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## Varieties of Economic Vulnerability

### Evidence on Social Policy Preferences and Labor Informality from Mexico

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Conflict of interest: We, Melina Altamirano, Sarah Berens and Franziska Deeg, declare none.

#### **Abstract**

In many Latin American countries, social policy preferences among economically vulnerable citizens seem largely unpolarized. However, current studies rarely confront citizens with

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realistic policy options, and often lack the required detail to capture the heterogeneity of economic vulnerability. Drawing upon the dualization debate, we expect individuals facing different degrees of vulnerability to show distinct social policy preferences. Using original survey data from Mexico and a conjoint experiment, our findings reveal a complex divide, where the most economically vulnerable are least supportive of public solutions. Sharing the home with a formal labor market participant does not seem to mitigate social policy skepticism among the vulnerable. In contrast, magnified vulnerability via household composition reduces support for welfare policy expansion. Social policy preferences become much less distinct when policy design alternatives are introduced, suggesting reduced expectations about the state's role and a lack of clarity about the tangible benefits of social policy reform.

**Keywords:** social policy preferences, informal sector, economic vulnerability, survey experiment, conjoint analysis, Mexico

## 1 Introduction

A puzzling finding in the recent literature on social policy preferences in Latin America is the relatively weak demand for redistributive policies among the economically vulnerable (Holland 2018, Holland and Schneider 2017, Berens 2015*a, b*, Carnes and Mares 2015, Haggard et al. 2013, Blofield and Luna 2011, Dion and Birchfield 2010). Even in societies with extreme inequalities, when com- [**p. 139**] pared to other income groups, low-income sectors do not appear to be much more demanding of government intervention to provide social policies (Blofield and Luna, 2011; Berens, 2015*a, b*; Holland, 2018). This result goes against the predictions of classic models in political economy, which expect disadvantaged citizens to demand a certain level of redistribution from the state, depending on their position on the income distribution

(Meltzer and Richard, 1981). Recent analyses have started to explore the mechanisms that reduce the demand for social policies in Latin America. So far, extant works have suggested that the dualized structure of the labor market and the exclusionary design of the welfare regimes in the region make it difficult for economically vulnerable citizens (particularly those in the informal sector) to see themselves as beneficiaries of increased spending on social policies, thus driving down pressure for government action (Holland, 2018; Berens, 2020). Yet, empirical works have failed to identify a clear divide within the labor market (cf. Berens, 2015*a, b*; Baker and Velasco-Guachalla, 2018). We therefore propose to take a step back and re-analyze previous null results on labor market dualization in Latin America from three angles: measurement, conceptualization, and the supply side.

Due to the concealed nature of informality, measuring outsider status is an obvious challenge. Because available cross-sectional data is imprecise, identifying formal and informal workers has previously only been possible to a limited extent (cf. Carnes and Mares, 2013, 2014, 2015; Berens, 2015*a, b*; Altamirano, 2019; Baker and Velasco-Guachalla, 2018). Therefore, in this study, we rely on a specific measure of informality that considers the labor market structure.

Second, we argue that to fully understand the labor market divide in this context, we need to expand *the notion of labor market vulnerability* to consider how household composition and expected job insecurity might enhance or mitigate the divide between insiders and outsiders. To do this, we study the effect of economic vulnerability beyond current labor status. While we explore the role of the type of employment using a direct measure of labor informality, we also consider alternative risk-hedging mechanisms at the household level and expectations regarding transitions in and out of formal work. We expect economic vulnerability to go beyond the individual's own and current

employment sector so that formal workers who anticipate informality in the future might mimic informal worker's preferences or those of an informal spouse.

Third, we question the appeal of the *social policy supply side* for workers on both “sides” of the divide. By definition, informal wage earners do not have access to social security benefits and depend on programs and services provided on a non-contributory basis. It is unclear how far—in a context of weak state institutions—labor market outsiders find the social policy supply for insiders appealing and seek to become beneficiaries of these programs. Therefore, we do not only need to unpack “outsiderness”, but also social policy supply. Acknowledging that social policy reforms are usually multidimensional, we analyze individual attitudes towards distinct policy packages, each with varying elements of accessibility and compensation. Using a conjoint analysis, we asked respondents to choose between options that differed in their scope, level, and [← p. 140] financing, which allowed us to identify the contribution of each design element to the preferences of workers with distinct combinations of labor market vulnerability. This research design incorporates the perspective of potential social policy beneficiaries. It allows us to assess the relative importance they assign to certain policy elements, which has implications for reforming fragmented welfare regimes.

The study was conducted in Mexico in the aftermath of the 2018 presidential elections. This setting was particularly suitable for analyzing social policy preferences for two reasons. First, although the main issues in the election revolved mainly around the need to increase economic growth, reduce violence, and combat prevailing corruption, the state's role in ameliorating those very problems became recurrent in the political discussion. Second, it is likely that, for voters, the prospect for social policy reform was credible in this period. The winning candidate, Andrés Manuel López Obrador (AMLO) from Morena, competed on a campaign that promised more encompassing social policy

programs to lift a segment of the population out of poverty and to fight corruption and crime in the long term. At the same time, the timing of the survey allowed us to capture citizens' attitudes *before* any significant policy changes were implemented.

Our findings reveal that varying economic vulnerability levels contribute to shaping preferences when welfare interventions are assessed in terms of overall government spending in certain social policy areas. In our sample, individuals facing labor vulnerability are relatively less supportive of government spending on social insurance, particularly pensions. Crucially, for those in the informal sector, the presence of a household member currently shielded from labor market risks does not seem to mitigate the negative effect of vulnerability on welfare policy support. Also, expected transitions to the informal sector appear to shape insiders' preferences: insecure formal workers become closer to the preferences of outsiders, thus showing less support for social policy efforts. Preferences are, however, much less distinct when trade-offs are introduced. Both formal and informal workers are less likely to prioritize social policy reform packages when confronted with policy design alternatives (different supply-side options) with specific financing measures and clear winners and losers. This lack of prioritizing suggests reduced expectations about the state's role and a lack of clarity about the tangible benefits of social policy reform.

This article makes two contributions beyond the Mexican case. First, we add to the discussion on dualization and preferences for welfare provision with a better identification of formal and informal sector workers. Drawing upon a growing field of research on the impact of labor informality on political attitudes and outcomes (Carnes and Mares, 2015; Berens, 2015*a*; Holland, 2016; Baker and Velasco-Guachalla, 2018; Altamirano, 2019; Feierherd, 2020), we provide a nuanced approach to the formation of social policy preferences in truncated welfare regimes. Second, by studying

heterogeneous treatment effects, we explore the formation of the redistributive coalitions needed in order to pursue substantial social policy reforms. [<- p. 141]

## **2 Welfare Provision in Latin America**

Social protection programs in Latin America were historically built to benefit workers in the private formal sector, as well as employees in government institutions and public companies. In this initial phase, social policy was geared towards social insurance rather than social assistance, with a subsequent emphasis on contribution-based, rather than universal tax-financed, benefits (Perry et al., 2007). Dualized labor markets, where “insiders” were highly protected through labor law and “outsiders” lacked access to social insurance, became characteristic in Latin American countries (Collier and Collier, 2002; Carnes, 2014; Rueda, Wibbels and Altamirano, 2015). Coverage of poverty-alleviation programs such as conditional cash transfers (CCTs) increased considerably over the last years. Still, the size and quality of these types of protection have remained insufficient to change economic disparities in the region. As Holland and Schneider (2017) note, non-contributory programs represent the ceiling of “easy redistribution,” while redistributive policies that would have more substantive effects, such as unemployment insurance, pensions, and universal high-quality health services, need electoral coalitions that are much harder to build. Indeed, many governments in the region have followed a policy “layering” process, creating and implementing non-contributory programs (both means-tested and universal) on top of contributory insurance policies. This process has added substantial complexity to Latin American welfare regimes, making it more difficult for citizens to identify the rules of access to certain programs, modes of financing, and the expected stability and level of welfare benefits.

Labor market and welfare policies go hand in hand in the region, as both

determine individual risk levels. Social policy can be financed through different schemes: via contributions (payroll taxation, only applicable to formal wage earners), general taxes (including the value-added tax [VAT]), or through more progressive taxation systems (such as progressive personal income taxes). Non-contributory social policies are usually financed through general taxes, and the size of the benefit is relatively small (Holland and Schneider, 2017). The tax mix in many low- and middle-income countries often relies highly on consumption taxes (VAT), which presents a higher tax burden for low-income earners (Wibbels and Arce, 2003; Goñi, Humberto López and Servén, 2011). Therefore, depending on their rules of access and their target populations, financing of social policy reforms either rests on an increase of payroll deductions, or on general taxes.

