innovation, international competition and firm strategies

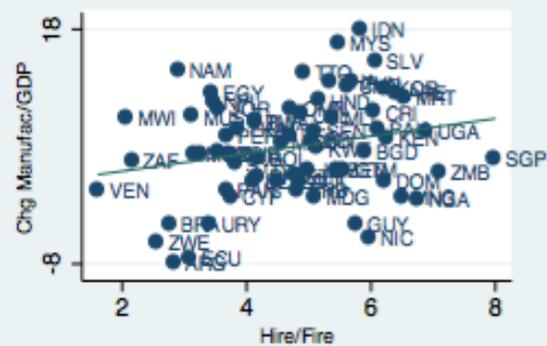
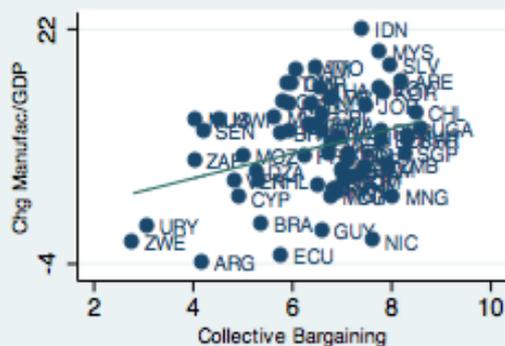
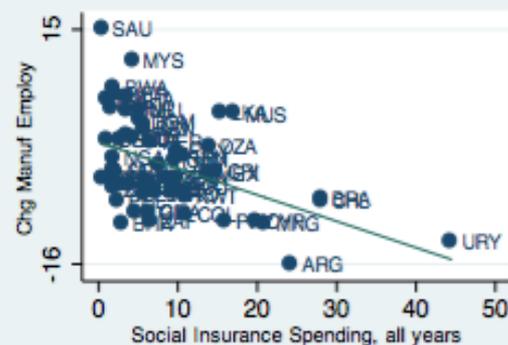
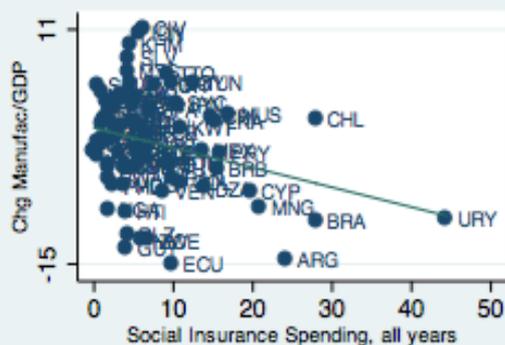
# Empirics 1: Historically, protectionism produced restrictive labor market regulations



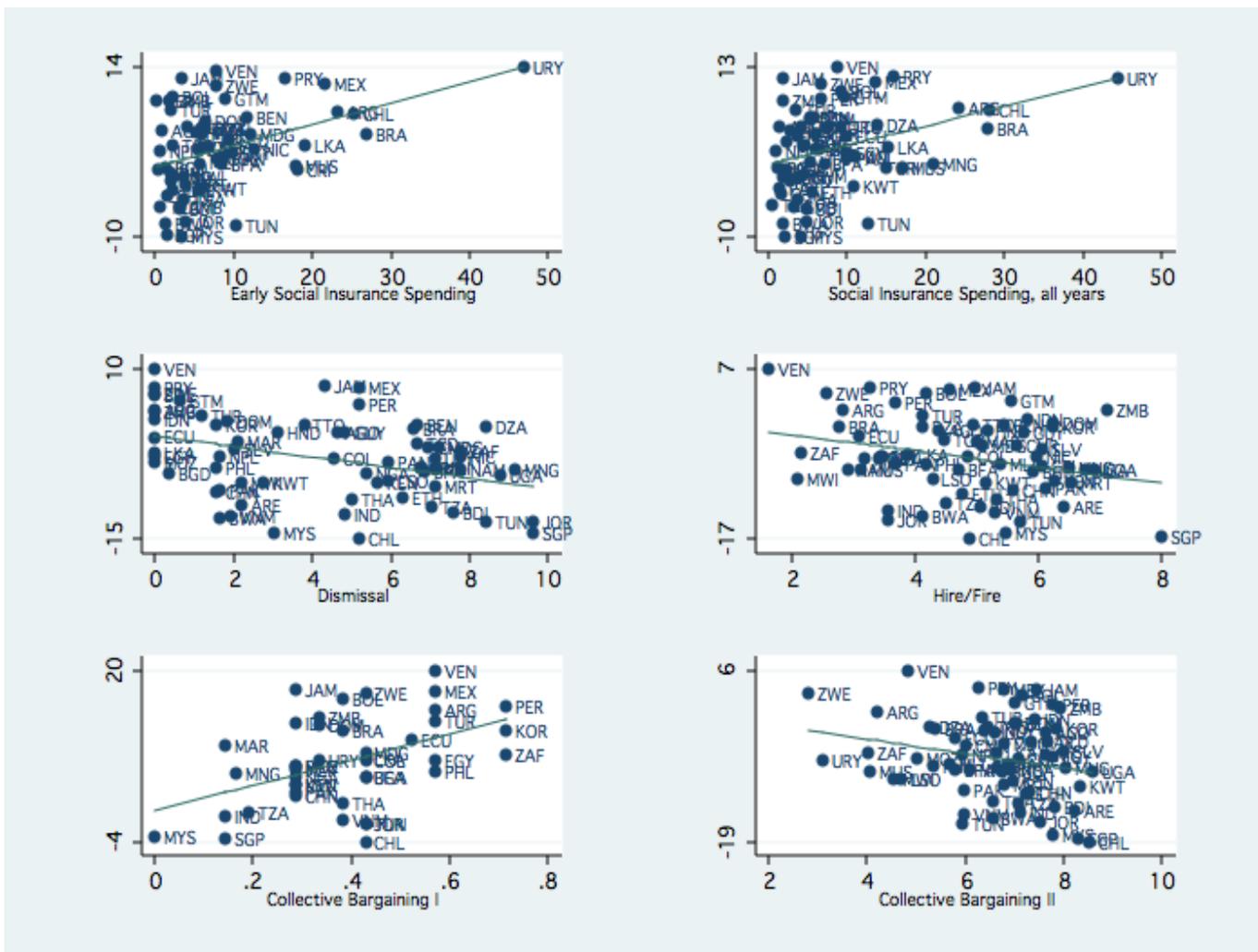
# Empirics 1: Labor Market Regulations are Stuck in Time



