

POLI 437: International Relations of Latin America

^T Note. These Rivers are
both of them Navigable, and all
the Cannon and Stores for Acapulco
are Carried from the North to the
South Sea by them.



This week

Informal labor markets

Slums and *favelas*

INFORMAL ECONOMY

~ 50% of all workers are **informal**
(in Honduras, Guate ~ 70%)

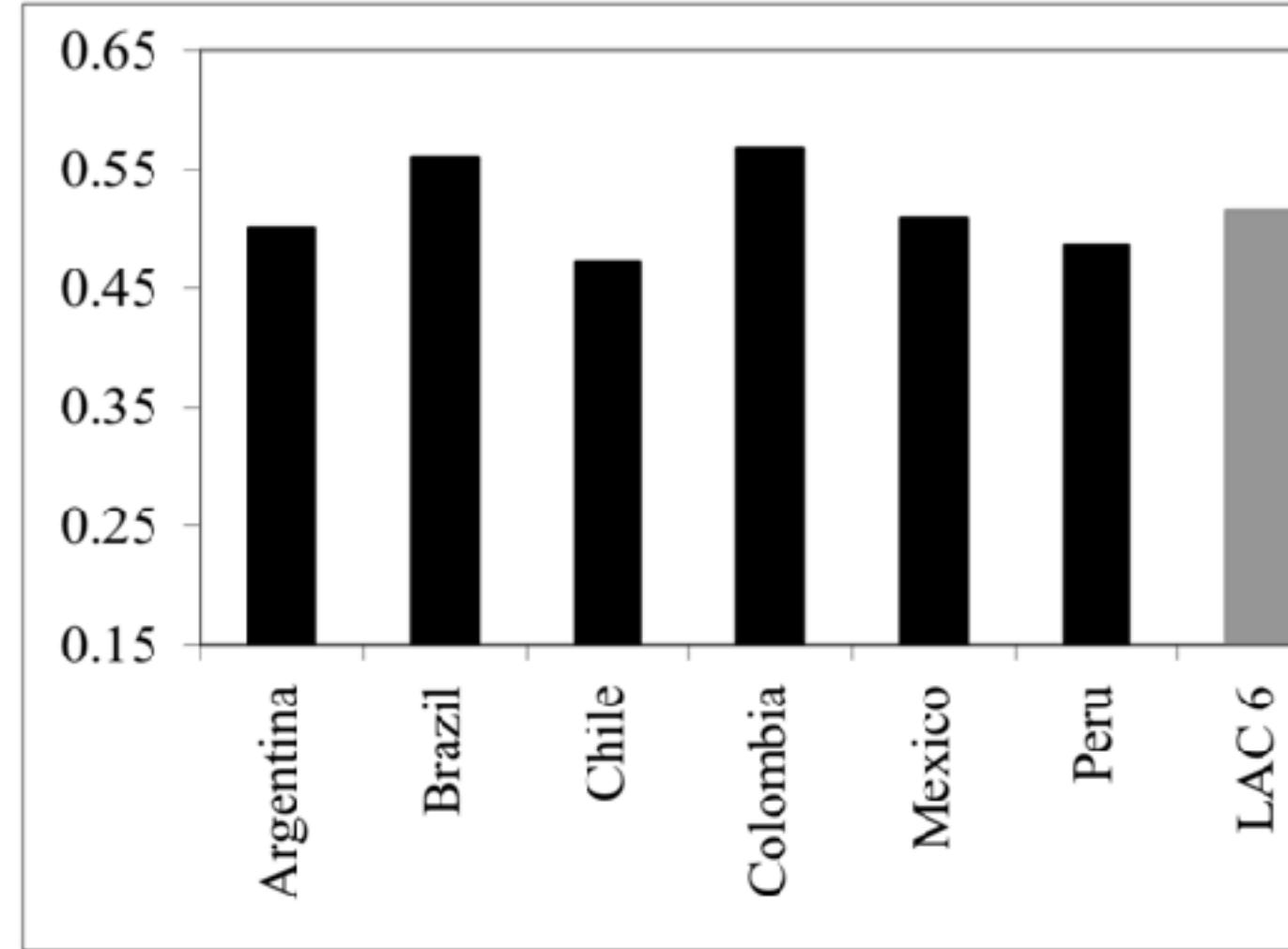
Huge variety of jobs: not just
street vendors