At the same time, access to social programs is often conditioned on labor status. A universal system benefits informal sector workers and informal employers (e.g., street vendors, informal micro-firms). It comes at the cost of higher general taxes for all (and in a tax system that places a higher burden on consumption tax, this means higher taxes for the poor). In turn, a contribution-based system is more favorable to formal sector workers, as only those who pay in benefit from it. Therefore, risk-pooling occurs among a specific group of workers, who probably have lower probabilities of need, and the group itself is small. Also, compared to universal programs, the [← p. 142] benefit levels are usually higher in contribution-based options (Carnes and Mares, 2014, p. 705).

Investment and adjustments to social insurance programs do not bear an effect on labor market outsiders. On the other hand, the expansion of non-contributory policies often excludes those individuals who have formal jobs as beneficiaries and are, therefore, eligible for social insurance. In addition, in some non-contributory programs, targeting criteria imply that not all low-income households/individuals are eligible to become



recipients, further fragmenting the groups of beneficiaries even among the uninsured within the informal sector.

Given the close relationship between dualization and welfare policies, what is the effect of labor market vulnerability on social policy preferences? While the literature in the context of industrialized democracies suggests an insider-outsider dynamic with implications for social policy preferences and even electoral outcomes (Rueda, 2005*a*; Emmenegger, 2009; Schwander and Häusermann, 2013), such divisions are much less visible in the Latin American context (Berens, 2015*b*; Baker and Velasco-Guachalla, 2018). This might be due to shortcomings in the conceptual understanding of vulnerability or in the empirical identification of informal sector workers (Baker et al., 2020), or because of an insufficient understanding of the actual appeal of social policies in truncated welfare states.

### **3 Labor Market Segmentation and Social Policy Preferences**

We start by considering the insider-outsider divide as a fundamental dimension shaping social policy preferences (Lindbeck and Snower, 1986; Rueda, 2005*a*). According to the classical political economy argument, labor market insiders should shield their insider status, while outsiders would be more favorably inclined toward labor market liberalization and universal social protection schemes (Rueda, 2005*b, a*; Guillaud and Marx, 2014). Job insecurity raises the demand for redistribution and the need for protection (Rehm, 2009), so that, in principle, labor informality should be associated with increased demands toward the state. Considering the welfare state's exclusionary nature, such demands should yield universal or means-tested programs (vs. contributory programs). However, there is also reason to anticipate that labor market outsiders might mimic insiders' preferences. Demanding a reduction of the welfare state and labor protection presupposes that informal workers do not ever expect to join the lucky group

of insiders, which is not an accurate assumption in some contexts (Emmenegger, 2009). Also, in advanced democracies, researchers have identified a more nuanced divide—the new social risks debate—which considers the transformed nature of the labor market, one that is less easily distinguished into secure and non-secure (Schwander, 2019).

In the case of labor market outsiders in developing economies pervaded by labor informality, we anticipate opposition to government spending in contributory systems and support for either means-tested or universal programs. However, rules of access and eligibility thresholds of means-tested programs may exclude economically vulnerable households (albeit above the poverty line), making it difficult for some to perceive themselves as potential beneficiaries. Such lack of clarity might weaken support for targeted transfers in general. Therefore, when correctly identified through empirical means, we expect informal sector workers to be more supportive of universal social policies over means-tested and contributory-based benefits. In contrast, in line with existent studies, we expect formal workers to support a closed, contribution-based system, as such a system offers more benefits to them.

**H1a** Informal sector workers will be more likely to support a universal social policy rather than a means-tested or contributory social policy.

**H1b** Formal sector workers will be more likely to support an expansion of a contribution-based policy, than a universal or means-tested social policy.

Recent works have acknowledged the potential volatility of the labor market divide, highlighting the importance of expanding the notion of “outsiderness” to include different degrees of risk exposure (Walter, 2010; Schwander and Häusermann, 2013; Schwander, 2019). Recognizing that the effect of individual labor market status might depend on alternative risk-hedging mechanisms, we consider the individual’s economic situation from a more holistic perspective on economic vulnerability. Therefore, we

consider each individual's economic context by looking at the composition of their household in terms of access to social insurance by other family members.

While household composition has been analyzed in recent studies for Europe (Emmenegger, 2010; Häusermann, Kurer, and Schwander, 2016), it remains relatively unexplored in the Latin American context. Risk-sharing within households might be a crucial component for social policy preference formation, as family members might benefit from social programs whose recipient is the spouse.<sup>1</sup> Thus, we might expect that individuals in the informal sector who share a household with a formal worker will feel less economically insecure. Consequently, individual living arrangements in “mixed households” might result in preferences which favor contributory insurance instead of universal or means-tested policies. In this scenario, risk-sharing at home would have a *mitigating* effect on the divide between insiders and outsiders, blurring the link between labor market vulnerability and social policy preferences (Häusermann, Kurer, and Schwander, 2016, p.1046).

Yet, it might be the case that individual preferences in mixed households align with those prevalent among informal workers. That is, a formal worker sharing the home with an informal sector worker might judge social policy from the position of a labor market outsider. Individual perceptions of risk may depend more on the vulnerability of uninsured household members, than on their formal status. In that case, a reform that eases informal workers' access (one with a universal design, for instance) might be more popular among individuals in mixed households. Following this logic, members of mixed households might also be *less* likely to support government spending in contributory systems.<sup>2</sup> Potential household effects are expected when there is a disparity in labor market vulnerability within the family. Therefore, we expect that the preferences of individuals living in households that are purely [**p. 144**] formal or informal will be

reinforced by the shared level of labor market vulnerability among family members. We then propose the following hypotheses:

**H2** In mixed households, an individual's social policy preferences will be aligned with those of household members who are in the formal (informal) sector and, therefore, in an economically stronger (vulnerable) position.

**H3** In purely formal or informal households, an individual's preferences will mirror the shared level of labor market vulnerability within the family, reinforcing the relationship between individual economic vulnerability and social policy choices.

While household composition can be understood as a dimension of horizontal vulnerability and must be factored in when deriving expectations on individual redistributive and insurance preferences, time horizons work as a vertical vulnerability mechanism that can have equally decisive implications. That is, individuals will take into account their expectations about their prospective level of risk. In Latin America, labor market analyses have found that transitions into and out of the formal labor force are not uncommon, suggesting that the formal and informal sectors are highly permeable (Maloney, 2004; Duryea et al., 2006; Vega Núñez, 2017). These dynamics also reflect informalization patterns in response to weak welfare states (Berens, 2020). This significant labor market mobility implies that individuals currently in the formal labor force might perceive their situation as unstable, thus anticipating a likely transition to the informal sector. As Carnes and Mares (2016) note, the benefits formal sector workers derive from contributory policies depend on regular contributions to the social security system (p. 1650). Therefore, transitions out of the formal labor force can substantially reduce or even endanger access to contributory benefits.

We argue that, for workers currently in the formal sector, the perception of prospective labor market risk will contribute to shape their individual social policy

preferences. We theorize that formal workers expecting labor informality in the future will be less likely to support efforts to expand the contributory system. Individuals with this expectation will, in turn, favor an increased provision of universal social policies.<sup>3</sup> In contrast, a worker who considers it likely to enter or remain in the formal sector in the future might favor a contribution-based system. That is, prospective labor market risk might blur the distinction between current insiders and outsiders, thus aligning vulnerable formal workers' preferences with those of informal workers. To test the effect of labor mobility expectations on social policy preferences, we present the following hypothesis:

**H4** Formal sector workers who expect to lose their jobs/to work in the informal sector in the near future will be more likely to support a universal social policy than one which is contribution-based or means-tested.

Finally, although the individual's risk assessment regarding current labor market status, household composition, and future employment should be influential for the labor divide, such considerations should depend on the nature of welfare policy supply. Social policies are complex constructs and also often compete with each other because the size of the budget "pie" is usually fixed. Spending more on education sometimes means less available means to expand health care. Some programs are financed through general tax money, while other programs rely on payroll taxes. Some are open to all, whereas others are closed to contributors only. Thus, null results on the divide between labor market insiders and outsiders in Latin America (Berens 2015b, Baker and Velasco-Guachalla 2018) might be a result of not adequately considering social policy complexity (see Baker et al., 2020) and actual supply.