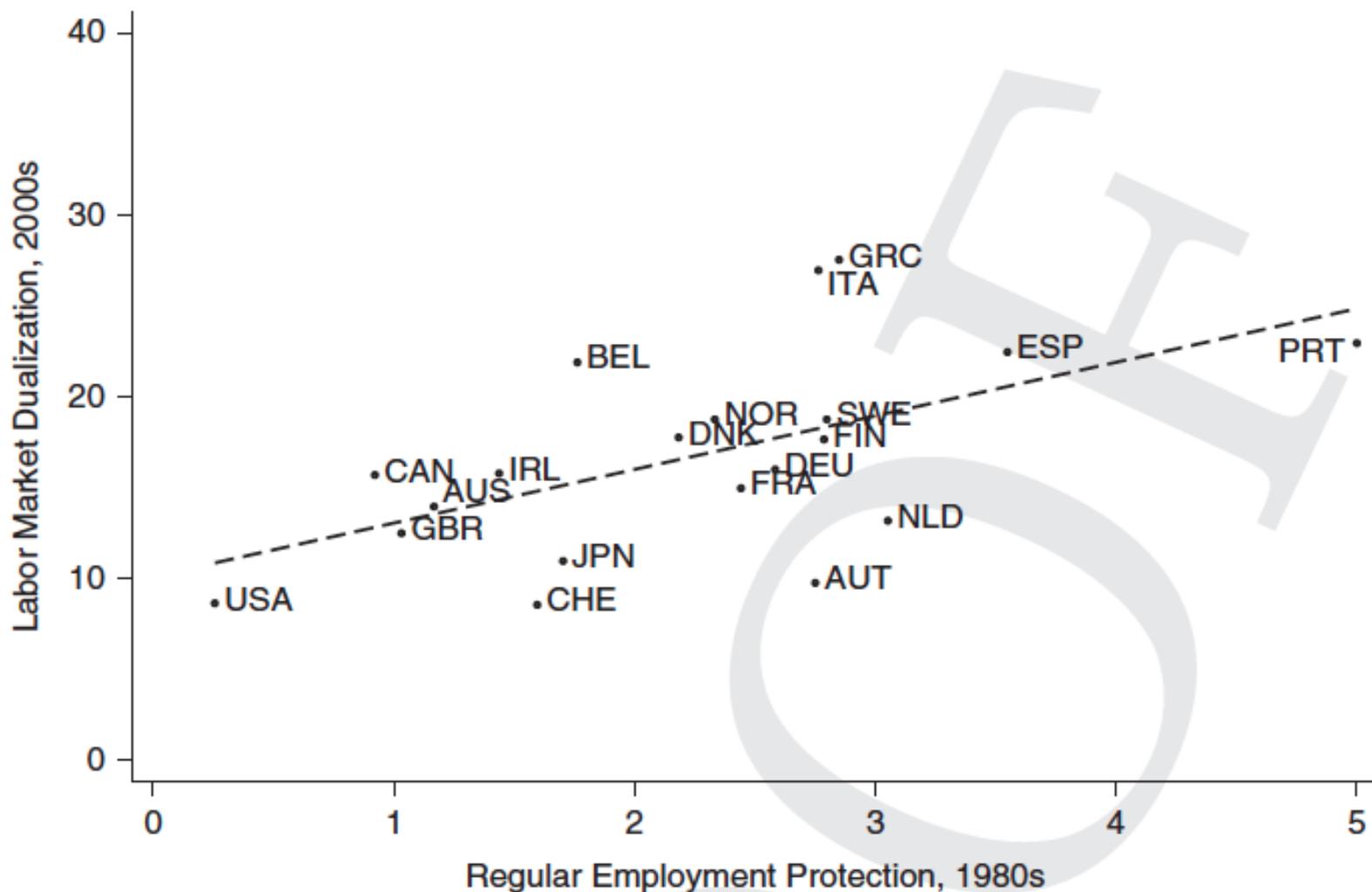
# Empirics 1: Restrictive Labor Regs are Associated with Deindustrialization