No payroll, no record of payment,
mostly cash businesses

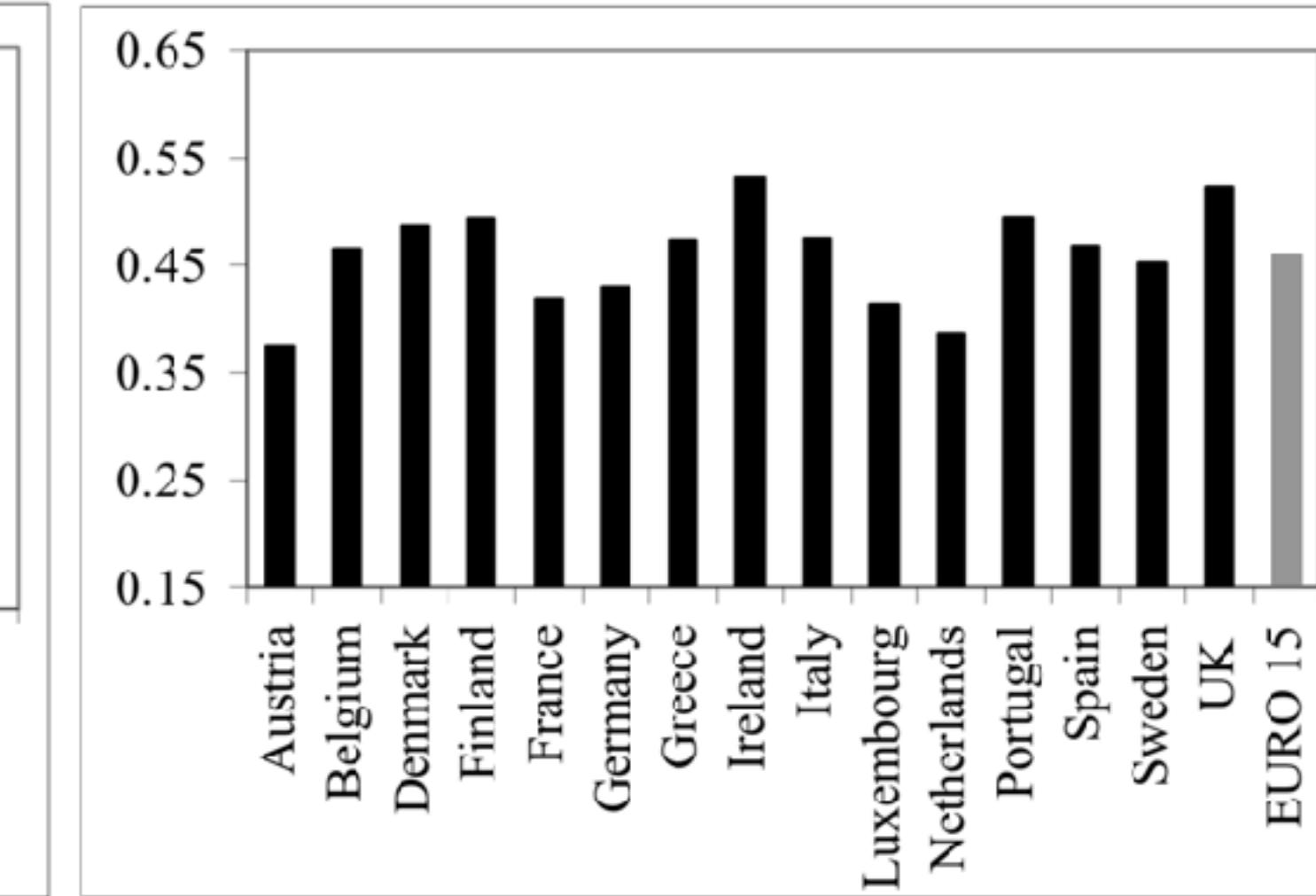


GINI barely moves post-taxes

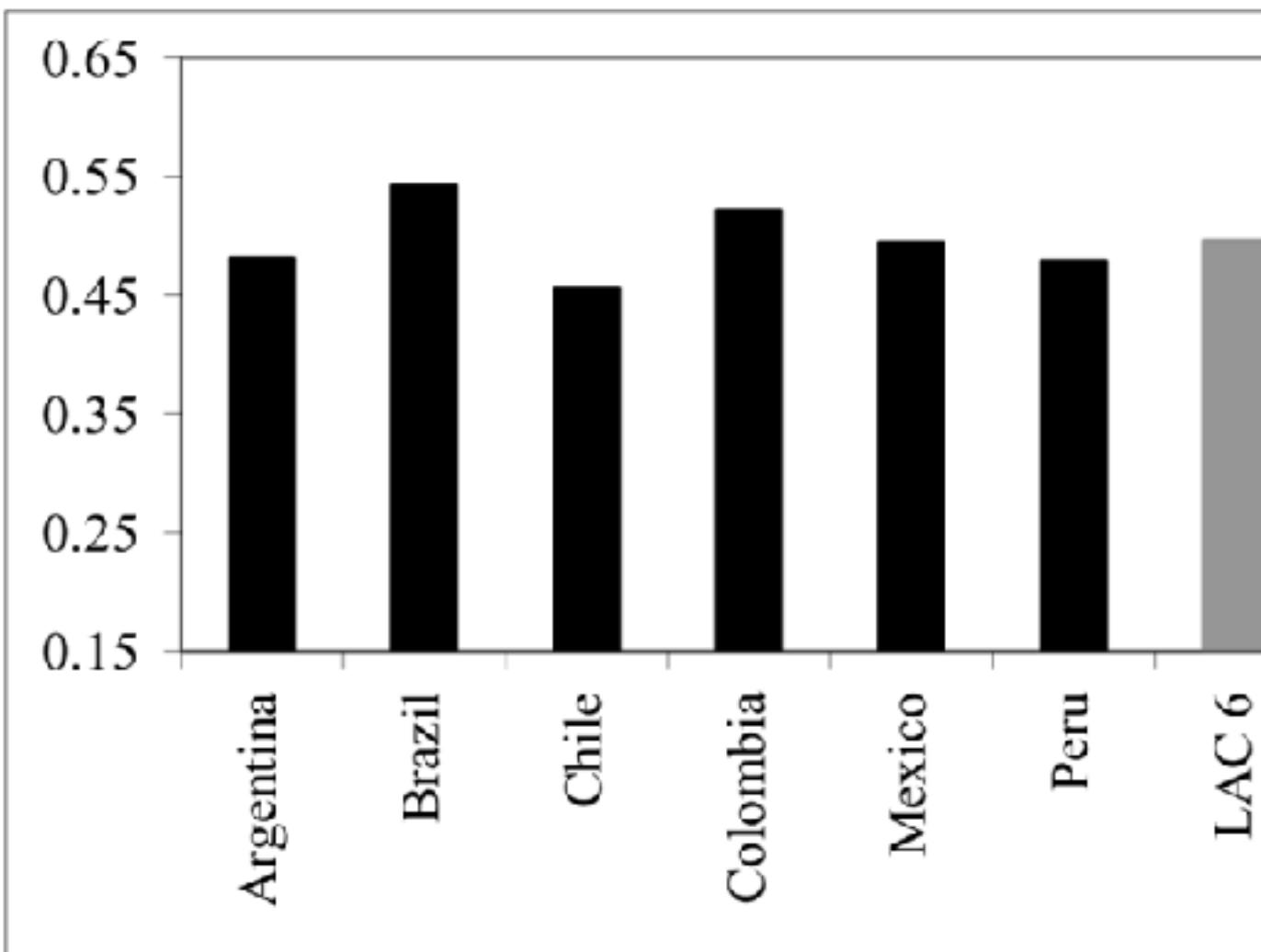
Panel C. Latin America



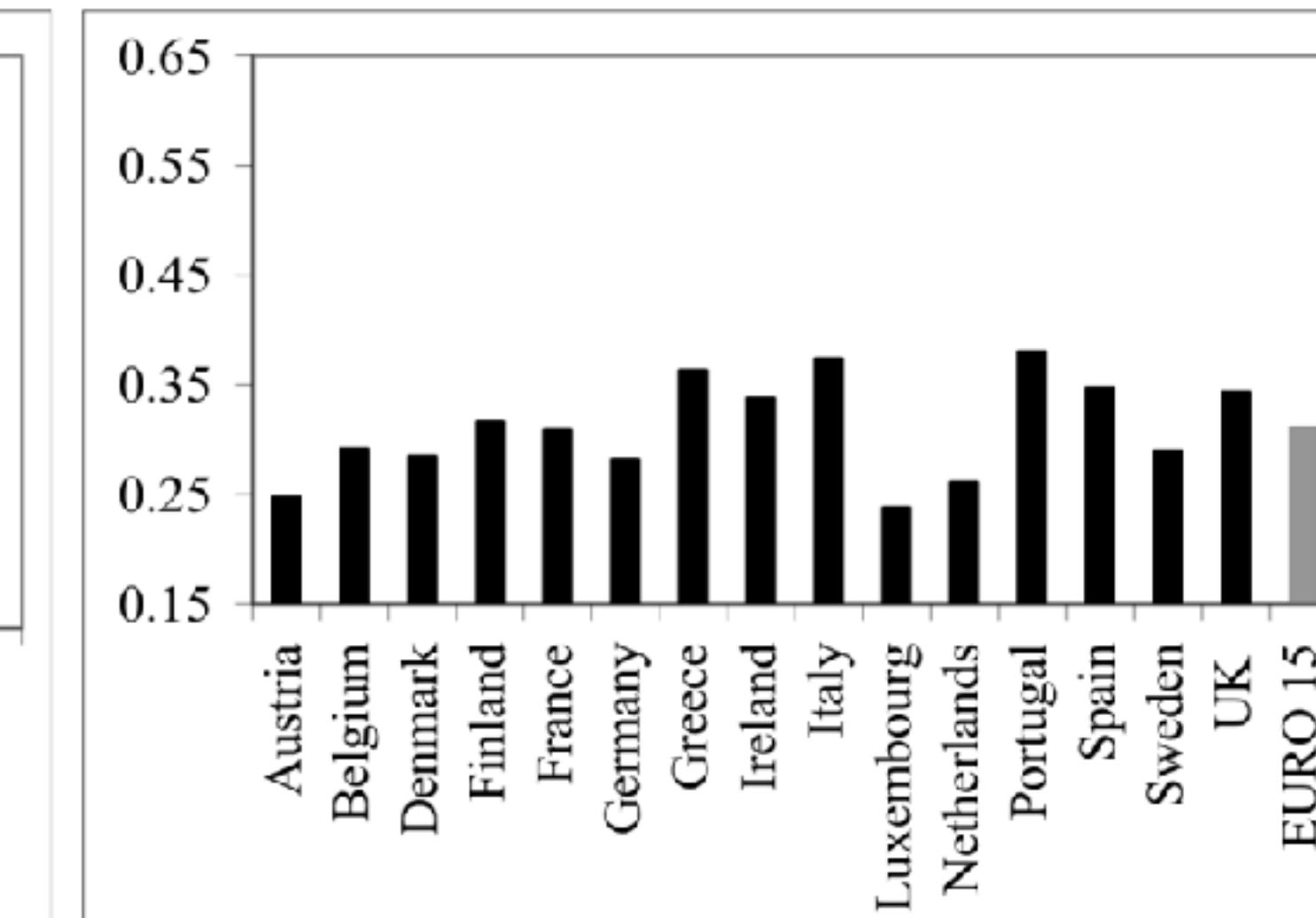
Panel D. Europe



Panel A. Latin America



Panel B. Europe



Disposable Income

SOCIAL INSURANCE

Protects households against **risk**
