

Courting Informal Workers: Exclusion, Forbearance, and the Left

Germán Feierherd

Universidad de San Andrés

Abstract: *Leftist governments with strong links to organized labor are expected to increase the number of people protected by job security rules. But do they? I explore whether the Left in power at the local level in Brazil cracks down on enterprises that employ noncontract, informal-sector workers, and implements policies aimed at reducing the size of the informal sector. With a close-election regression-discontinuity design, I show that mayors from the Workers' Party (PT) in fact slow down enforcement and improve conditions in the informal sector, rather than encouraging a shift to formal jobs. This reflects a challenge that leftist parties face across the world: how to simultaneously improve the employment prospects and conditions of workers in precarious employment and those in full-time jobs in the context of increased global competition, segmented labor markets and, in Latin America, truncated welfare states.*

Verification Materials: The data, code, and any additional materials required to replicate all analyses in this article are available on the *American Journal of Political Science Dataverse* within the Harvard Dataverse Network, at: <https://doi.org/10.7910/DVN/MQRHJZ>.

The Left in Latin America came to power in the early 2000s at a time when state-led models of economic development were collapsing and the working classes were increasingly finding themselves in informal-sector jobs, without contracts or access to social security or other protections. Leftist governments might have been expected to reverse this trend and expand the size of the formal sector, extending contracts, regulations, and protection to larger numbers of workers. After all, these parties have historic ties to labor unions. Brazil's *Partido dos Trabalhadores* (PT, or Workers' Party) in particular grew out of the labor movement; the first PT leader to become the country's president, Luiz Inácio Lula da Silva, had been president of the powerful Metalworkers' Union.

The impact of the Left, however, confounds this prediction. The informal sector shrank in the 2000s in

some countries governed by the Left, such as Argentina and Brazil. But this downward trend was also observed in countries governed by more conservative parties, such as Peru. In most cases, improvements during the 2000s were only enough to make up for the losses of the 1990s. On average, 56% of all workers were informally employed by the end of the so-called "Pink Tide" (Tornarolli et al. 2014).

This article argues that far from simply tolerating the informal sector, leftist governments often foment economic informality.¹ To understand why, it is important to consider a challenge that the Left has faced, particularly in Latin America's more industrialized and urbanized countries. Labor laws in these countries, put in place during the inward-industrialization period, make hiring new workers and firing existing ones very costly.² In addition, social security regimes appear

Germán Feierherd, Universidad de San Andrés, Vito Dumas 284, B1644BID Victoria, Buenos Aires, Argentina (gfeierherd@udesa.edu.ar).

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¹I define leftist parties as those that appeal to lower-class constituencies and seek their support by offering some level of wealth redistribution.

²For a review, see Carnes (2014) and Cook (2010).

³See Diaz-Cayeros, Estévez, and Magaloni (2016) and Holland (2018).

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“truncated,” excluding the poor from their most important welfare programs.³ The combination of exclusionary labor and welfare regimes poses significant challenges for politicians who wish to attract the support of informal workers. They can use the monitoring power of the state to try to extend the reach of formal regulations. But the rise in labor costs may reduce the number of jobs available to workers, especially the low-skilled ones (the large majority of informal workers).

This situation resembles, in part, the famous coalitional dilemma described in Przeworski and Sprague’s 1986 *Paper Stones*. For these authors, socialist parties faced a dilemma because the working class was not large enough to form an electoral majority. To win, they needed the support of white-collar, middle-class workers. The “supra-class” dilemma was that expanding their appeal to middle-class groups diluted the class cleavage and made them lose working-class support. In contemporary Latin America, “intra-class” divisions among pivotal groups of workers create similar problems for the Left. While formal workers benefit from existing regulations, informal ones may be hurt if these regulations are strictly enforced. How can leftist parties attract the support of one group without alienating the other?

I argue that once in office, the Left partly mitigates this dilemma by slowing down the enforcement of labor contracts in contexts in which inspections threaten jobs (e.g., among small firms and when labor-market conditions are bad) and improving incomes and conditions for workers in the informal sector. This argument contrasts with conventional predictions in the discipline. One is that weak enforcement and informality are mainly the product of limited state capacity (e.g., Locke, Qin, and Brause 2007, 5). If that were the case, we would expect monitoring efforts to remain largely unchanged when governments change from right to left. Another is that leftist parties will be more active in trying to extend the reach of formal labor protections (Berliner et al. 2015; Ronconi 2012).

To test my argument, I use data and insights from Brazil, where labor regulations are burdensome and there is a substantial low-wage labor supply (i.e., below the threshold of the proposed standards). My focus is on the strategies of local governments dominated by the PT. The focus on the local level is justified by my interest in enforcement and the fact that compliance with national-level regulations varies widely at the local level (Post 2018). I focus on the PT because it has a well-defined leftist program (at the local level, the *modo petista de governar* or PT way of governing), links to both organized labor and social movements, and a sizable presence at the local level (Hunter 2010; Keck 1992).

The challenge for discerning the impact of partisanship on these outcomes is that government partisanship is likely to vary as a function of potentially confounding variables, such as poverty rates and the local strength of unions, which also influence labor policy and the incidence of informality. I address this challenge in part by using a regression discontinuity (RD) design in “close” mayoral elections contested by the PT. To probe my argument, I use data, at both the firm and municipal level, about the pace and target of labor inspections, the extent of informal-sector organizations and worker-run cooperatives, the relative size of the informal sector, and labor market conditions. I also rely on the analysis of policy documents and extensive interviews conducted in the field with labor inspectors and local politicians.