# 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
  - I. Legacies of protective labor markets + trade liberalization
  - II. Technological innovation, international competition and firm strategies
2. In countries with a history of protective labor markets, trading and non-trading firms have divergent experiences with informal firms

# Empirics 2: Labor Markets, Exporting Firms and Informal Competition

Tabelle 1:

	<i>Dependent variable:</i>					
	Obstacle.Informal					
	(1)	(2)	(3)	(4)	(5)	(6)
Manufacturing_Sector	0.06*** (0.01)	0.09*** (0.01)	0.09*** (0.01)	0.09*** (0.01)	0.12*** (0.01)	0.11*** (0.01)
Exporter	-0.15*** (0.01)	-0.17*** (0.01)	-0.19*** (0.03)	-0.19*** (0.03)	-0.17*** (0.01)	-0.07** (0.03)
lgdppc	0.11*** (0.03)	-0.09** (0.04)	-0.09** (0.04)	-0.09** (0.04)	-0.35*** (0.05)	-0.35*** (0.05)
tradefreedom.9095		0.002 (0.003)	0.002 (0.003)	0.002 (0.003)		
Exporter:tradefreedom.9095			0.0003 (0.001)	0.0003 (0.001)		
isi.early:Exporter						-0.01*** (0.002)
isi.early					0.02** (0.01)	0.03** (0.01)
Constant	0.65** (0.27)	2.23*** (0.34)	2.24*** (0.34)	2.24*** (0.34)	4.30*** (0.43)	4.25*** (0.43)
Observations	83,632	67,361	67,361	67,361	54,258	54,258
Bayesian Inf. Crit.	282,328	226,330	226,354	226,354	183,409	183,417

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3. Work in the informal sector is brutish, nasty and risky
  - I. And predisposes workers to short-term, clientelistic “solutions”

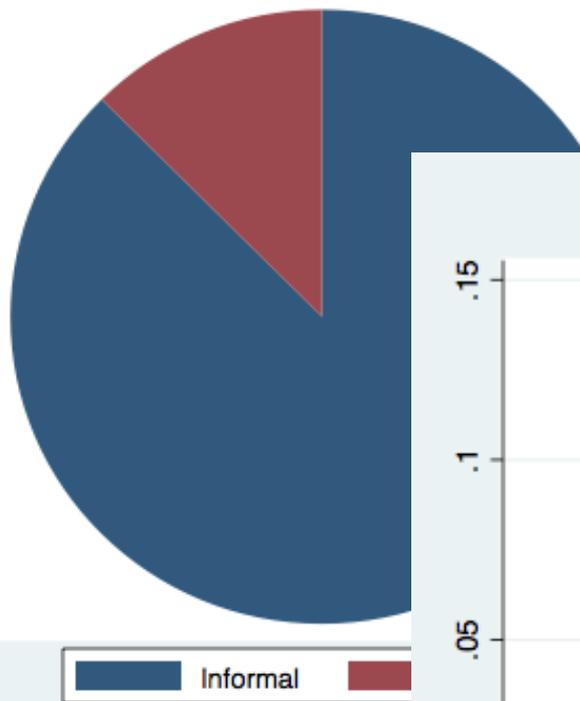
# Empirics 3: Labor Market Insecurity in the Slums of Bangalore

Figure 1: Geotagged Slum Boundaries, 4x5km (top panel) and 800x1400m (bottom panel)