(illness, unemployment,
disability, death, old age)

Smooth consumption over time

But in Latin America social
insurance completely **tied to**
(formal) labor status

Benefits like health insurance, unemployment insurance, pensions, disability, etc. are paid for by **wage taxes**

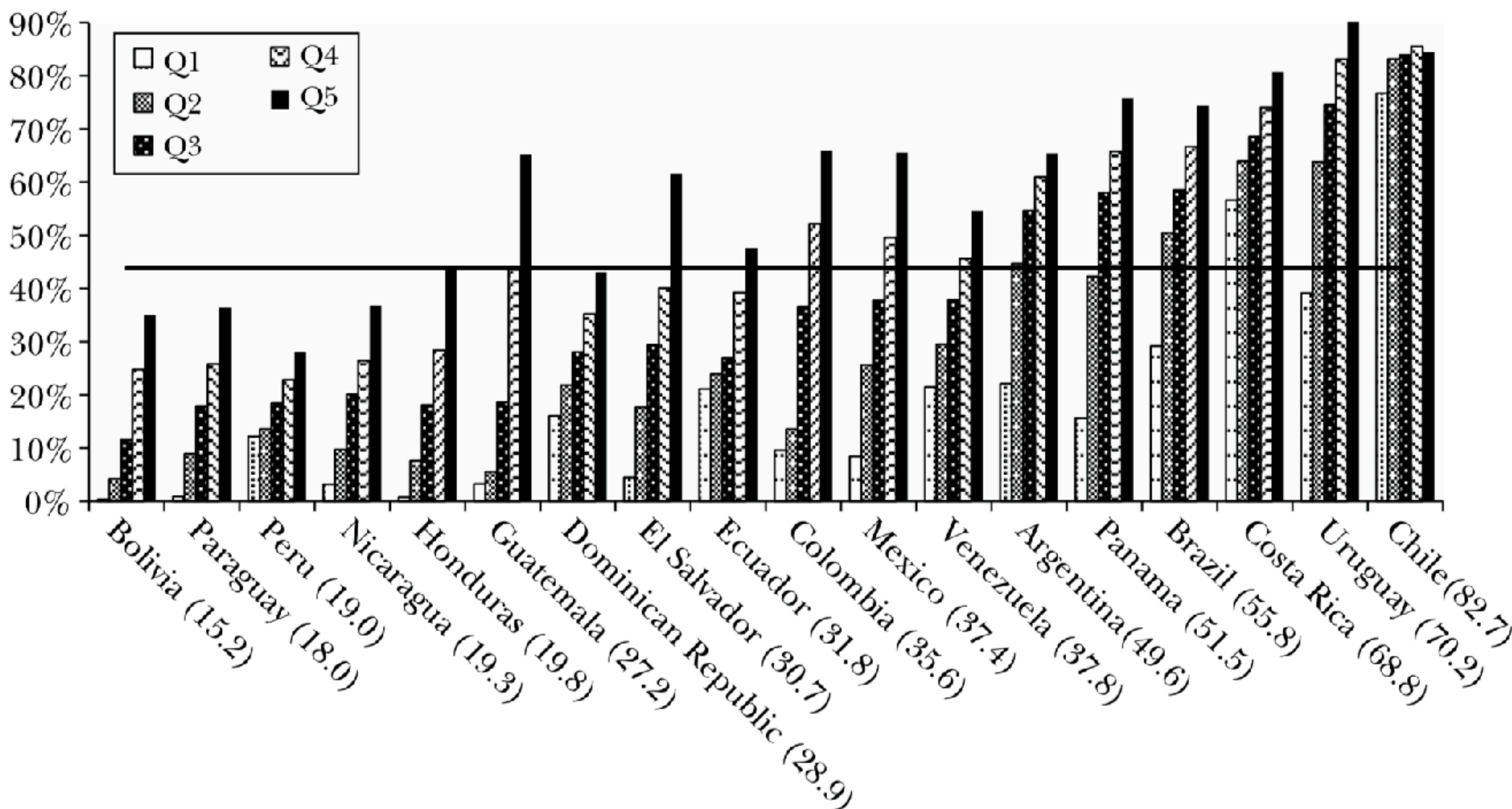
This bundle of benefits usually referred to as
contributory social insurance