Comparing municipalities in which PT mayors barely won to those in which they barely lost the election, PT mayors slow the pace of labor inspections, especially of small firms and in localities where labor markets suffer exogenous negative shocks; that is, where unemployment and the political cost of enforcing regulations presumably increase.⁴ These mayors also increase the number of “solidarity enterprises”—mainly workers’ cooperatives and self-managed factories, enterprises in which jobs remain informal and less regulated but where laborers enjoy a range of improved benefits and conditions. I also find suggestive evidence that by the end of a PT mayor’s term, the share of informal workers has increased. In all, my evidence confirms that PT local governments support informal-sector work. Importantly, including other reputedly programmatic leftist parties in the analysis leads to similar conclusions.

This article contributes to a burgeoning literature on state toleration of illegal and informal activities (Brinks, Levitsky, and Murillo 2019; Forteza and Noboa 2019; Holland 2017; Hummel 2017; López-Cariboni 2019). I draw explicitly on Holland’s (2017) forbearance concept as the intentional nonenforcement of the law. I extend her work by introducing a coalitional dilemma that explains why politicians may choose to undermine regulation through forbearance instead of changing the law.

A second contribution of this article is to the literature on the politics of economic liberalization. Heightened global competition, deindustrialization, and automation have increased the number of workers in “nonstandard” employment—so-called “outsiders”—everywhere. Liberalization has taken “many forms,” to paraphrase Thelen (2014). In some advanced nations,

⁴The intensity of enforcement increases for very large firms, where most workers are presumably protected by strong job security rules, when the PT is in office. I discuss this below.

leftist parties resisted these pressures and strengthened the privileged position of workers in competitive manufacturing sectors at the expense of outsiders (Emmenegger et al. 2012; Rueda 2007). In contemporary Latin America, however, unemployed and informal workers have played a decisive role in supporting parties on the left (Mainwaring, Torcal, and Somma 2015). My findings suggest that the trajectory of political economies in the region combines elements of the “dualization” and “embedded flexibilization” models described by Thelen (2014). The Left in power increased the resources going to society’s most vulnerable sectors (Huber and Stephens 2012; Pribble 2013), including efforts to improve the quality of “bad jobs” in the informal economy. At the same time, these parties retained or even strengthened job security protections for incumbent formal workers (Carnes 2014; Cook 2010). The selective enforcement of regulations allows parties on the left to rectify, in part, the competing interests of their working class constituents.

In the next section I present the challenge facing the Left in building support among informal workers. Next, I discuss my case selection, explain my research design and describe the dependent variables. I then present the main results of the effect of PT mayors on labor inspections, on the number of informal-sector organizations in the municipality, and on the size of the informal sector. I also test additional observable implications of my argument by examining the PT’s strategy under varying economic conditions. In the following section I evaluate my argument using fieldwork interviews and an analysis of policy agreements signed between local governments and the federal government. I end by exploring the implications and scope conditions of my argument.

The Left’s Coalitional Dilemma

Latin American labor laws, put in place during the period of industrialization through import substitution, provide extensive benefits and protections, including highly restrictive hiring and firing requirements. These laws and regulations, however, only cover around half of the labor force—the remaining half is informally employed.⁵ These workers are also excluded from the largest social-security programs, which are largely based on contributory principles.⁶ It comes as little surprise, then,

⁵I sometimes refer to informal workers as informal-sector workers even though, as explained below, some work “off the books” in firms that are registered with tax agencies.

⁶Especially since the 2000s, governments extended noncontributory programs to the poor. These programs were layered on top of

that formal and informal workers lack a coherent class identity and belong to different organizations (Roberts 2002; Weyland 1996).

This presents a coalitional dilemma for parties that seek to represent workers in toto, both formal and informal. If the Left’s only goal were to extend existing labor protections to an undifferentiated working class, we would expect it to use the power of the state to crack down on firms that flout tax obligations and regulations by hiring workers informally. After all, labor regulations are meant to protect workers and redress the power imbalance between workers and employers. But in highly regulated labor markets, enforcing labor contracts on small and unproductive firms—an overwhelming majority of firms in the region—can potentially hurt the employment of less-skilled workers.⁷ The elasticity of labor demand is greater in industries that rely mostly on unskilled workers because of scale effects (labor is a large share of the total cost of production) and substitution effects (unskilled workers are more easily replaceable with capital).⁸ Furthermore, some workers may prefer working informally, for instance, because they already receive insurance through a family member who is formally employed (Perry et al. 2007) or want to maintain access to means-tested programs for informal workers (Garganta and Gasparini 2015).

I argue that, once in office, the Left has incentives to shield the informal sector from regulation, mainly because contract enforcement can reduce the welfare of informal workers. The Left can slow down enforcement of the requirement that workers and employers sign contracts and pay costly social security contributions, particularly in places where the trade-off between compliance and employment is sharper. Forbearance lowers the cost of informal labor and also provides a direct benefit to those workers who wish to avoid contributing to social security insurance; that is, it works “as a form of informal welfare provision” (Holland 2017, 39). The nonenforcement of contracts, however, can produce negative externalities, like low-quality jobs and unsupervised working sites. One cost-effective way to reduce these externalities and improve conditions in the informal sector is to extend financial and organizational support to worker-run cooperatives (Hummel 2017). This is in line

the existing—more generous—contributory programs (Holland and Schneider 2017).