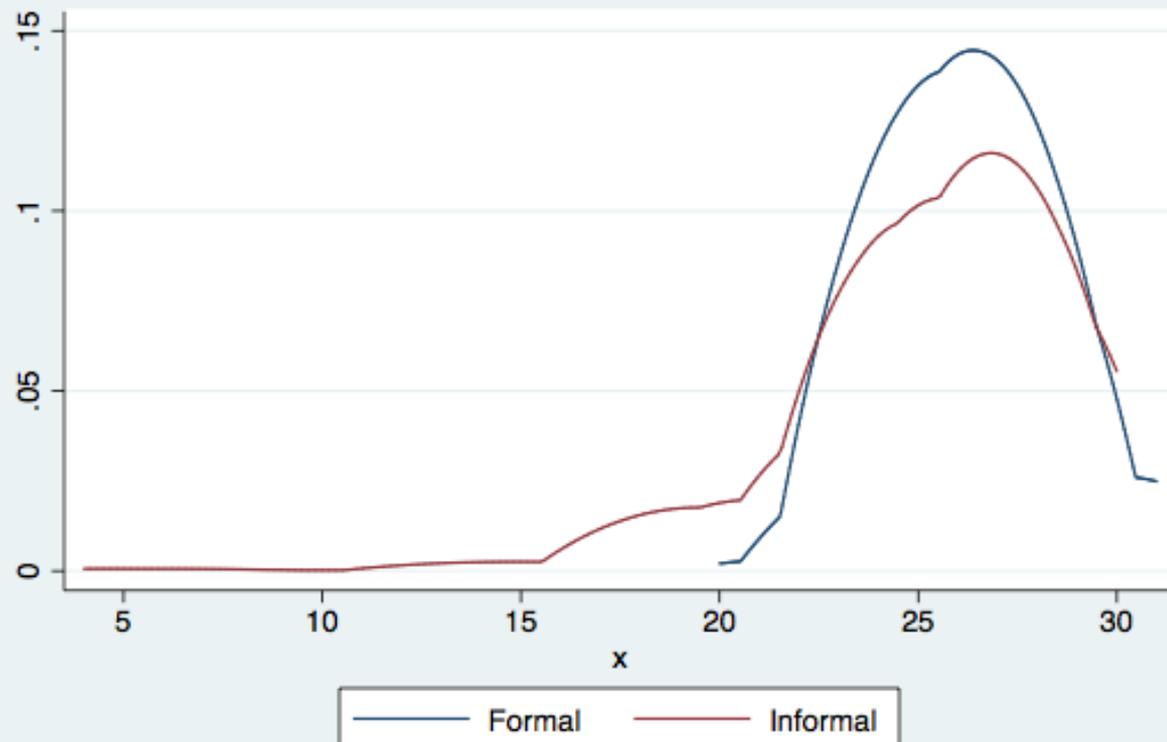


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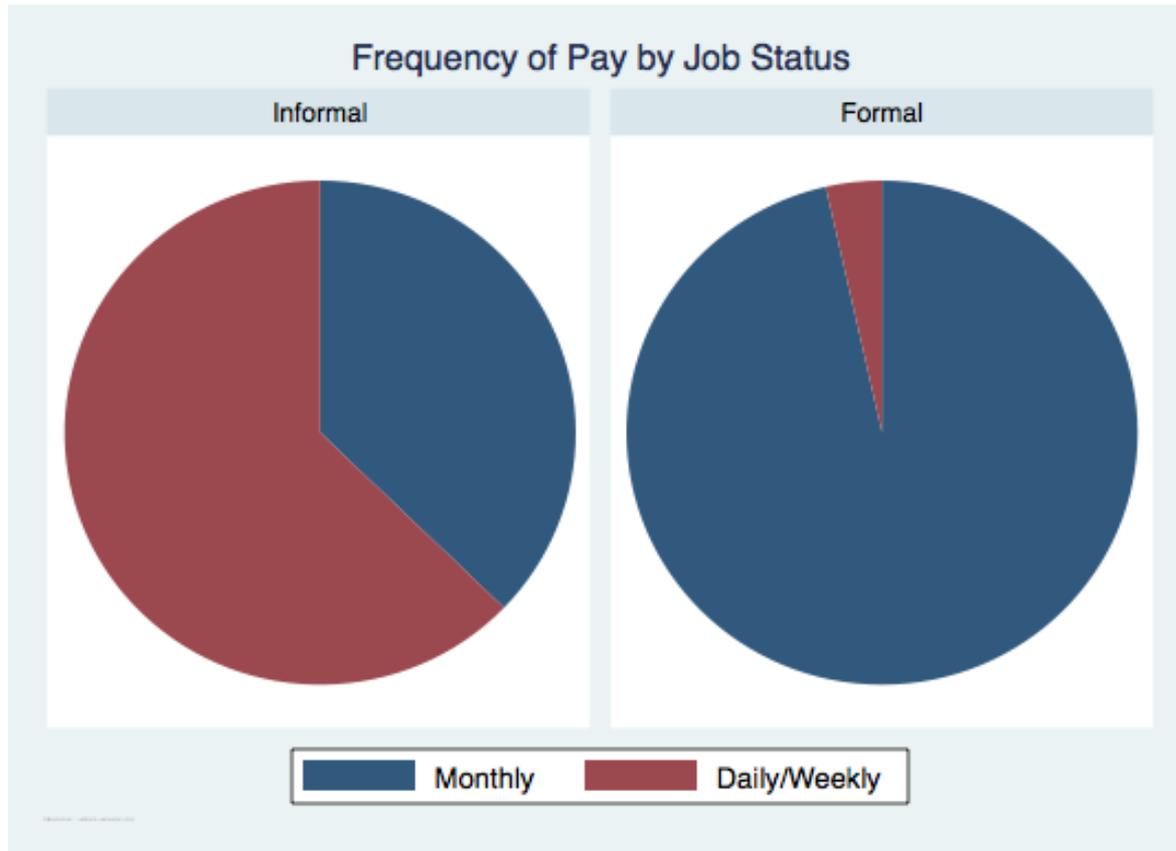
Distribution of Formal and Informal Workers in 40 Slums