We explore how preferences for redistribution and social policies are linked (if linked at all) to their financing scheme. Specifically, we study whether individuals are generally more favorably inclined toward an expansion of social policy programs if these

are financed by placing a higher tax burden on the rich (see Fairfield, 2013; Flores-Macías, 2014). As Flores-Macías (2018) reveals for the Mexican case, willingness to accept taxation is very much dependent on institutional trust and can be facilitated through design features that reduce uncertainty about the misuse of tax money. Considering the preferences of formal and informal sector workers, we expect that both will prefer an increase of social policies (contribution-based in the case of formal workers, and universal schemes in the case of informal workers) when the tax burden can be shifted onto someone else. For formal workers, this means financing reforms through increased general taxes (which, in the Mexican context, basically means consumption taxes that place the tax burden on lower-income earners) or raising taxes on the rich. For informal workers, supporting a social policy expansion should hinge on shifting the costs to workers with a written contract and the government, or else, by placing the tax burden on the rich.

**H5** Informal sector workers are more likely to support an increase of universal social policies if the form of financing relies on government contributions obtained from increasing the taxes of people with higher incomes or of workers with a written contract.

**H6** Formal sector workers are more likely to accept an increase of contribution-based social policies if the form of financing is through government contributions obtained from increasing the taxes of people with higher incomes or from an increase of general taxes.

#### **4 Background on Social Policies in Mexico**

There are two main social insurance institutions in the country: the Mexican Social Security Institute (IMSS), which 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 government 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 [← p. 146] and/or ISSSTE. According to the most recent census estimates, approximately 47% of the national population is entitled to health services at these institutions.<sup>4</sup> A small share of the population has private health insurance, and state institution coverage for local government employees is also limited.<sup>5</sup> The informal employment rate in the country was 56% in November 2020 (INEGI 2020). This measure includes individuals working in non-formally registered enterprises and workers without access to labor benefits.<sup>6</sup>

The Mexican pension program is regulated by the state and designed as a defined-contribution program, which means that access to a pension is based on prior contributions. Formal sector workers contribute to their pension plans through mandatory payroll deductions and additional, voluntary payments.<sup>7</sup> A further prominent contribution-based system is Mexico's housing program. It is managed through the Instituto del Fondo Nacional de la Vivienda para los Trabajadores (INFONAVIT), which grants mortgages to Mexican formal sector workers. Employees mandatorily contribute to the program through payroll deductions.

Besides contribution-based institutions, there is a combination of means-tested and universal programs aimed at workers and their dependents in the informal and agricultural sectors. While some informal workers have access to non-contributory programs, none of these provide comprehensive social insurance. In 2018, *Prospera* was the main conditional cash transfer program (CCT). It provided a monthly transfer to female heads of eligible households, who were required to take their children for regular health check-

ups and attend meetings related to the program. Households were selected based upon specific criteria according to poverty thresholds. While there was an overlap, the program did not offer complete coverage for the informal sector population. By the end of 2017, approximately 23% of the national population had access to Prospera (Yaschine, 2018).<sup>8</sup> In Puebla and Querétaro, the subnational states where we collected our survey (further discussed below), only 5% of respondents claimed to be Prospera beneficiaries.<sup>9</sup>

In 2003, the public healthcare system was reformed to create *Seguro Popular*, a non-contributory program for the population without social medical insurance. The program was intended to reach the informal sector population and offered coverage of a set of medical treatments and interventions. Services were funded by the federal government and provided by local health authorities, with varying outcomes in terms of quality (Flamand and Moreno Jaimes, 2014).<sup>10</sup>

To summarize, as in other Latin American welfare regimes, the structure of social security institutions and programs in Mexico is currently a fragmented system combining contributory programs, means-tested programs, and emergent universal policies. Each of these services and programs has specific rules for access, eligibility criteria, and a set of conditions required for continued enrollment in the program/institution. Following the hypotheses above, we expect that different labor market vulnerability configurations will be associated with varying support for these policies, depending on their perceived benefits. At the same time, and recognizing the multidimensional nature of policy packages, we expect that individuals facing varying levels of vulnerability will assign more value to specific components of social policies, such as access or type of financing.

[<- p. 147]

## 5 Empirical Setup



We collected an original standardized face-to-face survey (computer-assisted personal interview (CAPI)) with N=1,400 respondents in Mexico in November 2018. We drew a random sample at the sub-national level<sup>11</sup> in the states of Puebla and Querétaro (700 respondents per state). Querétaro is slightly above the national average (0.16) GDP per capita (with 0.22, in millions of Pesos, INEGI 2018). Puebla is below with a GDP per capita of 0.10 in 2017 (INEGI 2018). Both are equally close to Mexico City and score below the national homicide rate. Selecting two states allowed covering a larger range of production sectors (manufacturing, service and agriculture) and wealth.

We ran focus-group interviews in Mexico City and pre-tested the questionnaire with a random sample of 60 respondents in both states before the launch of the survey to test the validity of the items and the comprehensiveness of the conjoint experiment in particular.<sup>12</sup> We employed several quality control mechanisms such as interviewer training (see Lupu and Michelitch, 2018) to reduce possible survey error.<sup>13</sup>

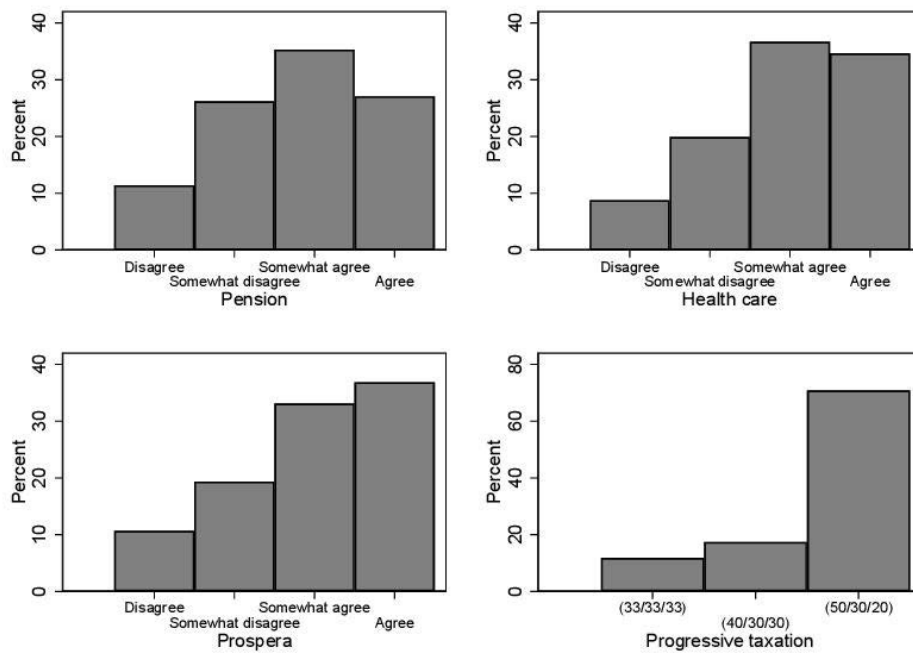
Our empirical analysis is twofold. First, we study welfare attitudes with standard questions on social policy preferences and unpack varieties of labor market vulnerability. We estimate an ordered probit regression to analyze the observational social policy preference responses (H1-H4).<sup>14</sup> Second, we analyze the results from a conjoint experiment, increasing policy choice complexity to tease out how far introducing trade-offs influences preference formation (H5 and H6). Here we use a logistic model as the dependent variable is the choice between the two policy packages.<sup>15</sup> We look at the responses for the full sample and subsequently study sub-group effects, as we are interested in policy preferences of formal and informal sector workers.

## **5.1 Dependent Variable: Social Policy Preferences**

We are interested in understanding individual support for welfare state expansion. We, therefore, asked respondents about their support for state-administered social policy expansion in the following fields: public pensions, health care, conditional cash transfers (CCT), and progressive taxation.