⁷In Brazil, for instance, studies show that labor inspections reduce the number of workers informally employed and increase nonemployment and unemployment (Almeida and Carneiro 2012; Ulysea 2010).

⁸See Christensen and Wibbels (2014).

with the views of policy experts, who argue that “cooperatives in the informal economy (...) provide individuals [with] better working conditions, job security and benefits (for example, access to credit)” (ILO 2002, 94).

Presumably, many informal workers would like to transition to the formal sector. The literature distinguishes two groups of informal workers: self-employed workers (e.g., street vendors and owners of small, unregistered firms); and salaried workers, who work for informal or formal enterprises but are excluded from formal protections. Investigators coincide that a majority of self-employed workers and micro-firm owners in fact chooses to work informally. For this group, especially micro-firm owners who employ informal labor, forbearance of labor contracts is clearly preferred. Admittedly, labor inspectors focus predominantly on enforcing regulations on wage earners, many of whom “appear to be excluded from more desirable jobs” in the formal sector (Perry et al. 2007, 5). The preferred level of regulation of these workers depends on the costs of enforcement. If they can easily find a new job after being laid off as a result of heightened enforcement, they may prefer *more* enforcement, not less. These workers may also be more supportive of enforcement if they work in firms that can afford the cost of formalization (more productive firms, where the elasticity of employment is higher).

Consequently, I expect the Left to relax inspections when enforcement makes layoffs more likely and hence when workers fear that enforcement may cost them their jobs. Note, however, that even during periods of low unemployment, heightening enforcement will be unpopular with those workers who choose to work informally: they may value the benefits and flexibility associated to informal jobs or may want to avoid paying taxes. Even during a bonanza, we may not see a generalized increase in inspections when a leftist party is in power.

For formal workers, lax enforcement of labor contracts may increase competition from informal workers. But scholars have noted that the informal sector “does not threaten existing unions” and that it encourages them “to focus on the narrow *insider* interests of workers in the formal sector” (Schneider and Karcher 2010, 640). One of the reasons for this is that informal workers absorb part of the cost of the formal sector by providing cheap, flexible labor to both firms and workers (Centeno and Portes 2006).⁹ In addition, formal workers may benefit from the existence of an informal “safety net” that serves as a last resort to unemployment during eco-

nomie recessions (Carnes and Mares 2014). For instance, Dix-Carneiro and Kovak (2019) find that many of the formal workers who lost their jobs as a consequence of the trade liberalization of the 1990s in Brazil eventually found re-employment in the informal sector.

Hypotheses

Hence a crackdown on the informal sector can negatively affect a crucial constituency for the Left, which therefore deploys a mix of nonenforcement alongside public policies aimed at improving the conditions of informal-sector workers rather than policies that would aggressively enforce regulations against the informal sector. I test the following hypotheses:

Hypothesis 1: In localities in which the Left wins office, labor inspections aimed at detecting the presence of noncontract workers halt or slow in pace.

Hypothesis 2: In localities in which the Left wins office, investments aimed at improving the conditions of informal-sector workers grow.

I expect the Left will put in place social programs that benefit workers who stay in the informal sector. Typical examples of such programs include noncontributory cash transfers and the promotion of worker-run cooperatives. Given that during much of the period under analysis there was a national cash transfer in place—PT’s flagship *Bolsa Familia*—I focus on the promotion of cooperatives.

What is the expected impact of the Left’s strategy on the size of the informal sector? If governments reduce the expected cost of employing workers informally and improve the quality of informal-sector jobs, we would expect, all other things being equal, the informal sector to grow:

Hypothesis 3: In localities in which the Left wins office, the informal sector grows.

Blocking job-threatening inspections, in particular, should be circumscribed to sectors relying more heavily on informal workers and during periods of high unemployment. During better economic times, workers not covered by regulations and who are “excluded” from the formal sector may be less wary of losing their jobs. I consider the following hypotheses:

Hypothesis 4: The downward effect of leftist incumbency on inspections will be concentrated on firms that rely more heavily on informal labor.

Hypothesis 5: The downward effect of leftist incumbency on inspections will be especially stronger on localities experiencing a negative economic shock.

⁹In some advanced nations, like France and Germany, insiders in core export-oriented sectors also benefit from the existence of a less regulated periphery (Thelen 2014).

Case Selection: Brazil

To study the Left's strategy toward the informal sector, I focus on Brazil. This country has one of the most rigid labor codes in the world, dating back to the 1940s. All employees must have a work permit (the *carteira de trabalho*), which entitles the worker to a number of benefits paid by the employer. Among other things, employers must pay 8% of the worker's salary to a severance indemnity fund (the *Fundo de Garantia por Tempo de Serviço* or FGTS) and they must give prior notice of dismissal at least one month in advance. Workers with non-justified dismissals receive monetary compensation from the employer on top of the amount accumulated in the worker's job security fund. The overall cost of complying with labor regulations is similar to that of other countries in the region and higher than in OECD countries.¹⁰

Only a part of the labor force enjoys these generous benefits, though. Almost 50% of all workers in the country were either self-employed or employed in informal jobs in 2009—that is, they worked without a *carteira* (Tornarolli et al. 2014). These workers are not covered by labor regulations and social security programs—although they have gained access to a range of cash transfers and subsidies, particularly after the PT won the presidency in 2002.