Distribution of Work Days per Month by Labor Status



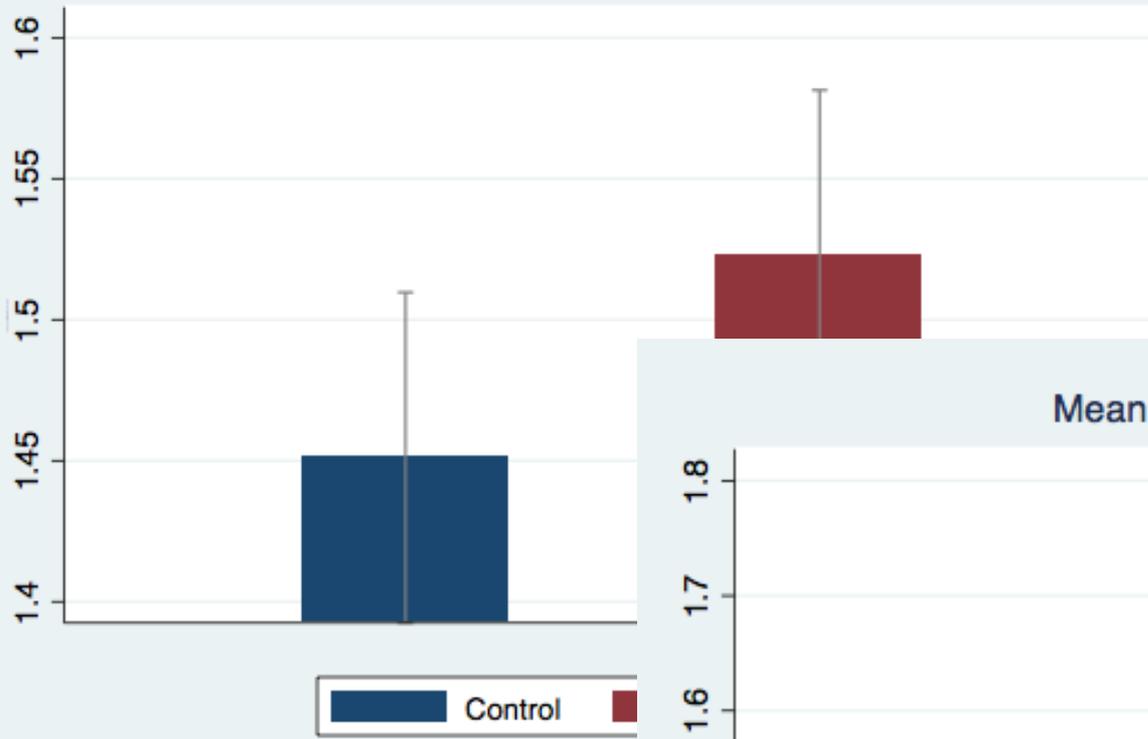
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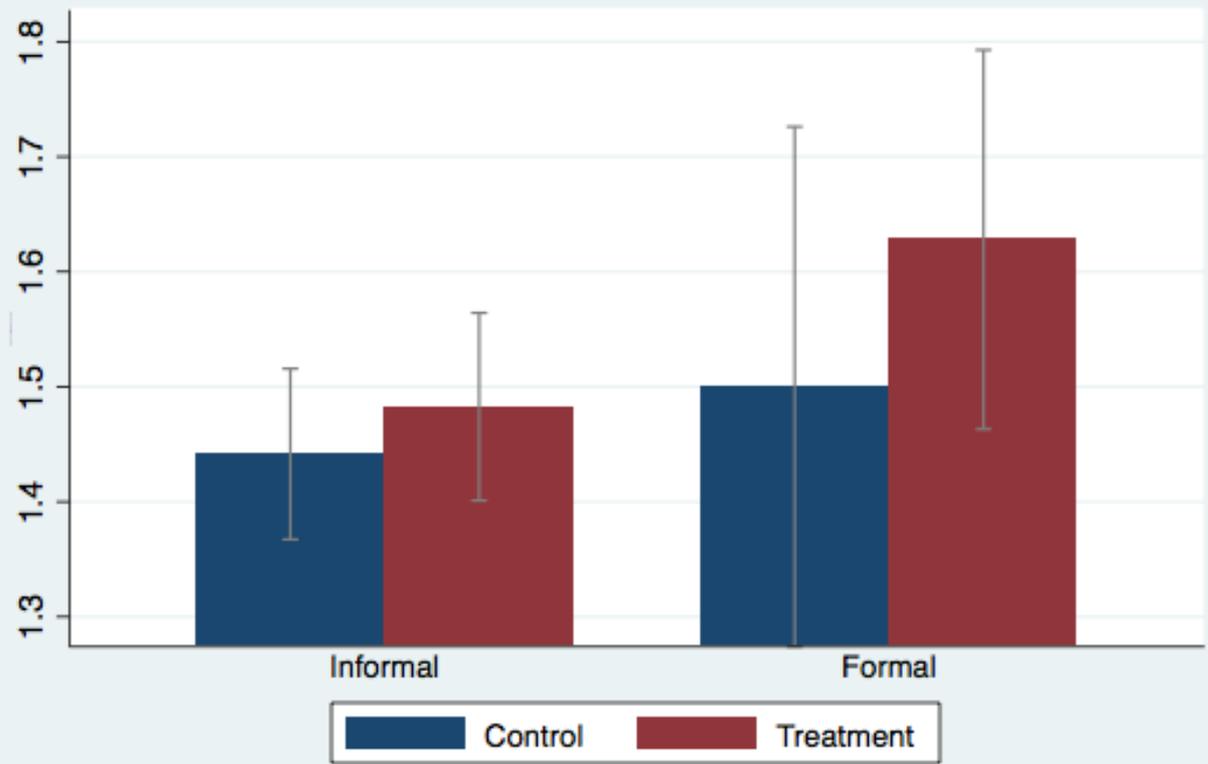
# Empirics 3: Labor Market Insecurity in the Slums of Bangalore: A List Experiment on Clientelism