We asked how much the respondents agreed or disagreed with the following statement: “The Mexican government should increase spending on [health care services],” varying the respective policy field. We explicitly referred to social policy types rather than concrete programs to avoid loading the question with partisan cues. Also, we reminded the respondents that an increase in spending might come with a rise in taxes and reduced survey satisficing by adding: “Consider that this may or may not imply an increase in taxes.” The response scale ranges from 1 (disagree) to 4 (agree). To assess respondents’ tax preferences, we employed a different scale. We asked how much the rich, middle, and low-income earners should pay in taxes out of 100 [**p. 148**] Pesos (50/30/20-a progressive option, 40/30/30-a moderately progressive option, or a flat tax with 33/33/33).<sup>16</sup> Figure 1 displays the distribution of the social policy questions. A majority of respondents support an expansion of the welfare state and taxes to be made more progressive.<sup>17</sup> In line with previous findings from cross-sectional studies in Latin America, support for tax progressivity is widely shared in Mexico (70.8%). Yet, in regional comparison, Mexico only scores as an average case of tax progressivity demand (see Bogliaccini and Luna 2019; Berens and von Schiller 2017). Although overall levels of support for social policy expansion are relatively high, the puzzle that drives our analysis relates to the lack of a significant gap between the preferences of the vulnerable and the non-vulnerable. Indeed, cross tabulations show that informal workers are no more likely to support social policies compared to formal workers, even though they should be in greater need of them (see Table L Appendix).

**Figure 1:** Distribution of DV Survey Questions (PQMex Survey 2018)



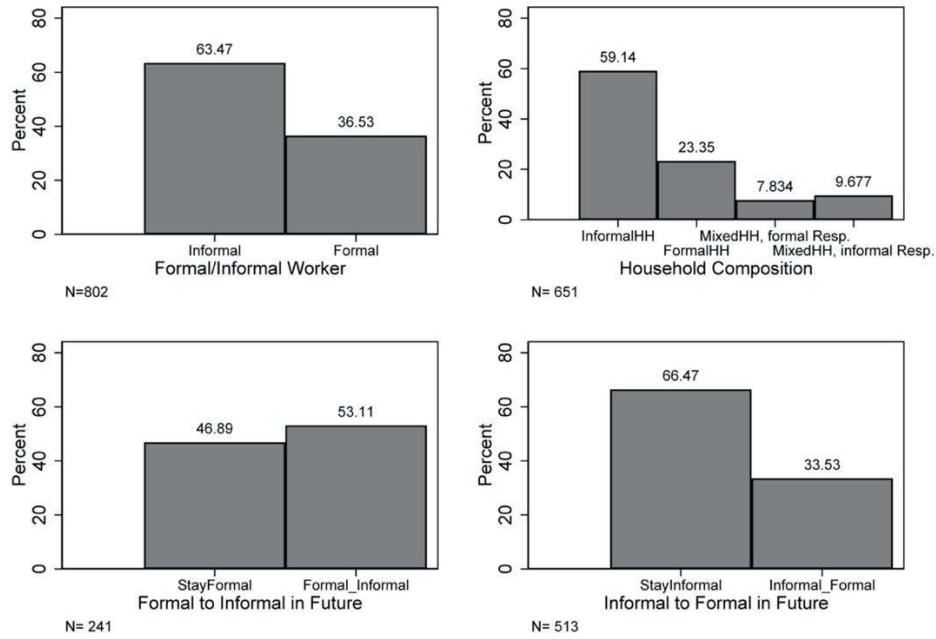
## 5.2 Independent Variable: Informality

We constructed a set of items that allowed a) identification of informal and formal sector workers, b) whether they previously worked in the formal/informal sector, c) the extent to which they expected to stay in the current sector or to work formally/informally in the future (reference category: no anticipated change), and d) if they shared a household with a formal/informal [**p. 149**] spouse. We identify informality based on the benefits definition (Baker et al., 2020). We asked respondents if they had a written working contract, and if they were enrolled (a) in a medical insurance plan, (b) the housing credit system INFONAVIT, and (c) a pension plan through their employer. Combining information on the possession of a written contract and the three different formal-employment-related public benefits gave us a firm measure of formal and informal labor.<sup>18</sup> We then inquired, “How likely do you think it is for you to have a job where you won’t get employer connected benefits in the next five years” and a separate question on

“where you get employer connected benefits.” Moreover, we asked our respondents: “Are there people living in your household who work for a wage, but without a contract or employer connected benefits?” and also if there were people in the household who worked for a salary, had a contract and were enrolled in employer connected benefits.

Figure 2 shows the distribution of formal and informal workers (panel a), the composition of the household (purely informal, formal or mixed in panel b), the share of formal workers who expected to become informal (panel c) and informal workers who expected to become formalized in the future (panel d). Our estimates of the informal sector’s portion (63.5%) of the active working population corresponded with Mexican labor market statistics. Also, our results were comparable to the estimates of informality of LAPOP, which was conducted in Mexico in 2018.<sup>19</sup> To identify household nature, we built on the information by asking respondents about having a work contract and employer benefits, together with the question about household members labor market status, which reduced the sample to 651 respondents (non-employed individuals could not be identified). Interestingly, most households in our sample were exclusively informal (59%). Only 17.5% were mixed households. As controls, we added a battery of standard socio-demographic variables (see Dion and Birchfield, 2010; Morgan and Kelly, 2013; Carnes and Mares, 2015; Berens, 2015*b*).

**Figure 2:** Distribution of Formal and Informal Workers, Labor Market Prospects and Household Composition<sup>20</sup>



To measure income, we use an asset indicator (AMAI) which ranges from 1 (poor) to 7 (rich). We include information on gender, age, dependents in the household (dichotomous variable), education, and urbanization level. We also control for vertical reciprocity (trust in public institutions/government, see Flores-Macías (2014)) through an item which asked about corruption in the public system in robustness analyses (see Table F in the Appendix, estimation results remain robust). As a further test for robustness, we add information on union membership (only 4% of the sample) and job security (Rehm, Hacker and Schlesinger, 2012; see Table G). Moreover, we control for vote choice in the 2018 presidential elections to take into account the possibility that political affinities might be a key driver of social policy preferences (Tables I, J and K in the Appendix).<sup>21</sup> Our results on the impact of economic vulnerability remain robust to the inclusion of vote choice. [**<- p. 150**]

### 5.3 Conjoint Analysis

In order to confront the respondents with the complexity and trade-offs in social policy, we employed a conjoint experiment.<sup>22</sup> We used a forced-choice conjoint that

asked the respondents to choose between different social policy reforms that differed across four policy attributes. We varied the “type of policy” (old-age pensions; health service; housing credits; financial support for low-income households; daycare centers),<sup>23</sup> “who should pay for it” (only with contributions from workers with written contracts and the government; with contributions from the government with increased taxes; with contributions from the government raising taxes on people with higher incomes), “beneficiary” (universal – everyone has access; workers with written contracts; only those in need), and “what should be done” (increase benefits; reduce benefits; keep benefits as they are). Each respondent received two policy packages for comparison, [p. 151] and we repeated this step three times ( $N=1,400 \times 2, \times 3$ , thus, 8,400 choices).<sup>24</sup> In the three attributes, we used three values; only in the first attribute, did we employ five values. The possible number of combinations is thus  $(5 \times 3 \times 3 \times 3)$  135. We asked: “Imagine that you have the opportunity to change some public policies. Below is a table with two public policies for you to choose from. Think about which would bring you the most benefits. For your choice, take into account the 4 aspects seen in the table. We will show you several tables. If you have to choose one of the policy programs, which one would you prefer?”<sup>25</sup> The respondents were asked to choose one of the packages.<sup>26</sup> We deliberately ask for an egotropic evaluation of the policy package to ensure a constant interpretation across respondents. All attribute values within the four attributes had the same probability of being drawn.<sup>27</sup> The conjoint setup allows comparing the effects between different attributes, because all attribute values are placed on the same scale (Hainmueller, Hopkins and Yamamoto, 2014). Due to random assignment, weights are not necessary. Thus, the only systematic difference between the respondents should be induced through the random display of policy packages.

## 6 Results

Table 1 shows ordered probit regression results for the impact of formal versus informal labor market status on social policy preferences, analyzing a sample based on workers only (M1, M3, M5, M7), and for the full sample, distinguishing formal, informal and non-employed respondents (M2, M4, M6, M8). We plot the findings in Figure 3. Informal sector workers, defined by lack of a working contract and access to employer related benefits, are significantly less supportive of the contributory pension expansion (M1). We also find a negative effect of labor informality on support for investments in public health care, but this effect is less robust than the pension effect. Comparing informal worker preferences to the non-employed (e.g., homemakers, students, and the retired), we find more discernible differences between formal workers and the non-employed. The latter group is less supportive of state-administered increases of public pension, health care, and Prospera expenditures than the formally employed.<sup>28</sup> However, tax preferences –that is, how benefits are financed/who carries the tax burden – are unaffected by the vulnerability measure based on current labor market status (M7-8). A better identification of formal and informal workers provides support for the labor divide hypothesis H1 regarding how benefits should be distributed.