Between the Unions and the Economia Solidária. Brazil has a highly fragmented party system composed of weak, personalistic parties (Mainwaring 1999). The PT is considered the strongest party in Brazil and an exception to the rule of highly personalistic and patronage-oriented parties (Hunter 2010; Keck 1992). The party grew out of the industrial labor movement in the periphery of metropolitan São Paulo and the struggles against the military dictatorship of the late 1970s. After civilian rule resumed in 1985, extensive poverty and inequality did not translate into massive electoral support for the PT or other leftist parties. Instead, the vote of the poor remained with traditional parties, which attracted them using clientelistic strategies (Weyland 1996). In 1999, PT president José Dirceu argued that the party needed to consolidate its alliances with informal-sector workers and small businesses, which were still loosely attached to the party (Barreto, Magalhães, and Trevas 1999, 18).

Several victories at the local level led the PT to a period of ideological transformation. PT mayors in cities such as Porto Alegre and São Paulo were cross-pressured

“between pleasing the party's traditional base... and meeting the needs of those with less obvious means of voicing their demands” (Hunter 2010, 96).¹¹ For much of the 1980s, unions linked to the PT were more sympathetic to the interests of informal workers than unions elsewhere (Keck 1989). However, during the market reforms of the 1990s, unions became more pragmatic and inward looking (Antunes and Santana 2014). At the same time that the PT started to prioritize electoral victories, its allied unions became more focused on preserving jobs and wages for their members.

Although there are other leftist parties in Brazil, their local organizations seem to suffer from the same weaknesses that characterize Brazilian parties generally, such as high levels of party switching, a heavy reliance on clientelism, and fuzzy ideological profiles. Apart from the PT, only three reputedly leftist parties seem to have reasonable levels of programmatic consistency (according to data from the Democratic Accountability and Linkages Project): the Socialist People's Party (PPS), the Communist Party of Brazil (PCdoB), and the Brazilian Socialist Party (PSB). In the appendix (supporting information), I present results for these parties, too.

Brazilian Mayors and Local Labor Markets. At the sub-state level, Brazil has 5,564 municipal governments headed by mayors, who are elected by popular vote for a four-year term. These governments have important policy tools that influence the working conditions of both formal and informal employees. All businesses and firms must register with the local tax agency and obtain an operating permit from the local government. Local officials monitor workplaces, issue permits to operate machinery, and ensure that construction projects conform to municipal legislation. Local governments also design and implement employment programs, welfare policies, and credit lines and subsidies to small businesses and worker-run cooperatives.

Brazilian mayors also exert influence over labor markets through the Federal System of Labor Inspection (SFIT). SFIT is a federal government agency that enforces labor regulations. It does so through a decentralized network of headquarters, or *superintendências*, which are located in each state capital. State-level offices are subdivided into 114 regional offices (called *gerências*) that conduct on-site inspections in multiple municipalities. Inspectors are selected through competitive public service exams and report to the *superintendente*, a

¹⁰See, for instance, the Doing Business database, available at www.doingbusiness.org. In July 2017, the Brazilian Congress passed an overhaul of Brazil's labor laws, easing employment protections.

¹¹See also Baiocchi (2003, 4, 23).

political appointee who is usually not a career auditor.¹² Inspectors verify that workers are formally registered with tax and social security agencies. They also enforce minimum-wage requirements and health and safety regulations. After their visits, inspectors notify the firm of any violations of the labor code. The sizes of the fines vary but experts believe they are “high enough to curtail breaches of the law, especially in small and medium enterprises” (Cardoso and Lage 2006, 6).

In my interviews with inspectors and local officials (described in more detail below), it became clear that local governments influence field operations of the SFIT. The SFIT is severely understaffed: about 2,800 inspectors are responsible for auditing firms that employ a workforce of 100 million, spread across a vast territory. SFIT inspectors therefore rely on local actors for resources and information. Although SFIT local offices receive general guidelines from the agency’s national headquarters, ground-level inspectors retain considerable discretion over which establishments they visit and whether they deal with it informally or with a citation and adjudication process. In fact, previous studies show that labor inspectors in Brazil often enforce the law in a flexible way (Almeida 2008; Pires 2008). Inspectors’ discretionary power and reliance on local resources allows local officials to influence how inspectors interpret and enforce the law.¹³

Research Design

I use a close-election RD design to estimate the effect of a mayor’s partisanship on labor policy and informality. In this design, the score or running variable is the vote share of the PT minus the vote share of its closest opponent; when this score is positive, a municipality is in the “treatment” group: the PT wins the mayoral election. If the party ends up in second place, the municipality is in the “control” group. This design relies on a basic “continuity” assumption (Imbens and Lemieux 2008): at the exact point where the PT wins or loses the election (when the score is essentially zero), counterfactual outcomes should be continuous. That is, the only differences at the discontinuity should be those affected by the outcome of the election.

¹²Inspectors must report to the superintendent in two cases: to bring an injunction against a company or a worksite and to request special funds for worksite visits to distant municipalities.

¹³Similarly, provincial-level inspectors in neighboring Argentina “co-produce” enforcement with local stakeholders (Amengual 2016).

I study close races in the 1996, 2000, 2004, and 2008 municipal electoral contests. I restrict the sample to municipalities in which one of the top two candidates belonged to the PT. To estimate the effect of PT incumbency, I fit two separate local-linear regressions above and below the cutoff, using a bandwidth around the cutoff that minimizes the mean squared error (MSE) of the regressions. The RD effect is the difference between the two estimated intercepts. I report the bias-corrected confidence intervals and *p*-values developed by Calonico, Cattaneo, and Titiunik (2014). I include year fixed effects in all specifications.¹⁴ For municipalities with a runoff election, I focus on the result of the second round.