SE2. People decide who to vote for based on many different considerations. I will read you some of the reasons people have told us. Please tell me how many of these influence your vote choice. Don't tell me which ones, just tell me how many.		
SE2_12. HOW MANY of the following influence how you vote?		
M81	Traveling to BJP headquarters to speak with the party head about the election.	
	Listening to radio coverage of the campaign.	
	One party promising more favors, such as clothes or food, to you or your family.	
	Discussing the election with friends or family.	
	HOW MANY?	

### Survey Experimental Evidence on Clientelism



### Mean Counts by Labor Status

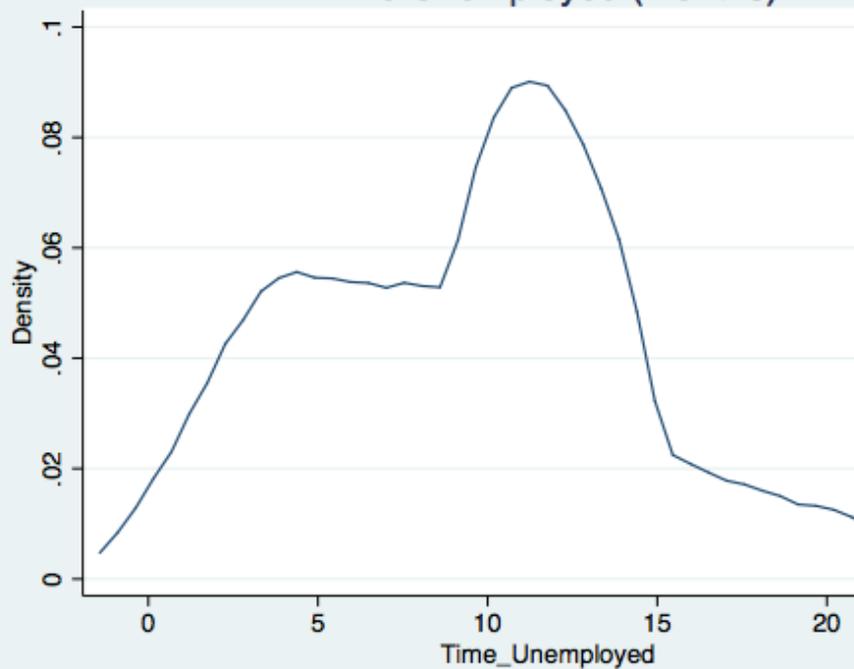


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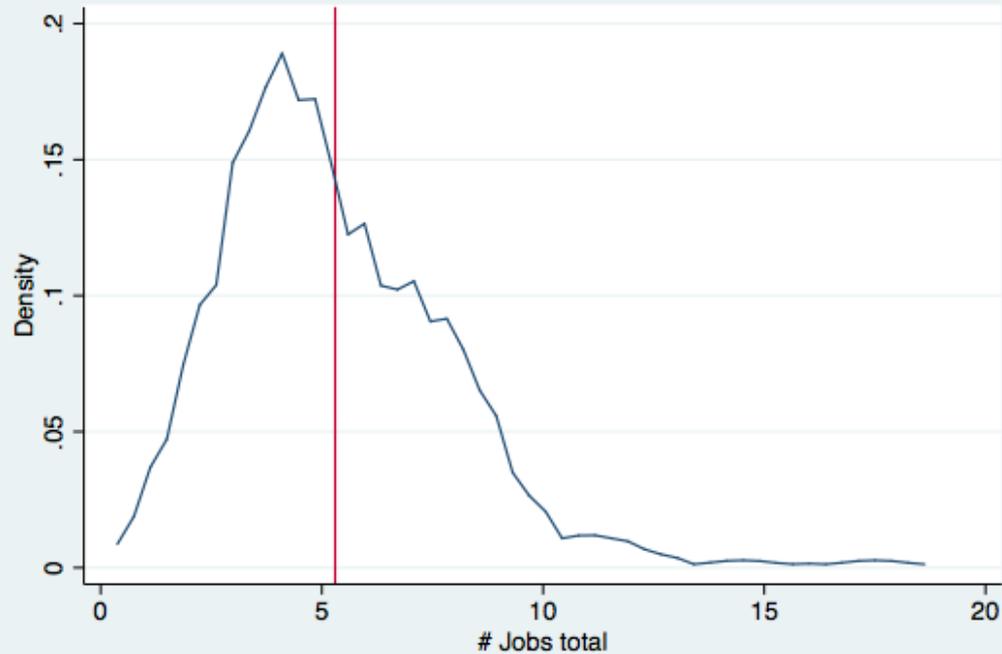
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4. Work in rich countries is being unbundled in a way that bears resemblance to informal work. This “trade in tasks” is intimately connected to increased exposure of new sectors to tech and competition.

# Empirics 4: Labor Market Insecurity in Silicon Valley

Time Unemployed (Months)