**Table 1:** Ordered Probit Regression: Social Policy Preferences and Labor Market Dualization

	(M1)	(M2)	(M3)	(M4)	(M5)	(M6)	(M7)	(M8)
	Pension		Health Care		Prospera		Prog. Tax	
<i>Workers</i>								
Informal	-0.391**	-0.227+	-0.294*	-0.197+	-0.238+	-0.069	-0.147	-0.046
(Ref. cat.: formal)	(0.124)	(0.121)	(0.115)	(0.112)	(0.129)	(0.121)	(0.140)	(0.131)
<i>All</i>								
Non-empl.		-0.568***		-0.466***		-0.472***		0.233
		(0.118)		(0.117)		(0.123)		(0.144)
<b>Controls</b>								
Age	-0.026	-0.048*	-0.060+	-0.056**	-0.031	-0.047*	-0.015	-0.022
	(0.041)	(0.020)	(0.034)	(0.020)	(0.039)	(0.020)	(0.046)	(0.025)
Age <sup>2</sup>	0.000	0.001**	0.001*	0.001**	0.000	0.001*	0.000	0.000
	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)	(0.000)
Female	0.375***	0.349***	0.368***	0.349***	0.288*	0.316**	-0.106	-0.070
	(0.108)	(0.093)	(0.109)	(0.093)	(0.116)	(0.099)	(0.134)	(0.120)
Education	-0.049	0.012	-0.01	0.016	-0.056	0.012	-0.225***	-0.150***
	(0.043)	(0.034)	(0.045)	(0.034)	(0.051)	(0.035)	(0.054)	(0.043)
Wealth	-0.103*	-0.098**	-0.061	-0.056	-0.126*	-0.126***	0.110+	0.039
	(0.046)	(0.036)	(0.047)	(0.035)	(0.049)	(0.035)	(0.061)	(0.051)
Dependents	-0.377***	-0.363***	-0.321**	-0.233**	-0.425***	-0.367***	0.234+	0.005
	(0.110)	(0.080)	(0.111)	(0.089)	(0.118)	(0.092)	(0.126)	(0.107)
Urban	-0.082	-0.026	-0.138	-0.154+	-0.316**	-0.274**	-0.072	0.053
	(0.112)	(0.087)	(0.116)	(0.088)	(0.121)	(0.089)	(0.140)	(0.119)
Puebla	-0.257*	-0.318***	-0.05	-0.083	-0.221+	-0.258**	0.334**	0.136
	(0.112)	(0.087)	(0.107)	(0.085)	(0.121)	(0.091)	(0.121)	(0.104)
cut1	-2.859**	-2.983***	-3.116***	-3.038***	-3.326***	-3.246***	-2.252*	-2.251***
	(0.918)	(0.497)	(0.745)	(0.463)	(0.869)	(0.491)	(1.009)	(0.603)
cut2	-2.006*	-2.042***	-2.289**	-2.212***	-2.600**	-2.515***	-1.476	-1.587**
	(0.912)	(0.499)	(0.748)	(0.468)	(0.873)	(0.497)	(1.017)	(0.608)
cut3	-0.996	-1.057*	-1.325+	-1.199*	-1.741*	-1.553**		
	(0.911)	(0.497)	(0.75)	(0.468)	(0.868)	(0.492)		
N	618	1080	624	1096	585	1027	637	1094

+ p<0.10, \* p<0.05, \*\* p<0.01, \*\*\* p<0.001. Note: The numbers in parentheses are standard errors; all models

include survey weights. PQMex Survey 2018.

To test H2 and H3, we analyze welfare preferences of respondents who a) work in the informal sector and share a household with one or more informal workers (purely informal household), b) formal workers who share a household with one or more formal



workers (purely formal household) and c) respondents who are either formal or informal and shared a household with someone who is respectively working in the other sector (mixed household). Results from Table 1 already anticipated that the group of the non-employed, who most likely live with someone who is an active labor market participant, hold decisive views on public investments in the welfare state. [**<- p. 152**]

Table 1 [**<- p. 153-154**]

Table B (Appendix) and Figure 3 display the results comparing informal households and mixed households (distinguished by the respondent's labor market status) with purely formal income-earner households. Purely informal households are consistently against the public welfare system. Informal households are significantly less supportive of expanding public pensions, health care, and Prospera, supporting H3. Given the low share of respondents that were Prospera recipients in Puebla and Querétaro, lack of support for the program might be associated with perceived access barriers despite fulfilling the eligibility requirements. As a robustness test, we control for receiving a cash transfer from the government (see Table H in the Appendix). The inclusion of this measure of benefit receipt does not substantively alter our findings and does not affect preferences. Compared to formal households, mixed households are significantly less supportive of investments in public pensions and Prospera. To better capture potential shielding effects, we differentiate between mixed households in which the respondent is either formal or informal. Formal respondents in mixed households have a significant, negative preference against the means-tested CCT program Prospera. In contrast, informal respondents in mixed households are significantly less likely to support an increase in the contribution-based pension system.

This last result suggests that sharing the household with someone currently shielded from labor market risks does not systematically cancel the impact of vul- [**<- p. 155**]

nerability on other family members' social policy preferences. Such a shielding effect might only be at work regarding health care (M2), where the negative effect of purely informal households does not translate to mixed households. Informal households and formal respondents in mixed households are less supportive of progressive taxation compared to purely formal households (M4). The coefficient for informal respondents from mixed households is also negative, but not significant. Against theoretical expectations, vulnerability does not go hand in hand with a desire to shift the tax burden onto the rich. Shared vulnerability seems to manifest withdrawal from redistributive instruments – be they related to benefit distribution or revenue generation – compared to formal households.

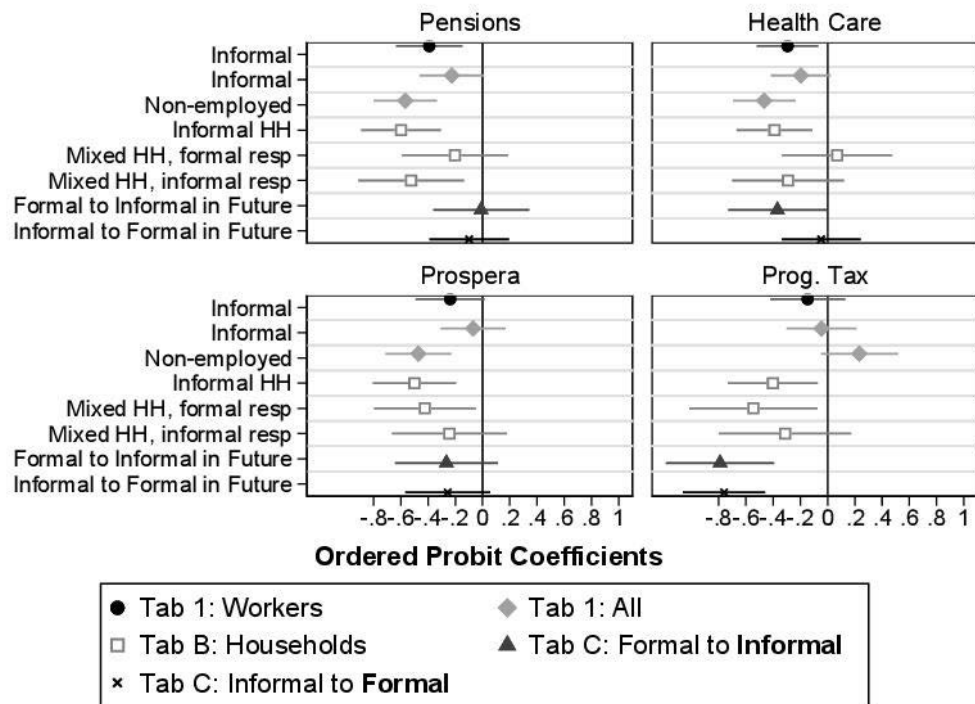
Delving deeper into the different shades of labor market vulnerability, testing H4, we analyze the welfare preferences of informal respondents who expect to enter the formal sector, thereby gaining labor market security. We also look at the preferences of those anticipating a change from formal to informal labor in the next five years. It has to be noted that the sample sizes differ as we now focus on the two sub-groups. We present the findings in Figure 3 (see Table C in the Appendix). Those who anticipate an increase of vulnerability in the future, expecting to lose their formal employment within the next five years, are significantly less supportive of public health care expansion and progressive taxation. But also, those who anticipate more secure employment in the future are less supportive of progressive taxation compared to those who do not expect any change.<sup>29</sup>

Given that we anticipate respondents to associate the health care item with the non-contributory program Seguro Popular, rather than the contributory arm (IMSS and ISSSTE), this finding can be interpreted to disconfirm H4. Recall that we expected the risk of future insecurity to raise support for universal programs in contrast to contributory or means-tested ones. This may reflect underlying levels of dissatisfaction or low

expectations regarding the public health care scheme Seguro Popular, which might drive down public support in this specific social policy field. Expectations of future formal employment do not seem to influence attitudes toward the contributory pension system.