The identification assumption that municipalities on both sides of the cutoff—those with and without a PT mayor—should look alike on average is essentially unverifiable. But for a number of relevant pretreatment covariates there were no statistically significant differences discovered for units with and without a PT mayor, suggesting that the identification assumption does hold.¹⁵

Dependent Variables

Table 1 provides descriptive statistics for the main dependent variables by city size. The intensity of inspections is more than double in larger cities (i.e., those in the last tercile). These are also the cities where the PT fields more competitive candidates. By contrast, solidarity economy organizations and workers are more prevalent in smaller cities.

Labor Inspections. My theory predicts a go-slow strategy on the enforcement of labor contracts. As a measure of contract enforcement, I use the number of labor inspections per 1,000 capita during a mayor’s term at the municipal level for the period 1996–2012.¹⁶ While I cannot separate inspections aimed at detecting informal workers from those aimed at enforcing other regulations, verifying that workers have a labor card is usually the first step during a visit to a worksite.

This measure has the additional complication that the number of inspections may vary because inspectors target firms that take more or less time to inspect. All else equal, inspections in larger and more complex firms that cover more employees should take longer to complete. To address this concern, I make use of the

¹⁴The supporting information shows results adjusting for additional covariates.

¹⁵See Appendix A in the supporting information.

¹⁶Data was provided by the Brazilian Ministry of Labor.

TABLE 1 Descriptive Statistics on Outcome Variables by City Size (1996–2012)

	<i>Population Size</i>			<i>Full Sample</i>
	<i>L: [738, 6,509]</i>	<i>M: [6,510, 16,744]</i>	<i>H: [16,745, 10,886,518]</i>	
Inspections (p/1,000c)	1.87 (3.08)	2.19 (3.30)	4.64 (5.42)	2.9 (4.26)
Solidarity firms (p/1,000c)	0.09 (0.26)	0.07 (0.16)	0.05 (0.09)	0.07 (0.19)
Solidarity workers (p/1,000c)	4.53 (28.55)	3.87 (13.91)	2.56 (10.75)	3.65 (19.38)
Informal workers (%)	69.01 (22.27)	68.97 (20.68)	61.75 (21.17)	66.61 (21.65)
No. of PT races	657	743	1,154	2,554

Note. The table provides the mean and standard deviation (in parentheses) for the outcome variables, as well as the number of PT races where the party came in first or second place, for cities of different sizes. Variables expressed in per capita are summed over the mayoral term. L, M, and H refer to the first, second, and third tercile of population size.

2003 Enterprise Surveys (ES), which incorporates data on 1,642 firms in 419 municipalities and 13 states.¹⁷ Researchers asked firm managers about the number of labor and social security inspections they were subject to during the previous year. I test whether the inspection agency shifts enforcement toward larger or smaller firms in PT-held municipalities.

Solidarity Enterprises. To test my hypothesis that the PT improves conditions for informal-sector workers, I gathered data on worker-run cooperatives and associations, also known as social and solidarity enterprises. These come from censuses carried out in 2005–7 and 2012–13 by the National Secretary of Solidarity Economy (SENAES). These censuses counted more than 30,000 solidarity enterprises. I focus on the number and size of these enterprises created during a mayor’s term that were still in operation at the time of any of the censuses.¹⁸

Informal Sector. A key outcome variable is the size of the informal sector. I investigate the effect of a PT victory on the share of informal workers in the locality as reported in the Brazilian demographic censuses of 2000 and 2010.¹⁹ I operationalize this variable as the share of self-employed and salaried workers who do not have a labor card. I study the effect of a PT victory in 1996

and 2004 on the size of the informal sector in 2000 and 2010, respectively.

Results

Figure 1 graphically reports the relationship between PT vote margin and the distribution of four outcome variables: the number of inspections during a mayor’s term (A), the share of workers without a labor card (B), the number of solidarity organizations (C), and the number of workers who participate in solidarity organizations (D). RD designs estimate “local” treatment effects at the threshold—that is, where the running variable is essentially zero. In all four cases, there is a “jump” in the dependent variables in the hypothesized direction when the vote margin of the PT approaches zero. This discontinuity suggests that this is a direct effect of PT incumbency.²⁰

Table 2 provides systematic evidence of lax enforcement when the PT is in office. A PT victory reduces inspections by 1.5 inspections per 1,000 capita, the equivalent of one-third of a standard deviation. For a sense of the size of this effect, note that the average city in Brazil has a population of 31,100 and receives 247 inspections over a mayor’s term. If a city of that size were governed by a PT mayor, it would receive 50 fewer inspections— more than a 20% drop. This effect holds