You contribute to system and then you draw from it; informal workers aren't doing this

Most of region <50% covered by CSI, despite being mandatory

Figure 4

Coverage of Contributory Social Insurance, by Country and Income Quintile



Informality = people who are self-employed or
who are salaried but **not paying payroll taxes**

Or evading regulation (permits, licenses, etc.)

Largely out of the contributory social insurance
system

INFORMALITY IS COSTLY

No access to police or judicial protection

No access to (formal) credit institutions

Weak access to international markets

Evading regulation, taxes

How do these costs play out in this setting?



Informal workers don't get social insurance...
but they didn't contribute in the first place! No
harm, no foul?

Problem is redistribution is baked into these
social programs; income tax is **progressive**,
meaning wealthy overpay and poor underpay

Social insurance meant to help poor isn't
reaching them if they're informal

SOLUTION?

Growth of **noncontributory** social insurance in
last two decades

Financed by general revenues, informally
employed can access

Mostly health insurance + pension

Table 1

Noncontributory Pensions and Conditional Cash Transfer Programs in Latin America, 2011

Country	Noncontributory pensions (NCP)					Conditional cash transfer programs (CCT)					
	NCP	Age	Coverage		Transfers		CCT	Coverage		Transfers	
			People (thousand)	% of elderly	\$US (monthly)	% GDP		Households (thousand)	% of households	\$US*** (monthly)	% GDP
Argentina	✓	70+	41	1.4	248	0.03	✓	1,876	21.1	162	0.49
Bolivia	✓	60+	899	100	28	1.25	✓	972	40.2	5	0.23
Brazil	✓*	60+	7,340	32.5	328	1.16	✓	13,352	28.2	45	0.41
Chile	✓	65+	842	53.5	136	0.55	✓	264	5.9	104	0.13
Colombia	✓	57+	768	15.6	33	0.09	✓	2,438	23	33	0.22
Costa Rica	✓	65+	93	30.6	146	0.4	✓	143	12.7	74	0.23
Dominican Republic							✓	831	34.7	25	0.24
Ecuador	✓	65+	536	58.2	35	0.34	✓	1,212	34	35	0.71
El Salvador	✓	60+	20	3.4	50	0.05	✓	95	7.1	17	0.15
Guatemala							✓	873	37.4	29	0.24
Honduras							✓	412	27.7	40	0.32
Mexico	✓**	70+	2,149	44.9	40	0.09	✓	5,827	24.2	72	0.46
Panama	✓	70+	85	56.5	100	0.34	✓	74	10	50	0.15
Paraguay	✓	65+	25	7.4	92	0.11	✓	94	7.1	38	0.13
Peru	✓	65+	26	1.5	46	0.01	✓	474	7.1	36	0.13
Uruguay	✓	65+	33	7.1	238	0.2	✓	207	24.7	83	0.48
Latin America			12,858	33.4	178	0.56		29,143	22.6	64	0.37

BIG EFFECTS

Seguro Popular in Mexico = reduced participants' catastrophic health expenditures by 23%

70 y mas in Mexico, substantial drops in poverty

(Theoretical) downsides to **noncontributory** pensions, health?

Programs are expensive, aging population

Constant pressure to increase benefits b/c link
between contributions and benefits unclear

Discourage formal employment?

Why would anyone be informal?

Rational, cost-benefit analysis

Benefits (of being formal)

Contract enforcement, credit,
no bribes/fees/evasion,
social insurance, higher
wages

Costs (of being formal)

Costs of entry (registration,
licensing)

Costs of permanence (taxes,
labor/health regulations)

PUSH AND PULL

Contract enforcement, credit,
no bribes/fees, social
insurance

If state bad at this or workers
can replace → decreases
downsides of informality

Costs of entry (registration,
licensing)

Higher regulatory burden →
pull to informality

Costs of permanence (taxes,
labor/health regulations)

PUSH AND PULL

Higher wages

Difference in wages
between formal and
informal sector

Enforcement of tax

Expectation that state can
enforce compliance

“Civic duty” or sense of
normalcy

Disobedient Markets: Street Vendors, Enforcement, and State Intervention in Collective Action

Comparative Political Studies

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Calla Hummel¹

The average⁵ vendor who we surveyed holds a license for a food stall, belongs to a street vendor association but does not identify with a political party, and has worked as a vendor for 23 years. Demographically, she is a 45-year-old indigenous woman who completed 8 years of school and who owns a television, refrigerator, and cell phone but does not have a vehicle or regular Internet access.

Education → high-skill labor (hate this concept)
→ pull toward formal labor



Availability of jobs is important

Who is most affected by the push-pull?

Surgeon unlikely to go informal over regulation

Window-washer not likely to go formal because of policy change

It's people/firms who are near point where costs and benefits balance out

Key actor here is a small firm, maybe a bakery

Cross-roads: do they open up a store, get licensing, permits, etc., or continue working informally?

If costs of formality (tax, regulation) > expected gains from expansion = stay informal

HOW TO STAY INFORMAL?