**Figure 3:** Social Policy Preferences and Economic Vulnerability (Main

Coefficients from Table 1 M1-M8, Table B M9-M12, Table C M1-M4).



Starting from a dichotomous view of informality, which revealed a lack of support for the public pension system among informal sector workers (H1), we find a more complex preference pattern the more we unpack the different layers of labor market vulnerability. Those who anticipate moving from protected employment to informality in the future are indifferent toward the pension system and appear less supportive of an increase of government expenditures in public health care services. Those who anticipate changes in labor market status in both directions —becoming more or less secure— are more supportive of a flat tax. Purely informal households, which are the predominant household type in our sample, are less favorably inclined to any expansion of public

pensions, health care, and Prospera. At the same time, mixed households resemble this pattern. Informal households are less likely to support redistributive fiscal instruments, as can be interpreted from the tax preference question. Shared economic vulnerability seems to reduce support for public social protection programs and redistributive tax instruments. Thus, our analysis shows [**p. 156**] the need for better measurements to identify informal workers and a divide in the labor market, and for a conceptualization of economic vulnerability as a continuum.

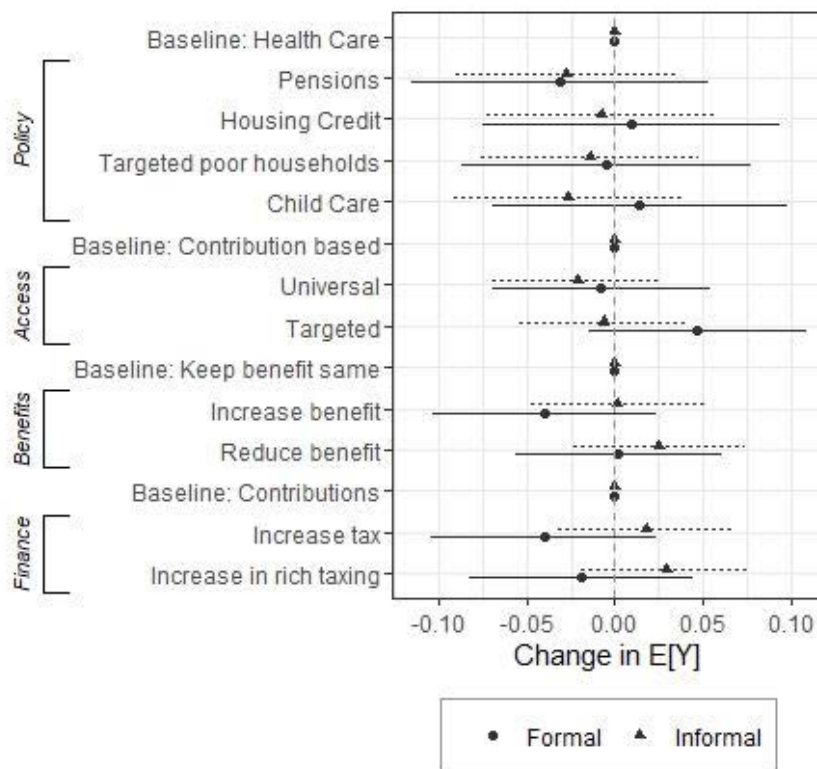
Considering socio-demographic controls, we find intuitive age effects in Table 1. The young are less supportive of pensions, health care, and Prospera expansion, whereas the old demand an increase in public protection programs. Interestingly, the negative effect among the young is larger than the effect for the old, despite the apparent self-interest for generous social protection. Perry et al. (2007) have uncovered life-cycle patterns of informality –where the young frequently start labor market entry with informal work, and possibly find formal employment during middle age before moving into informality again in old age–. However, exploring these patterns calls for an analysis of possible interdependencies between labor market vulnerability and age for preference formation, which goes beyond the scope of this study.<sup>30</sup> Life cycle patterns in the labor market, in which the elderly – classically a major voter group – find themselves in informality and develop skepticism toward the state, might explain why demand among the vulnerable falls short of expectations.

## **6.1 Results: Conjoint Experiment**

Moving beyond a one-dimensional inquiry about welfare preferences, we analyze results from the conjoint experiment which confronted respondents with a trade-off situation. Respondents had to choose between different social policies (asking them to make an egotropic choice) that differed in regards to what would be insured and who

would have access to the benefit, how it should be financed, and how far it should be expanded or retrenched. As our research interest rests on the different labor market sub-groups, we show the findings for the same groups as specified above.<sup>31</sup> Looking at the forced-choice outcome results, we cannot detect any significant differences of any of the attributes for formal and informal sector workers (Figure 4). In this first set of analyses, introducing trade-offs and distinguishing program components does not uncover a significant cleavage in preferences between informal and formal sector workers regarding social policy *design*.

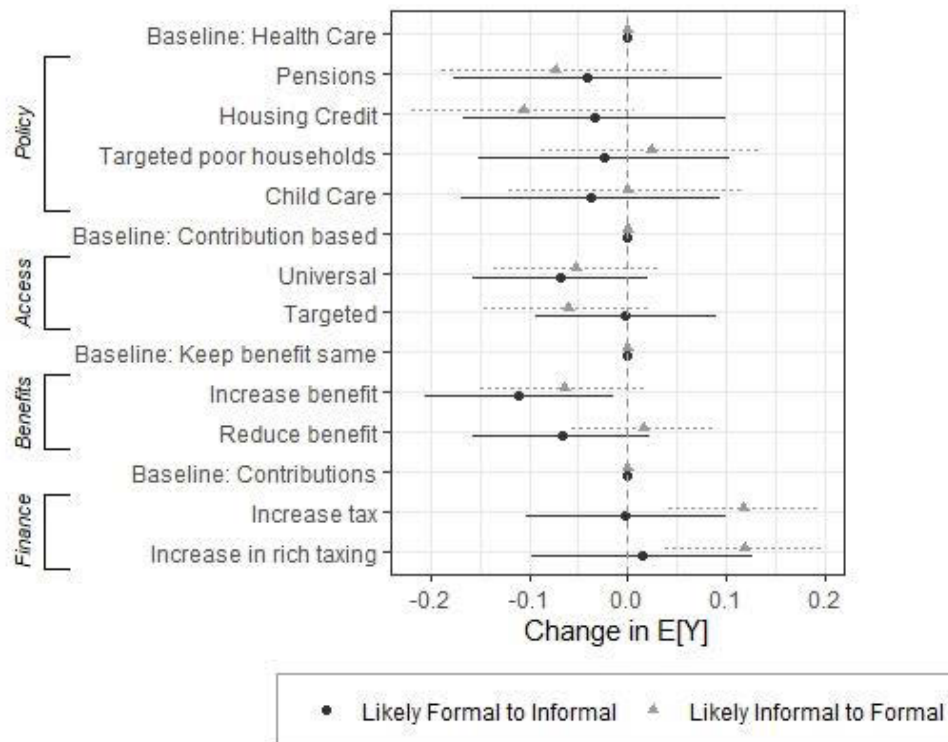
**Figure 4:** Conjoint: Formal (black line) and Informal (dashed line) Sector Workers



We observe some differentiated patterns between formal and informal workers when interacting policy dimensions, e.g. an increase of benefits and higher taxes on the rich (Figures C and D, Appendix). Formal workers are significantly less likely to select policy packages that combine targeted benefits through either an increase in

general taxes or taxation of the rich, which corroborates H6. Informal workers were more likely to choose a policy package that offers a universal policy financed through increased general taxes, supporting H5. This result is in apparent contradiction to what we find in the observational analysis, where we see a correlation between vulnerability and support for a flat tax. However, the result is in line with Flores-Macías’s (2018) findings on the impact of policy design instruments. When taxes are earmarked, respondents are more willing to accept taxation and engage in the fiscal contract. Tax progressivity tends to be eyed skeptically when the usage of this revenue is not clearly revealed. [**<- p. 157**]

**Figure 5: Conjoint: Future Employment Expectations**



Secure workers are less likely to select policy packages that offer targeted benefits with increases in taxation or benefit size. These results are in line with our findings in the observational analysis above. However, all other interactions between attributes led to insignificant results, which corroborates the conclusion that introducing program complexity and trade-offs reduces decision-making capacity among both types

of workers.