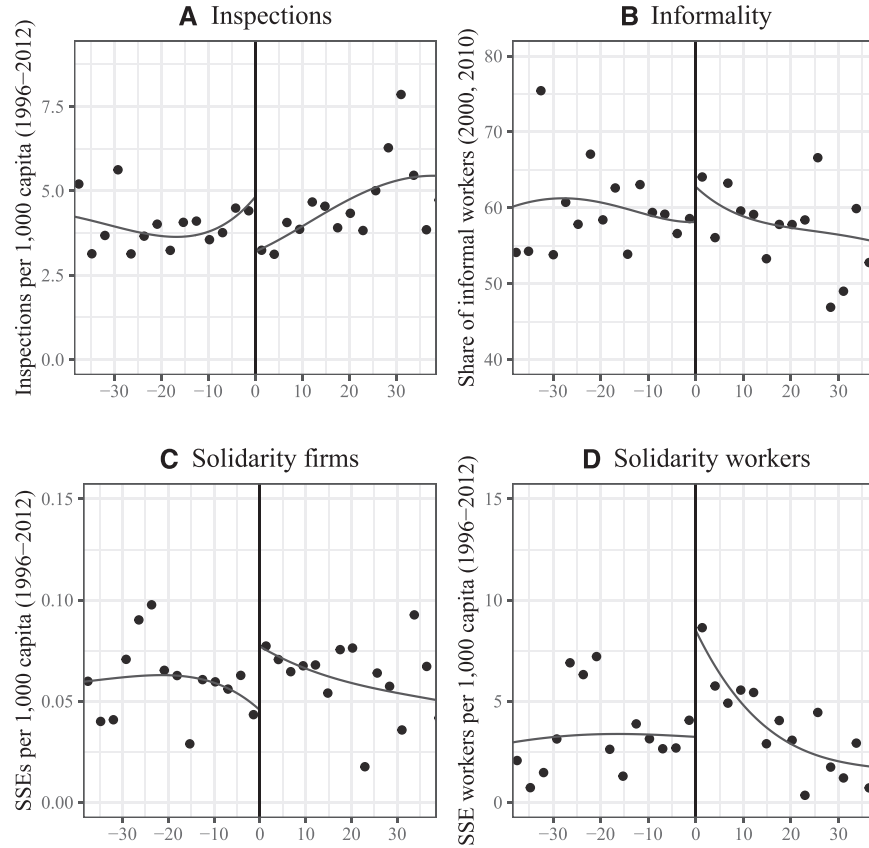
¹⁷Firms were selected from a stratified sample of firm size, industry, and region. Firms in this sample are larger than the average Brazilian firm, in part because the sample only includes tax-paying firms in the formal sector.

¹⁸Many organizations were likely created and disbanded before the censuses; these are not counted here.

¹⁹Data made available by the *Centro de Estudos da Metrópole*.

²⁰Farther from the threshold, the figure suggests that PT strongholds are not much different from places where the PT loses by a wide margin. While relationships far from the cutoff are interesting, they are likely to be affected by factors other than the partisanship of the mayor. For instance, the PT receives more support in more urban municipalities.

FIGURE 1 RD Effect of A PT Victory on Labor-Market Policies and Outcomes



Note: RD plots with 1% spaced bins. The lines indicate the fit of a kernel regression estimated separately at each side of the cutoff. The running variable is the PT's win/lose margin.

regardless of city size and which party controls the federal government. In the supporting information, I show that the treatment effect is similar in size and significance for cities of different sizes. I also show that the number

of inspections drops under PT mayors during periods in which the PT was out of office at the federal level (1997–2000) and during periods in which the PT controlled the presidency but not the Ministry of Labor (2009–12).

TABLE 2 RD Effect of A PT Mayor Winning at Time t on Labor Policies and Outcomes

Outcome	Estimate	95% CI	p -value	h	n_t	n_c
Hypothesis 1: Labor inspections slow in pace						
Inspections (p/c)	-1.55	[-2.88, -0.51]	0.01	16.02	769	792
Hypothesis 2: Conditions of informal-sector workers improve						
Solidarity firms (p/c)	0.03	[0.00, 0.06]	0.03	20.71	904	920
Solidarity workers (p/c)	4.89	[-0.20, 9.97]	0.06	19.42	875	884
Hypothesis 3: The informal sector grows						
Informal labor (%)	5.05	[-1.94, 12.36]	0.15	16.06	368	347

Note. Running variable is the PT margin of victory at t . Estimate is average treatment effect at cutoff estimated with local linear regression. Columns 3–7 report, respectively, 95% robust confidence intervals, robust p -values, MSE-optimal bandwidths, and units in the treatment and control group.

This suggests that PT mayors were able to influence the day-to-day operation of labor inspectors both when the party was in opposition and when it was in power.²¹

In addition to strategically slowing the rate of inspections, PT mayors also encourage unemployed and informal workers to organize into self-managed enterprises and cooperatives. Of the cooperatives still in operation at the time of the censuses, PT municipalities created an additional 0.03 per 1,000 capita, compared to municipalities governed by other political parties. Cooperatives were also one-fourth-of-a-standard-deviation larger in PT municipalities, encompassing, on average, an additional 4.9 cooperative workers per 1,000 capita. These estimates are in line with what other researchers have previously shown: PT local governments were important advocates of so-called “solidarity” enterprises (Goldfrank and Schrank 2009) and other policies aimed at informal workers, especially conditional cash transfers. Almost 60% of the cash transfers *Bolsa Escola* put in place at the local level between 1995 and 2001 (before the existence of a national transfer) were implemented by PT mayors (Coelho 2012, 64).

PT mayors also seem to expand the size of the informal sector. By my estimates, a PT victory increases the number of informal workers in the municipality by five percentage points. This estimate is much noisier, however, and statistically insignificant at conventional levels ($p = 0.15$). There are several explanations for this lack of statistical precision. Informality is a complex process with multiple causes, many of which escape the local government’s control, including the size of the financial market and the quality of legal systems (e.g., La Porta and Shleifer 2014). In addition, for the 2004 cohort, the outcome is measured roughly two years after these mayors’ last day in office.