Stay small (90% of firms in Mexico < 5 workers)

More nonsalaried labor (family)

Under the table payments

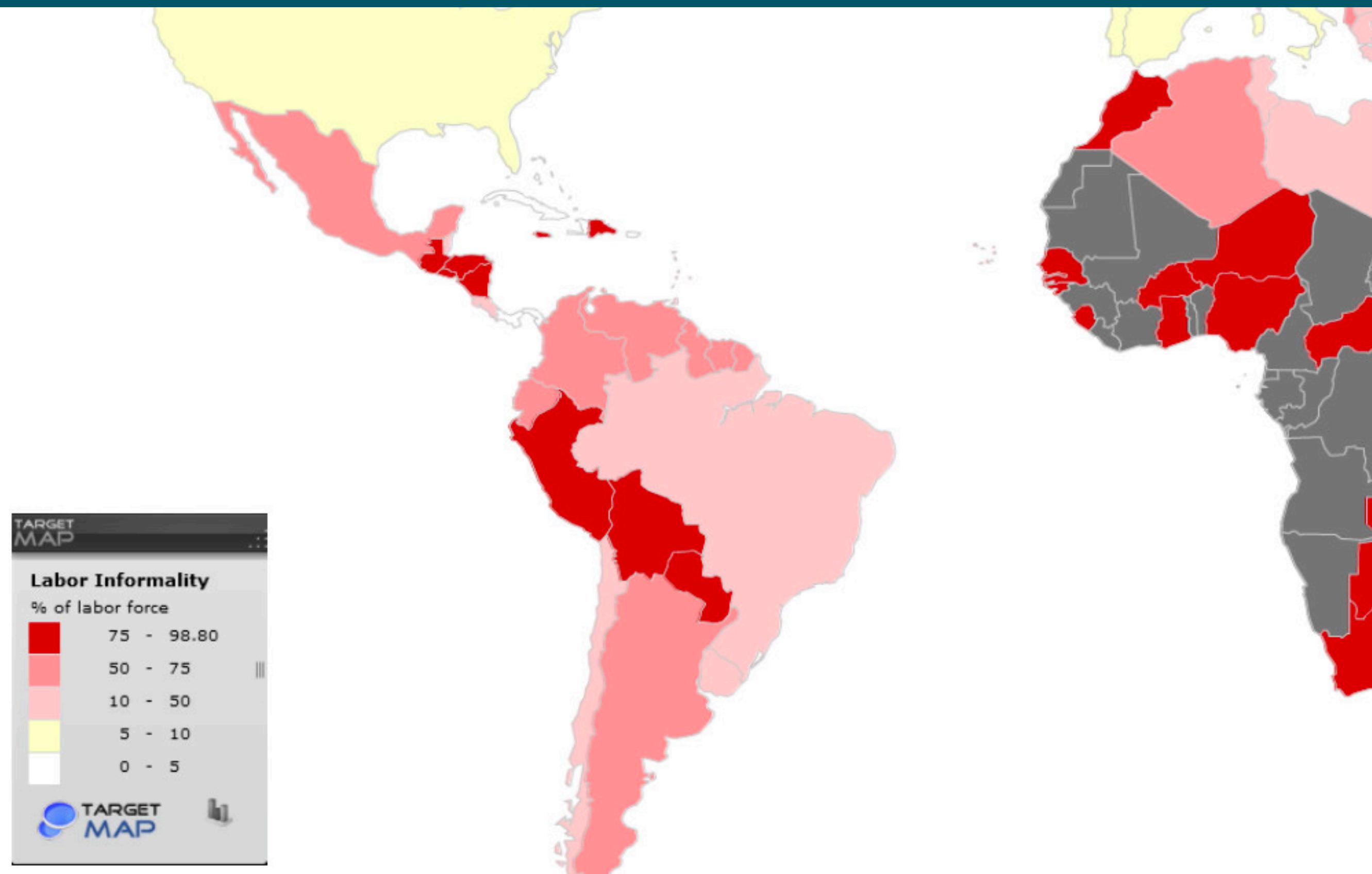
These are all **inefficient!**

If regulations help push people toward informality, why not loosen them?

Tradeoff with protecting workers/public

Interests of (formal) middle/upper class
and informal poor diverge

Why is the informal sector so large in Latin America?



In many's best interest to be informal!

Slums and *favelas*

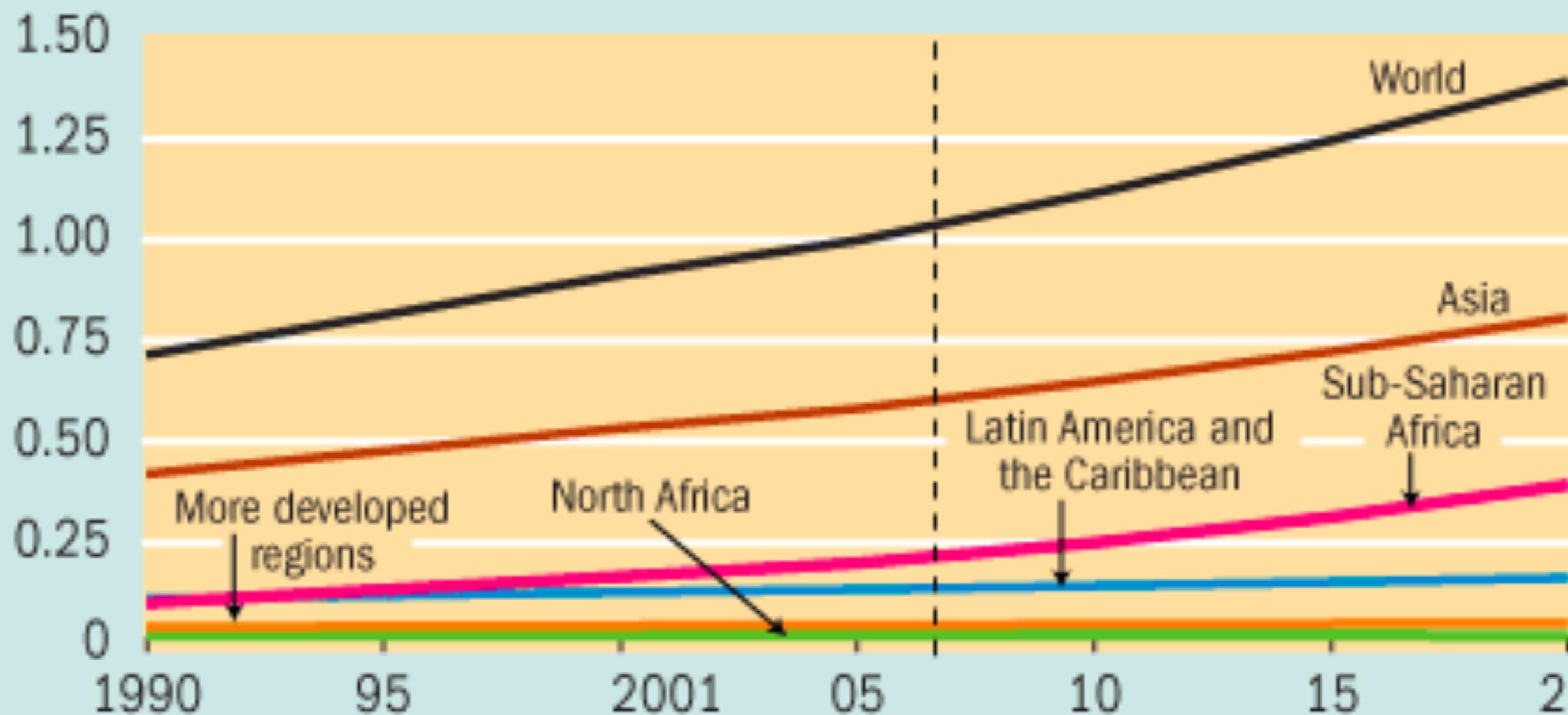
More than 1 billion slum-dwellers world-wide

