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## The Left's Dilemma: Party Strategies and Informal Labor in Developing Economies

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### Book Summary

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The left in Latin America came to office, in the early 2000s, at a time when state-led models of economic development were collapsing and when the working classes increasingly found themselves in informal-sector jobs: without contracts or access to social security or other regulations and protections. With their strong historic ties to labor unions, many of these governments would be expected to extend job security to informal workers and shift them to formal-sector work. Yet, the impact of the left in government confounds these predictions. The informal sector shrank in some countries during the so-called “commodity boom” period but overall levels of labor informality remained strikingly high. The left in power often pursued a go-slow strategy on labor inspections to identify and sanction businesses for hiring informal workers. What explains these surprising choices?

The left in power, I argue, has found itself in a dilemma: how can it create decent jobs for informal workers without eroding protections important to organized labor? One strategy used by leftist governments in Latin America is to keep in place traditional protections and use the enforcement capacity of the state selectively: instead of trying to extend labor protections to informal workers, left-dominated governments improve working conditions for the working poor *in* the informal sector. This book therefore provides a political explanation for the persistence of economic informality—a major characteristic of contemporary developing societies.

I evaluate the left's dilemma using cross-national data over a 35-year period on left parties' strategies across national contexts; extensive interviews with politicians, union leaders, and bureaucrats; and unique municipal-level data on the pace of labor inspections, on the proportion of informal-sector workers and organizations, and on working conditions including fatality rates in Brazil. To test observable implications of the theory, I compare labor-market dynamics in cities governed by parties with different ideologies and electoral coalitions, using a close-election regression-discontinuity design in mayoral races and text-analysis of both policy documents and the campaign platforms of mayoral candidates.

The book starts with a description of the challenges that the partisan left in the developing world faces in garnering support from a divided labor constituency, one that includes both formal- and informal-sector workers. Then, I put forward a theory of selective enforcement that focuses on parties' electoral strategies in the context of socially divided constituencies. In subsequent chapters, I evaluate the effect of market-oriented reforms and the expansion of global markets on the left's electoral coalition; trace empirically how left- and right-leaning parties in government regulate labor markets; and explore the quality of formal and informal-sector jobs by examining

changes in the rate of workers who die at work – a pressing problem in the developing world. Next, I probe the extent to which the theory “travels” to large electoral democracies in other regions of the world: India and South Africa. The book concludes by examining recent changes triggered by a “turn to the right” in the ideological orientation of governments in Latin America.

## **Chapter Outline**

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### **1: Introduction**

The partisan left faces enormous challenges when it tries to garner support from a divided labor constituency, one that includes workers in both the formal and informal sectors. I briefly describe the rise of the informal sector in the developing world and how it affects the electoral strategies of both left- and right-leaning parties. Prior studies of how parties balance the interests of core and non-core constituencies focus overwhelmingly on vote-buying strategies. But the left’s dilemma goes deeper, influencing the very structure of labor markets. I end the chapter by describing the case selection, empirical approach, and outline of the book.

### **2: Convergence, enforcement, and the left**

Previous studies suggest that globalization entailed an ideological convergence in policymaking between left- and right-leaning governments. But these studies ignore differences in the degree to which governments enforce taxes and regulations. In fact, government officials often manipulate the enforcement of regulations in the context of socially divided constituencies. I argue that government ideology and the structure of the labor market both influence government enforcement decisions. Government officials rectify competing interests of multiple constituencies by adapting national laws to the demands of local constituencies.

### **3: The “New Left,” enforcement, and informality**

Using cross-national data on enforcement and informality, I investigate how left- and right-leaning parties in government regulate the informal sector at the national level. I have assembled a cross-national data on labor inspections and informality over a 35-year period in Latin America. I also analyze the policies implemented by conservative and leftist administrations in Argentina and Brazil. A clear pattern emerges whereby the left slows down labor inspections that would put informal-sector workers out of work, while also maintaining protections for formal-sector workers. The right, by contrast, inspects firms that are more likely to hire workers “off the books,” and calls for an overhaul of existing labor laws.

### **4: The left’s dilemma**

I present evidence from Brazil that points to a causal effect of trade liberalization on the growth of the informal sector, and on the growth of the informal sector on PT’s electoral support. Hence the expansion of global markets during the 1990s helped bring the left to power in Latin America’s largest democracy. Though in earlier periods the region’s poor voted heavily for conservative parties and neoliberal candidates, after the late 2000s many poor voters “turned

left” in search of refuge from labor-market dislocations. These changes allowed the left to enlarge its coalition by incorporating poor and unskilled workers displaced from the formal sector. But they also exacerbated tensions between informal- and formal-sector workers. I take advantage of a natural experiment in tariff changes in Brazil, which generated exogenous dislocations to local economies during the heydays of economic liberalization, to demonstrate the effect of economic change on the rise of the left.

### **5: The subnational left, enforcement, and informality**

This chapter explores whether the left in power at the local level in Brazil uses its influence over labor inspectors to crack down on enterprises that employ non-contract, informal-sector workers. With a close-election regression-discontinuity design, I show that mayors from the PT, far from encouraging a shift from unprotected (informal) to protected (formal) jobs, in fact increase the size of the informal sector. The PT’s labor-market policies reflect its need to build a broad lower-class electoral coalition, one that includes both informal and formal-sector workers, whose preferences are in some ways at odds. My analysis reveals that the PT pursues a strategy of enforcing barriers-to-entry to the formal sector within large firms, while at the same time improving working conditions of informal-sector workers by incorporating them into worker-run informal sector enterprises.

### **6: The tradeoffs from selective enforcement**

I investigate labor standards using an original dataset on fatal workplace accidents, which I assembled by analyzing all death certificates issued by physicians in Brazil between 1996 and 2012. Again using a close-election regression-discontinuity design, I show that PT incumbents substantially reduce workplace deaths. They achieve a reduction in workplace deaths in the informal sector partly by incorporating informal workers into economic organizations that, although informal, offer better working conditions than last-resort informal jobs.

### **7: The dilemma outside Latin America: India and South Africa**

This chapter explores the left’s dilemma in the context of two large democracies outside Latin America: India and South Africa. In both countries, leftist and populist governments need to appeal to multiple working-class constituencies with competing interests. Like Brazil, these countries are federal democracies with powerful center-left parties: South Africa’s African National Congress, the Indian National Congress, and the Communist Party of India. South Africa and India also provide key variation in the main components of my argument, such as the level of electoral competition for informal and unemployed workers’ support, the power of unions, and the capacity of the state to crack down on enterprises that employ non-contract, informal-sector workers.

### **8: The future of selective enforcement and informality**

The book concludes by examining recent changes in Latin America triggered by a turn to the right in the ideological orientation of governments in Argentina and Brazil. I examine how these governments enforce labor protections, their policies toward the informal sector, their linkages to informal-sector organizations, and the labor reforms they put forward.