Results remain very similar, both in substance and statistical significance, when I consider the effect of a broader group of leftist parties: the PT, the PPS, the PCdoB, and the PSB. These parties field candidates at the local level, are on the left of the political spectrum, and show reasonable levels of programmatic differentiation (see the supporting information). Taking the mayors from these parties into account, the effect of left incumbency on the share of informal workers becomes significant at conventional levels. This suggests that leftist governments (not just PT mayors) both encourage and enlarge the informal sector. See the supporting information for the complete results.

²¹See Appendix A in the supporting information.

Heterogeneous Effects

I have argued that the Left’s go-slow approach to enforcement reflects incentives to shelter the informal sector, rather than, say, a lack of state capacity. One implication of this argument is that PT officials should move slowly on the enforcement of labor contracts particularly in firms and industries employing large numbers of informal workers. To test this hypothesis, I use firm-level data from the Enterprise Surveys collected in 2003. I code the dependent variable as the log number of times each firm was visited by an inspector.²² One robust finding in labor economics is that informal labor is concentrated in small firms. Consequently, I consider the size of the firm, measured by the log number of workers it employs, as a proxy for the reliance of the firm on informal labor.

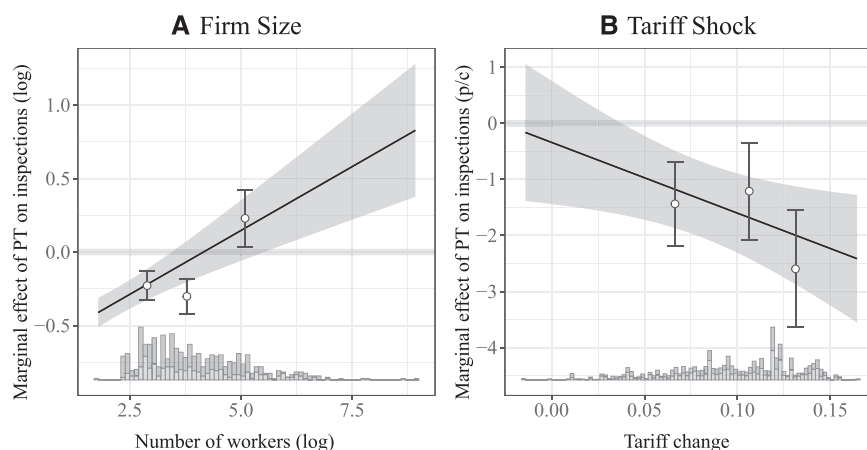
Another observable implication of my argument is that the Left’s imperative to shield vulnerable workers will be especially pressing in settings that suffer upward shocks in unemployment. In Brazil, one such shock followed the liberalization of trade, the bulk of which took place between 1991 and 1994. Dix-Carneiro and Kovak (2019) show that regions housing industries facing larger tariff cuts experienced a decline in formal sector employment, a rise in nonemployment, and a surge in the number of people informally employed. I follow these authors, who construct a measure of liberalization-induced price changes by taking into account regional differences in the size of 21 tradable industries with cross-industry variation in tariff cuts.²³ This measure captures the average liberalization-induced price changes, weighted by the fraction of local labor allocated to each local industry at the microregion level.²⁴ Since Dix-Carneiro and Kovak find increasing effects over time on informal employment over a twenty-year window, I include all mayoral cohorts in the estimation and cluster standard errors at the microregion level.

To evaluate these hypotheses, I use the binning model proposed by Hainmueller, Mummolo, and Xu (2019). This model estimates the moderating effect of a given variable by splitting the sample into roughly equal-

²²The exact question is: “How many times in the past year was your establishment visited by inspectors from the labor and social security agencies in the context of regulation of your business?”

²³Dix-Carneiro and Kovak (2019) show that tariff cuts were nearly perfectly correlated with pre-liberalization tariff levels.

²⁴These authors identify 475 “economically integrated contiguous municipalities” or microregions (p. 2915). See Appendix B in the supporting information for the full description.

FIGURE 2 Marginal Effects of PT Mayors on Enforcement

Note: Conditional marginal effects of PT incumbency on enforcement from binning and linear models. Panel A estimates the moderating effect of firm size using firm-level data. Standard errors are clustered at the municipality level. Panel B estimates the moderating effect of the regional tariff change using municipal-level data. Standard errors are clustered at the micro region level. Bars represent the 95% intervals for the marginal effects at the low, medium, and high terciles, respectively. The histograms depict the number of observations in the treatment (dark gray) and control (light gray) groups.

sized groups.²⁵ I analyze the data at three levels of the moderating variable: low (first tercile), medium (second tercile), and high (third tercile). The model includes the treatment variable (PT incumbency), the running variable (PT vote margin), the moderator variable (either firm size or the weighted tariff change), and the interaction between the treatment and the moderator. I weight observations using triangular weights according to their value on the running variable. I also show results from standard linear interaction models.²⁶

Figure 2 demonstrates that PT mayors depress enforcement among small and medium-sized firms, while they boost the number of inspections received by firms in the highest tercile. Firms in the lowest tercile (those with 27 workers or fewer) receive 20% fewer inspections when the PT is in government. PT mayors also depress enforcement among medium-sized enterprises by a similar magnitude. For firms with more than 80 workers, the effect of the PT is positive and statistically significant. The firms in this group receive 26% more inspections when the mayor is a member of the PT. Table 3 reports two-sided *t*-tests that confirm that these differences are statistically significant at conventional levels. To the extent that PT mayors (those elected in 2000, at least) are

able to influence enforcement, it is small and medium-sized firms that are spared—that is, the firms that are more likely to employ workers “off the books.”