Chart 5

The growth of slums

More than one in every seven human beings now lives in an urban slum.

(slum population, billions)



Source: UN-HABITAT, Global Urban Observatory database (2005).

Note: Figures for 1995 are interpolated using estimates for 1990 and 2001. Figures for 2005 are projections; Australia, New Zealand, and Japan are included in the more developed regions.

SLUM POPULATIONS IN THE DEVELOPING WORLD

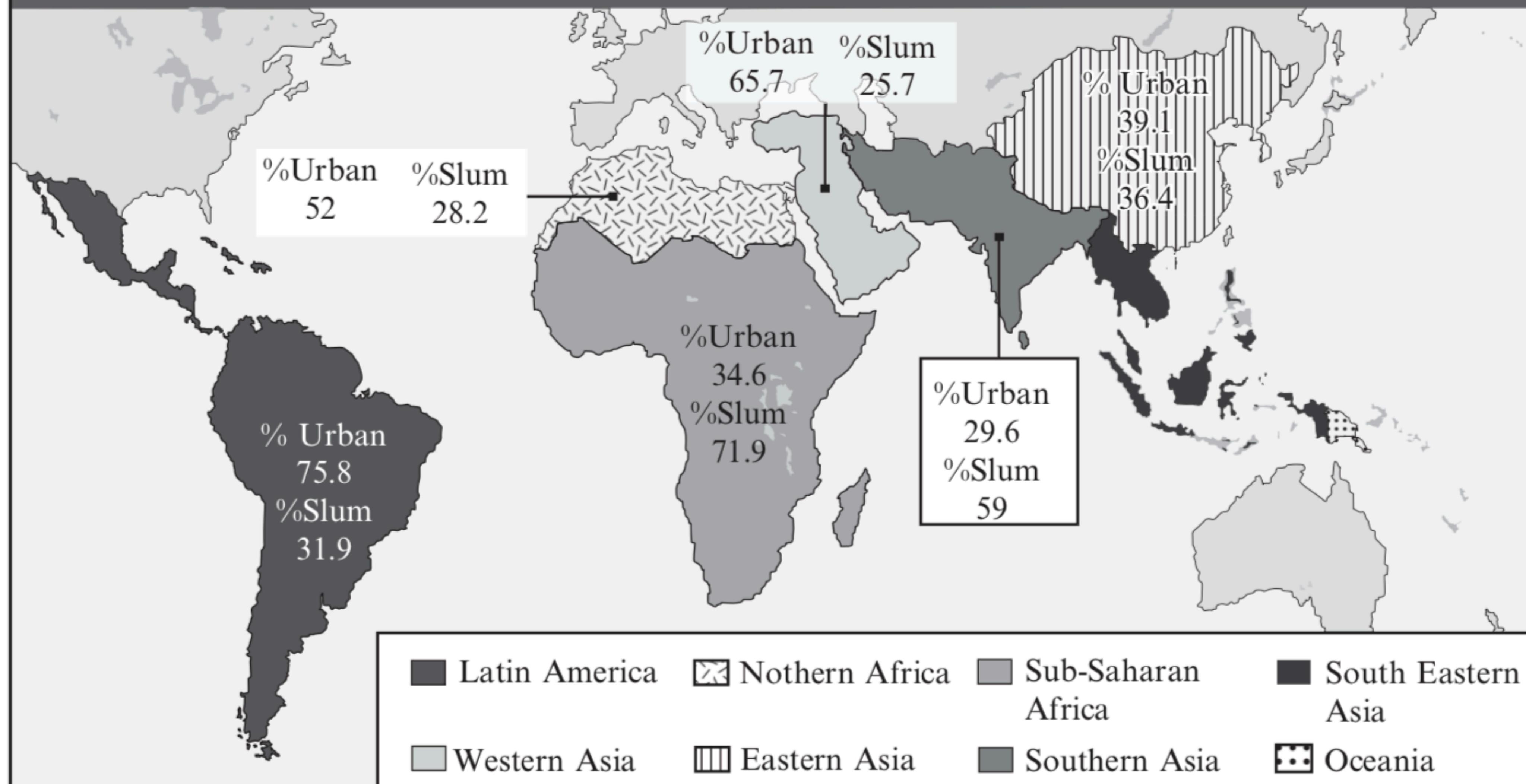
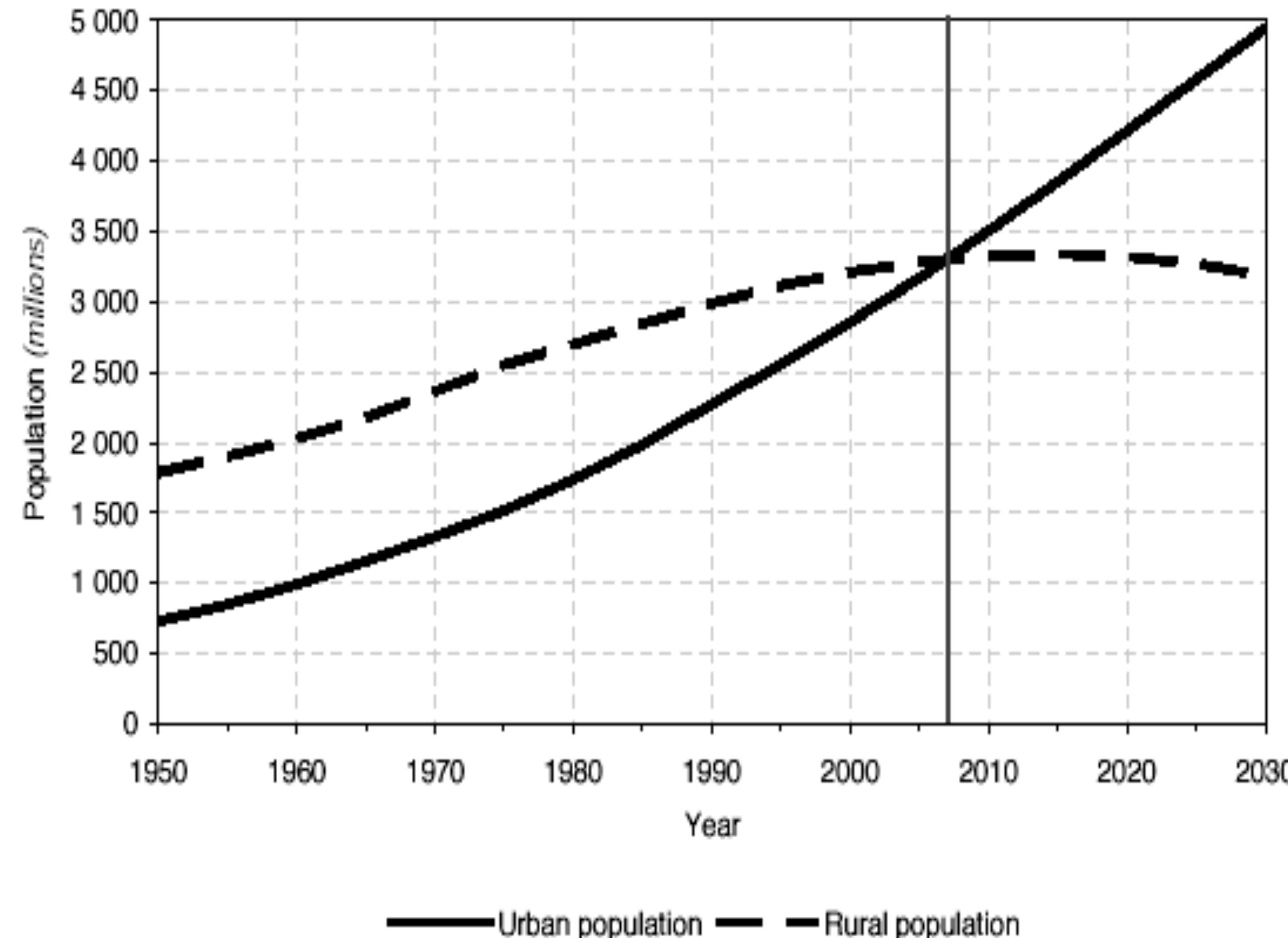