Finally, we combine program complexity and disaggregated forms of economic vulnerability as analyzed above. First, we assess the variance of economic vulnerability in terms of household constellations. Neither purely formal, purely informal, nor mixed households hold systematically different views on policy packages that differ along our set of dimensions (see Figure E and F in the Appendix).

Second, we distinguish workers by their expectations regarding future employment prospects. We find differences in attitudes toward social policy expansion and how social policies should be financed. Formal workers who expect to lose their secure job in the next five years are less supportive of policy packages that offer increased benefits (“keep benefits as they are” is the baseline category). In contrast, [**p. 158**] informal workers who expect to find formal employment shortly are more likely to choose a policy package when it contains an increase of general taxes or shifts the tax burden onto the rich, compared to a rise in payroll-taxes (see Figure 5). Again, tax preferences seem to be coherent with a self-interest rationale once financing and spending are linked transparently. These results suggest that expected labor market transitions shape policy preferences. Formal workers who anticipate losing access to mostly contribution-based welfare policies are less supportive of an expansion of such policies. In contrast, informal workers want to shield formal workers from increased tax contributions when expecting to become one of them. Unpacking program dimensions, that is, the supply side, and economic vulnerability, reveals a complex labor market divide: insecure formal workers become closer to outsiders in their lack of support for government strategies to expand welfare policies. [**p. 159**]

## **6.2 Discussion**

Our findings from both the observational and the conjoint experiment analysis unravel a social policy preference divide associated with varying levels of economic

vulnerability, which so far had been difficult to identify (see Berens, 2015*b* and Baker and Velasco-Guachalla, 2018). Mexicans in our sample who face higher levels of vulnerability are more skeptical of state-administered welfare provision. A conceptualization of “outsiderness” as a continuum, and a more fine-grained measurement (see Baker et al., 2020; and Schwander and Häusermann, 2013), allowed us to identify its effect on social policy demand. For instance, citizens anticipating an increase in vulnerability in the future were more likely to give up public solutions and preferred to opt-out (Holland 2018, Berens 2020). Our results confirm that, in truncated welfare regimes, vulnerable individuals are less likely to base their social policy preferences on a “calculating solidarity” rationale (Berens 2015a). In contrast to Carnes and Mares (2013: 20, 2015), we do not find generalized support for universal protection programs among the vulnerable (we could not confirm H4, our analysis of support for health care expansion) —except for cases in which a universal policy is directly linked with financing through general taxes, as shown in the conjoint analysis. The findings also contribute to the previously identified patterns of informal worker disengagement from the state when forming partisan linkages (Altamirano 2019) or in the case of tax morale (see Castañeda et al. 2020).

Our study reveals that informal workers are less supportive of progressive taxation (a fiscal tool of revenue generation, rather than benefits distribution). Citizens facing vulnerability seem to prefer a lean or liberal tax state. Thus, vulnerability raises skepticism across the board, not just regarding the distribution of benefits, but also regarding revenue generation. Our findings confirm citizen sensitivity —especially for those less secure— to how policies are financed, following recent contributions on tax preferences (Fairfield 2013, Berens and von Schiller 2017, Flores-Macías 2018).

Finally, we provide novel evidence on the potential effects of households as risk-



hedging mechanisms. Crucially, we found that sharing the home with a formal labor market participant does not seem to mitigate welfare-state skepticism among the vulnerable. Similar to patterns identified for the high-income country context, a secure household setting only has limited effects on neutralizing the impact of vulnerability on policy preferences (Häusermann et al., 2016). Instead, vulnerability has a “multiplier effect” within households (Häusermann et al. 2016: 1046). Yet, in clear contrast to social policy dynamics in advanced democracies, magnified vulnerability via household composition seems to reduce expected social policy benefits rather than increasing demand for social protection. [**- p. 160**]

## **7 Conclusion**

Welfare states in many Latin American countries are in a delicate position: it is precisely those in need who seem less willing to actively demand more from the state regarding social policy provision (Holland, 2018; Berens, 2020). However, current works rarely confront citizens with realistic social policy options, and surveys often lack the required detail to identify those without employment protection. Therefore, we argue that the policy preferences derived often overlook the heterogeneity of economic vulnerability and portray an incomplete picture of social policy reality. That is, we need a continuous concept of “outsiderness” rather than a dichotomous one, and we need to factor in how attractive citizens find the social policy supply.

To address the challenge of measuring informality, we collected original survey data at the subnational level in Mexico. We empirically identified informal workers through detailed information about access to contribution-based programs and the possession of a working contract, and we find support for a divide within the Mexican

labor market. Yet, as the dualization debate implies, this divide is not necessarily dichotomous. Instead, differences become more discernible once we unpack different layers of economic vulnerability. Household membership seems to affect individual demand for public solutions depending on the household's risk exposure level. Purely informal households, the prevalent type in our sample, seem less favorably inclined toward any expansion of public pensions, health care, and Prospera, while mixed households resemble this pattern. Shared economic vulnerability seems to reduce support for public social protection programs.

Confronting citizens with social policy trade-offs mimics the welfare system's complexity often found in middle-income countries in which clear-cut beneficiaries are not easily identified. However, our analysis suggests that coalitions in Mexico are not yet well-defined around specific components of social policy reform. Therefore, our findings highlight the lack of strong coalitions of support willing to actively demand and defend social programs and services in Mexico. This is shown by the various null findings from the conjoint experiment. Targeted benefits seem to provoke ambiguous outcomes for formal and informal workers alike. When we combine program complexity and a disaggregation of economic vulnerabilities, we find some evidence of a labor market divide: more secure workers or, more particularly, those who expect secure employment in the future are more supportive of shifting the tax burden from contribution payers to general taxes on the rich, whereas those who anticipate informality are less supportive of social policy expansion across the board. Our results are consistent across different specifications, which substantiates the robustness of our findings.

Our findings have important implications for policymakers and voters in emerging economies. First, the results of unpacking economic vulnerabilities stand in contrast to the argument of a general lack of a labor market divide in developing countries

(Berens, 2015*b*; Baker and Velasco-Guachalla, 2018) and confirm the need for better instruments to identify those who are at risk (Baker et al., 2020). For [p. 161] instance, the higher the level of mixed households in a society, the stronger the position of the informal sector workers, despite a significant share of formal workers in society, and the harder it will be to detect underlying cleavages when household composition is not accounted for. Taking a holistic approach to economic vulnerability is therefore key to address people's needs.

Second, informal sector workers seem to be fundamentally skeptical of the public social protection system and redistributive fiscal instruments, and this applies to mixed households as well. Lack of distributive justice and a reduction of formal sector worker benefits might make it much less appealing for informal sector workers to support public solutions. In our study, for those excluded from employment-related benefits, the *grass does not always seem greener on the other side*. Instead, against the backdrop of a fragmented welfare state, weak state capacity, and low expectations, Mexicans in Querétaro and Puebla who are economically vulnerable seem to expect less from the state and implicitly adopt a neoliberal stance. Future work needs to delve deeper into the drivers and mechanisms that perpetuate outsider skepticism.

Our study has evident limitations. We need to be careful to generalize our findings beyond the Mexican case. As improvements in identification strategies of informal and formal sector workers are on the rise in cross-national level data (Baker et al., 2020), future research needs to test the implications of varieties of economic complexity in a broader context. Finally, at the time of our study, our findings and robustness tests suggested an apparent disconnect between social policy preferences and political leanings among Mexican respondents in our sample. Future studies should further investigate the conditions under which social policy offerings become politicized

and the extent to which political identities may filter public preferences for policies that are perceived to be aligned with partisan platforms and agendas. Exploring the mechanisms connecting political identities and policy preferences opens new research questions in the study of social policy demand in truncated welfare systems.