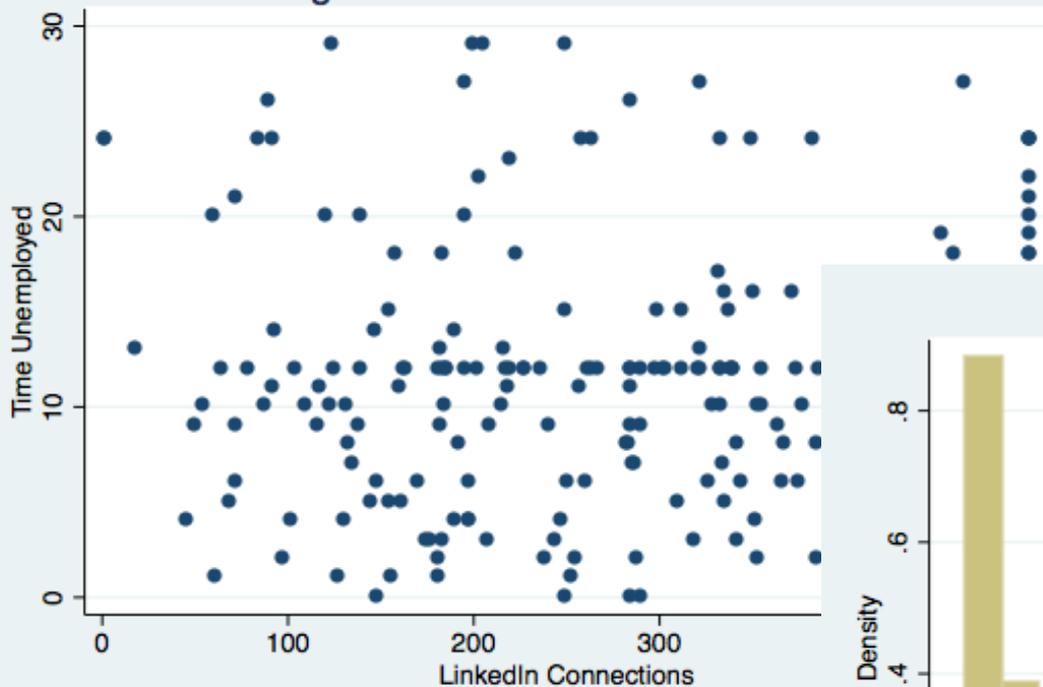


# of Jobs Over Last 8 Years

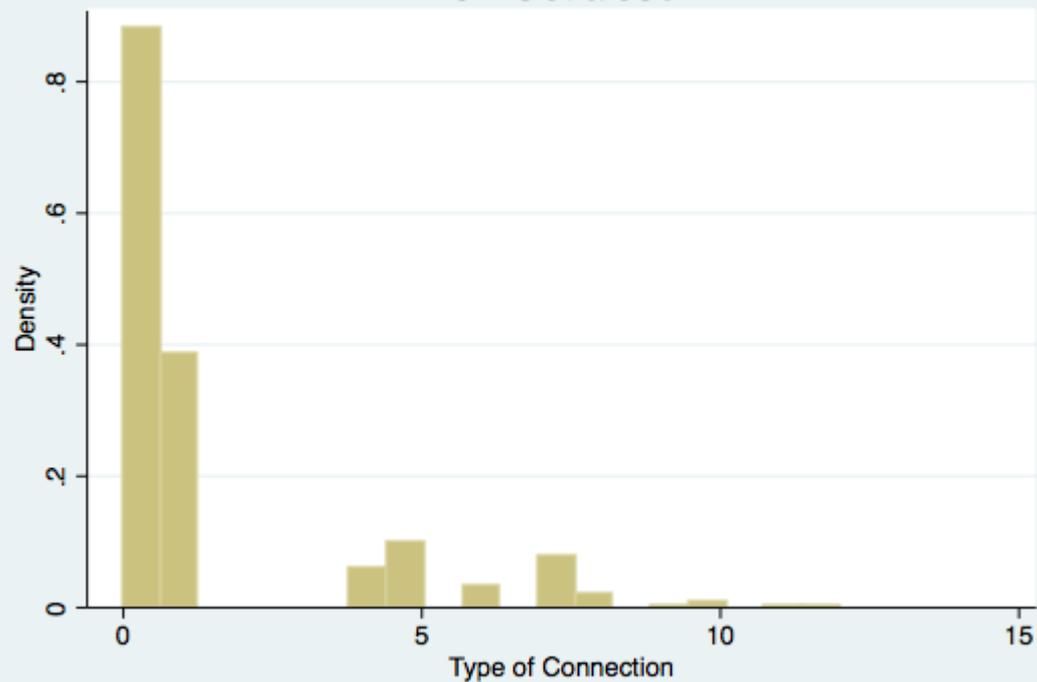


# Empirics 4: Labor Market Insecurity in Silicon Valley

High Tech Networks are Irrelevant

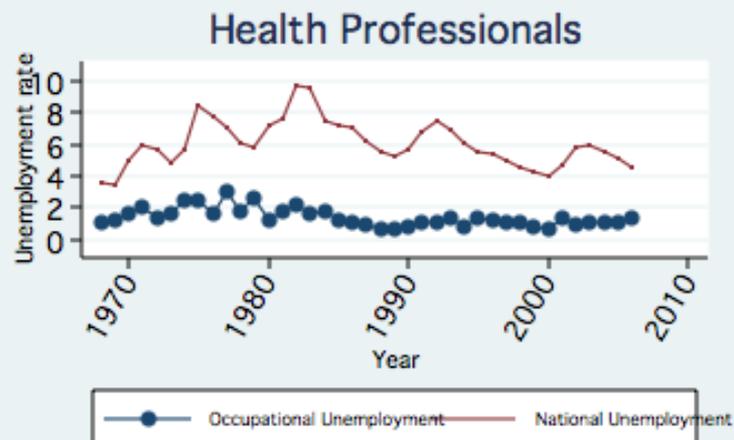