FIGURE 2.3 Map of the global south indicating the percent of the population living in cities (% urban) and the percent of the urban population living informally (% slum) for each region.

Figure I.1. Urban and rural populations of the world: 1950-2030



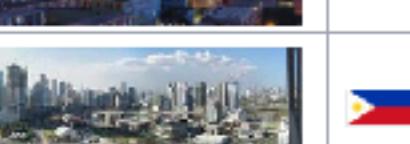
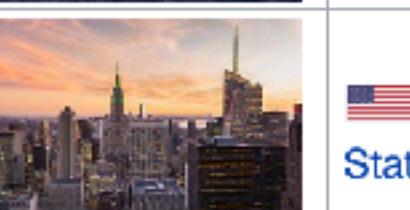
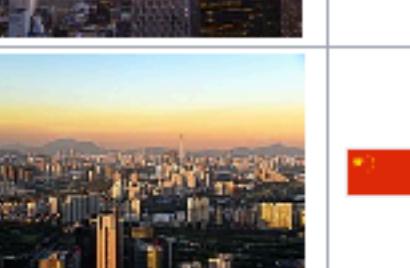
Key source of growth is rural migration

LAST TRAIN HOME



Point of reference = 6 million people in Denmark

One contiguous “mega-slum” in Mexico City has > 6 million people in it

Rank	Megacity	Image	Country	Continent	Population
1	Tokyo		 Japan	Asia	38,140,000 [6]
2	Shanghai		 China	Asia	34,000,000 [7]
3	Jakarta		 Indonesia	Asia	31,500,000 [8]
4	Delhi		 India	Asia	27,200,000 [9]
5	Seoul		 South Korea	Asia	25,600,000 [10]
6	Guangzhou		 China	Asia	25,000,000 [7]
7	Beijing		 China	Asia	24,900,000 [7]
8	Manila		 Philippines	Asia	24,100,000 [9]
9	Mumbai		 India	Asia	23,900,000 [9]
10	New York		 United States	North America	23,876,155 [11]
11	Shenzhen		 China	Asia	23,300,000 [7]
12	São Paulo		 Brazil	South America	21,242,939 [12]
13	Mexico City		 Mexico	North America	21,157,000 [6]

Urban poverty is weirdly understudied

Historically, most poverty was rural

Surprising rate of urbanization

Difficulty of studying urban poverty

Example: are living standards in slums improving over time?

Look at slum survey of income/education in 1990, compare to survey in 2010; any problems?