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## Notes

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<sup>1</sup>For an illustration of the Mexican case, see: <https://www.gob.mx/tramites/ficha/registro-de-esposa- o-como-derechohabiente-en-el-imss/IMSS176>

<sup>2</sup> We slightly deviate hypotheses 5 and 6 from the predictions that were pre-registered in a pre-analysis plan (PAP 20181108AB) prior to collecting the data which contained an interaction with exposure to economic shock (see prediction 5 and 6, “Formal sector workers who are more exposed to economic insecurities [...]”).

<sup>3</sup> Past experience should sensitize individuals to the more strenuous situation of labor informality. In the PAP we also registered the following H1: “Formal sector workers who

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were informally employed in the past years are more likely to support a universal than a contribution-based or means-tested social policy.” We relocated the analysis on employment history to the Appendix to focus on current and future risks. Findings displayed in Table E corroborate the pattern shown below. Those who have an employment history as formal workers are more supportive of contributory pension and health care expansion compared to previously non-secure workers.

<sup>4</sup> Data originates from the 2015 Intercensal Survey from the Mexican National Institute of Statistics and Geography (<https://www.inegi.org.mx/programas/intercensal/2015/>)

<sup>5</sup> Only 3.3% of the population with health insurance has a private provider.

Approximately 1.6% are enrolled in local social insurance institutions for government employees and for members of military/defense institutions.

<sup>6</sup> This official estimate of the Informal Employment Rate (TIL1) is from November 2020 (see INEGI 2020).

<sup>7</sup> The pension contributions are managed by private pension funds, known as AFORES (Administradoras de Fondos para el Retiro [Retirement Fund Administrators]). The government, together with employers in the private sector, makes contributions to the workers pension accounts to complement individual mandatory contributions and voluntary payments.

<sup>8</sup> Prospera, run by the 2012-2018 administration of President Peña Nieto (PRI), was the rebranded version of the Progres-Oportunidades CCT program, which dated from 1997. In 2019, the newly elected federal government of President López Obrador eliminated Prospera and replaced it with a set of programs, primarily oriented to provide scholarships with no associated conditionalities.

<sup>9</sup> An estimated 13% of the households in Querétaro received Prospera by the end of 2018, 30% in Puebla. Estimations are based on government reported data (Cuarto informe

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trimestral, 2018, Secretaría de Bienestar and CONAPO). As a robustness test, we estimated our models with a control variable for Prospera recipients to ensure that our findings were not driven by program participation (see Table H in the Appendix and our discussion below). Our data shows lower levels of enrollment rates for Prospera in the two states, most likely because we slightly oversampled the working population in the data collection process. However, all models contain weights. This balances out the difference induced by the sample design.

<sup>10</sup> This program was also eliminated in 2019, and replaced by a new health institute, INSABI.

<sup>11</sup> A national sample was not feasible because of funding constraints.

<sup>12</sup> Respondents were asked about their consent to take part in this study and informed that they could stop the survey at any time. IRB approval was obtained from the Ethics Committee of University of Cologne.

<sup>13</sup> The sampling strategy and survey diagnostics are discussed in Section A-B in the supplementary material.

<sup>14</sup> We add state fixed-effects to account for possible contextual effects from living in either Puebla or Querétaro, and we apply survey weights throughout the empirical analysis of our data. To test for robustness, we also use a logit model, dichotomizing the DVs, and OLS models as the dependent variables range from 1 to 4 and could be interpreted as a continuous scale.

<sup>15</sup> We follow the research approach of Hainmueller, Hopkins, and Yamamoto (2014) to calculate Average Marginal Component Effects (AMCE) based on the R package *cjoint*.

<sup>16</sup> We also added a more general question on support for redistribution. Estimation results are presented in the Appendix.

<sup>17</sup> In the survey, we specifically asked about health care and pensions in general, and

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about the program Prospera. Pilot tests with interviewees, to check interpretation and comprehension of the survey items, suggest that pensions were associated with the contributory system, whereas Prospera was clearly identified as a targeted, non-contributory program. Health care is more difficult to categorize. The public health care program Seguro Popular was non-contributory, but the public arms, IMSS and ISSSTE, are only available through formal employment. Our item did not distinguish support for Seguro Popular as different from ISSSTE or IMSS. From our focus group interviews, respondents mostly tended to associate health care with the non-contributory program.

<sup>18</sup> Those who responded to be self-employed also received a question as to whether they had the chance to pay taxes in the previous months, in order to be able to distinguish formal professionals from informal self-employed individuals, such as street vendors.

<sup>19</sup> See Table S1 and S2 in the Supplement.

<sup>20</sup> The two panels on the bottom show reduced sample sizes since only those respondents identified as formal workers were asked whether they see themselves moving in the future from formal to informal employment. Accordingly, only informal workers were asked whether they think they will move from informal to formal employment. The small sample size of 241 in the panel “Formal to Informal in Future” relates, hence, to the 36.53% formal workers from the panel above. The N=513 in the fourth panel relates, thus, to 63.47% of informal workers. Furthermore, these subsamples exclude the cases of respondents who did not express an expectation about their labor status (“do not know” answers). Given the reduced subsample of formal workers, this particular analysis should be taken with caution.

<sup>21</sup> In Tables I-K in the Appendix, we add vote choice for AMLO (Morena), José Antonio Meade (PRI), Jaime Rodríguez Calderón (Independent) and Ricardo Anaya (PAN).

Crucially, support for AMLO does not seem to be decisive for social policy preferences

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in these estimations. These results suggest that while electoral alignments around Morena/AMLO in 2018 might have shaped public perceptions regarding important issues, extant social policies were not necessarily identified as clear areas of contention among respondents in our sample. We thank an anonymous reviewer for suggesting this additional robustness test.

<sup>22</sup> The conjoint experiment was pre-registered on November 8<sup>th</sup> 2018 in a PAP on EGAP, prior to data collection.

<sup>23</sup> We added the social policy programs day-care centers and the housing program to the conjoint, which expanded the set of social policies from the observational study above. Tax policy preferences are now incorporated in the design of the conjoint. Formal workers have access to day-care centers administrated and/or regulated by IMSS and ISSSTE, while, at the time of the survey, workers in the informal sector could ask to be enrolled in outsourced day-care centers monitored by the Secretary for Social Development (Sedesol). The latter were part of the Daycare Program for Working Mothers and independent from the existing childcare provision system for formal workers. The program ended in 2019 and was replaced by a cash transfer to mothers with children aged 1-4 years.

<sup>24</sup> We used tablets to collect the survey data, which allowed us showing the choice table (two policy packages per table) to the respondent. Factoring in variation in reading capacity, enumerators read the content of the choice tables out loud before asking the respondent to make a choice between the two policy package options.

<sup>25</sup> The Spanish question reads: “Imagine que tiene la oportunidad de cambiar algunas políticas públicas. A continuación, verá una tabla con dos políticas públicas para que usted escoja una. Considerando la que le traería a usted más beneficios. Para su elección, tome en cuenta los 4 aspectos que se ven en la tabla. Le vamos a mostrar varias tablas.”

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<sup>26</sup> The interviewer had the option to check a ‘do not know’ box in case the respondent could not make a choice after repeated encouragement from the interviewer. We exclude these non-responses from the study (we run the analysis with 6,896 observations of which the subsets are derived accordingly). More information on the conjoint analysis is reported in section C in the Appendix.

<sup>27</sup> The frequency distribution of the conjoint confirms a balanced distribution (see Table S3 in the Supplement).

<sup>28</sup> When further disaggregating the non-employed, we see that the results are driven by the unemployed with negative, significant estimates for pensions and Prospera (Table D in the Appendix).

<sup>29</sup> Considering Rawl’s veil of ignorance, expecting a change in employment without knowing the future position may induce demands for minimal taxation for all, which resembles the flat tax option in our tax progressivity measure.

<sup>30</sup> We thank an anonymous reviewer for this insightful suggestion.

<sup>31</sup> Figure B displays the estimation results of the forced-choice conjoint for the average respondent. None of the attributes significantly affected the likelihood that the policy package would be chosen.