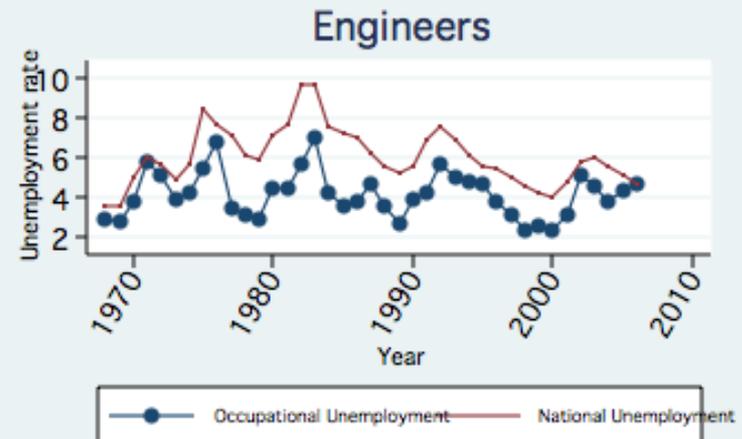
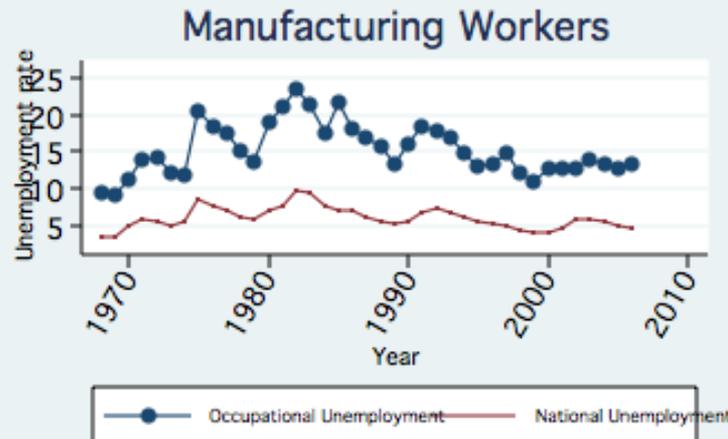


How Get a Job?



# My Old, Sectoral View of Risk

## U.S. Unemployment in Three Occupations



# 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?