Big selection issue: households whose conditions improve leave slum, poorer move in

Perlman: tracing respondents over 1969–2001 to see how they're doing

Only 41% could be relocated

Causes of rural → urban migration

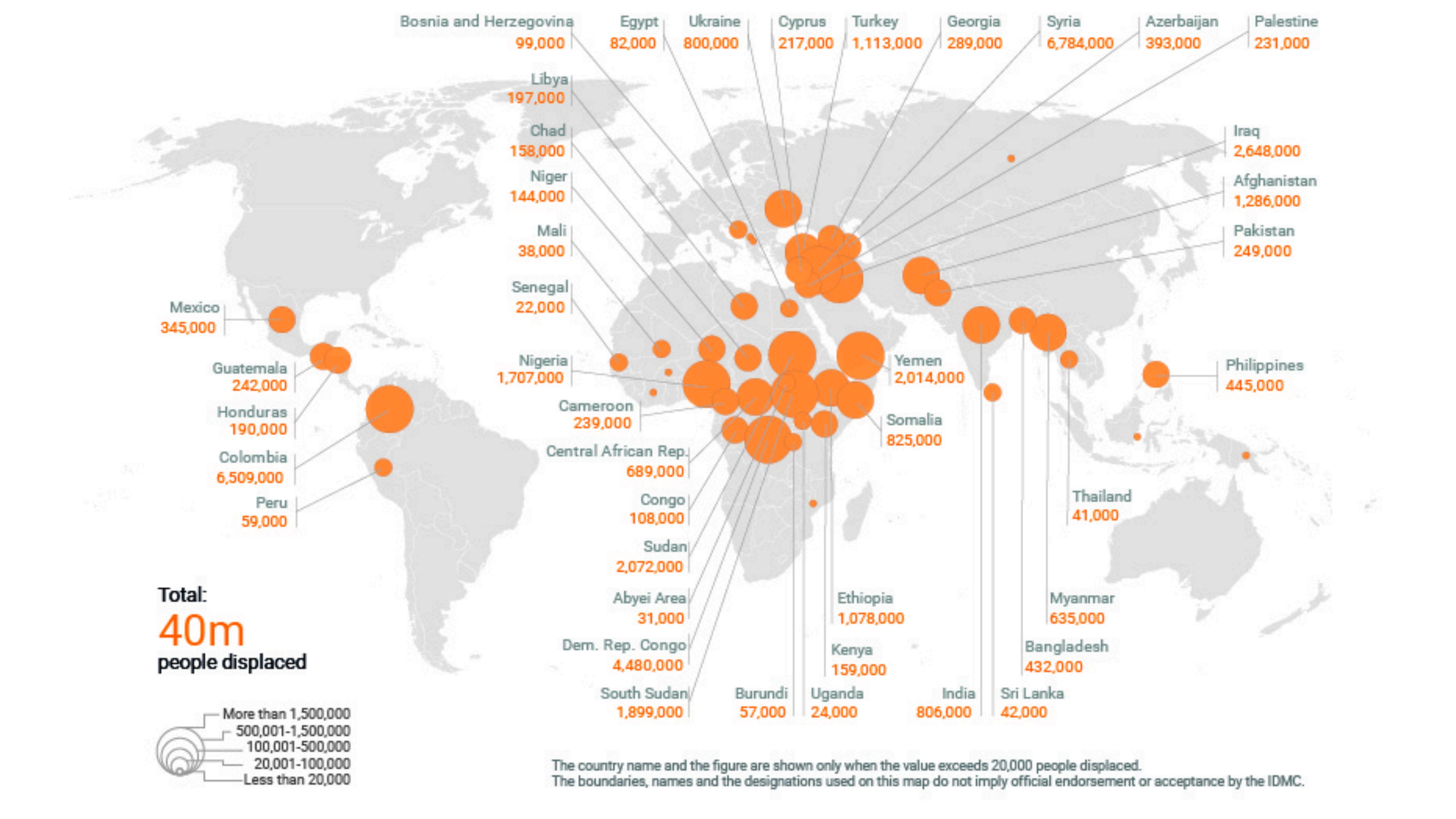
Asymmetry in **opportunities** between urban and rural areas

Push factors: worsening rural livelihoods

Angola child mortality rate of 320 per 1k in 1993

Ecological crises, droughts, etc.

Civil wars, violence



Pull factors: booming cities

Economies of agglomeration

Jobs in the informal sector

Access to markets

Village distance to nearest town	Share in Rural Population (Census 2001)	Change in Per Capita Income (1993-2005)
	%	(%)
Less than 2 km	3.8	7.4%
2-5 km	9.3	7.8%
5-10 km	19.5	- 8.3%
More than 10 km	67.5	- 10.0%
All Rural India	100%	- 5.8%

Source: Krishna and Bajpai
(2011)

Rural poverty >>> urban poverty

Choice of location?

Cost of housing/
renting

Social connections
(ethnic, religious,
family, village)

Distance to work

Proximity to services

Tenure security

Slum can be “best” choice along these dimensions

Slums = very rapid urbanization + no urban planning

“Slum” is mostly an old pejorative

Covers a variety of clever ways of sheltering strategies in or near big cities; hard to talk about!

We also know *so little* about life in slums!

Types of Location

Central

Tenement buildings

Public housing

Squatting

Peripheral

Pirate subdivisions

Squatting

Kibera slum, Kenya



Buenos Aires' inquilinatos



Chinatown tenements

Illegal partitions to turn one apartment into many



City of the dead in Cairo



Shanytowns in Medellin



What unites these categories is
varying levels of **informality**

To different extents, slum dwellers
are essentially in defiance of the law

Unclear property rights, lack
adequate living space, and poor-
quality housing

Implications of tenure insecurity?

Very **risky to invest**; why put in floors
if the state might bulldoze?

Hurts growth

GD Mara, 2006



What constitutes tenure security?



Uneven enforcement: leave slums alone for years, tear them down; tear some down but not others; why?

Violation of the “rule of law”

Health hazards/optics

City depends on informal labor

Slumdwellers are not powerless;
high capacity for **collective action**

So how does Davis describe the state's approach to slums?

For long 20th century: “keep the peasants out”



Especially dictators, often with support of middle/upper classes

Forces pulling people to big cities much **too**
strong

Many states largely settle on patchwork of
uneven enforcement

WHY NOT JUST INCORPORATE?

State may actually have strong incentives not to improve slums or incorporate them into the city, why?

Improving slums could induce more rural migration

Electoral consequences of actually counting slum residents

Crooked politicians, landlords, etc., benefit from informality

57% of landlords in Nairobi slums are public employees!

But eventually enough public pressure to have to deal with slums



One approach: upgrade slums by building facilities, treating water, etc.

Some promise at the start, but enthusiasm waned with huge expanse of slums

Too costly, no political will

More recent approach: give slum-dwellers land titles

Reason to invest, access to credit

Can serve as collateral for other ventures

Incentivize informality? Rule of law?