Figure 2 also presents results for the moderating effect of the regional tariff change on the intensity of enforcement at the municipal level. Indeed, PT-held local governments work harder to block enforcement precisely in those municipalities that were more severely affected by trade liberalization. For municipalities experiencing the largest tariff changes, the negative effect of PT mayors on enforcement is almost twice as much as the effect for municipalities facing the smallest tariff changes. The difference between these two estimates is statistically significant at the 0.02 level (Panel B, Table 3). The effect appears to be nonlinear, as the effect for municipalities experiencing medium levels of tariff changes is smaller than for municipalities in the lowest tercile. However, this difference is small and not statistically significant.

In sum, the PT’s downward effect on enforcement is concentrated in small firms and places that suffer upward shocks in unemployment and informal employment. There is no evidence suggesting that the party increases the number of inspections relative to the control group in local markets that were less affected by the liberalization of trade—places whose local labor markets were less exposed to the negative effects of increased global competition. I have also showed that PT mayors increase enforcement among larger, more productive firms, where the elasticity of employment is higher and

²⁵This procedure limits concerns about common support and nonlinearity in the data.

²⁶For both binning models, the Wald test rejects the linearity assumption at $p < 0.001$.

TABLE 3 Binning Estimates

Panel A		DV: No. inspections (log)		
Moderator		<i>Firm Size (log)</i>		
	L: [1.79, 3.3]	M: [3.3, 4.38]	H: [4.38, 8.92]	
Estimate	-0.23	-0.3	0.23	
95% CI	[-0.33, -0.13]	[-0.42, -0.18]	[0.03, 0.42]	
p-value	0.01	0.00	0.00	
H_0	$\alpha_2 = \alpha_1$	$\alpha_3 = \alpha_2$	$\alpha_1 = \alpha_3$	
Panel B		DV: Inspections (p/c)		
Moderator		<i>Regional Tariff Change</i>		
	L: [-0.01, 0.08]	M: [0.08, 0.12]	H: [0.12, 0.16]	
Estimate	-1.44	-1.21	-2.6	
95% CI	[-2.18, -0.69]	[-2.07, -0.35]	[-3.64, -1.55]	
p-value	0.56	0.01	0.02	
H_0	$\alpha_2 = \alpha_1$	$\alpha_3 = \alpha_2$	$\alpha_1 = \alpha_3$	

Note. Marginal effect of PT incumbency on enforcement. See Figure 2 for references. L, M and H refer to the first, second, and third tercile of the moderator variable.

where workers are more likely to have contracts that provide increased job security.

Qualitative Evidence of the PT's Strategy

Qualitative evidence that I gathered from in-person, semi-structured interviews provides further insights into the ways in which local governments shape field-level enforcement and the motivations of PT mayors to sustain the informal sector. I conducted interviews in municipalities surrounding the state capitals of three states—São Paulo, Rio Grande do Sul, and Bahia. These states differ in the prevalence of informality: Bahia has more informal workers as a proportion of the workforce than Rio Grande do Sul, which in turn has slightly more than São Paulo. They differ in the nature of the PT's social and electoral base, too. While the places I conducted interviews are not representative of the entire country, these three states have been the focus of much attention by scholars interested in the PT's origins, innovative local agenda, and expansion. São Paulo is the cradle of the PT, where the party emerged from the trade union movement. In Rio Grande do Sul, the party built a coalition that included urban voters and social movements, notably the *Movimento dos Trabalhadores Rurais*

Sem-Terra (MST). The PT made significant inroads in Bahia, the largest northeastern state and a bulwark of machine politics, after Lula's first presidency. The PT was able to build significant support among rural voters and beneficiaries of *Bolsa Família*.

One inspector explained to me that local governments often pressure inspectors and contact superintendents to slow down or redirect enforcement efforts. He added, "The superintendent should not have a lot of influence over what we do, but he does. Superintendents lack direct control over inspectors but they do act as brokers for stakeholders, including local governments."²⁷ One superintendent explained to me, "There is a lot of conflict between state and local governments and inspectors... When someone comes to me with a complaint or request, I participate informally in the negotiations... I do not tell inspectors what to do, but I call their supervisor and he comes to me. I have a political relationship with him."²⁸

Local governments also give access to information and resources to labor inspectors to plan operations. This enhances their influence over the inspection agency. One inspector emphasized inspectors' autonomy from political authorities; nonetheless, he noted that "having a good dialog with local governments... is important

²⁷Interview SP8.

²⁸Interview SP10.

because they can tell us where to go, which sectors need to be inspected, whether the local government is already working to help firms that are struggling, and in which sectors the employers are more troublesome.”²⁹ Another inspector added, “Sometimes in search of consensus, you end up not enforcing the law.”³⁰

My interviews also revealed PT officials’ concerns about the effects of enforcing labor contracts in a context of poverty and inadequate social policies. For instance, one state legislator argued that “the neoliberal parties do not care about social development; the PSDB, for example, they only care about productivity... They think that having more unemployment is good because it helps to lower wages. We want everyone to be able to work.”³¹ In line with the finding that PT mayors reduce enforcement in small- and medium-sized firms but increase it for very large firms, this legislator added that “smaller firms, including those in the solidarity economy, create lots of jobs and income. The state needs to support them. Inspections should focus on larger firms with more capacity to comply with the law.”

Additional evidence of PT mayors’ strategy vis-à-vis informal workers comes from the analysis of all the *parcerias* or cooperation agreements signed by PT mayors and the federal Ministry of Labor during 1996–2012.³² A close reading of these agreements reveals that PT mayors often seek support to promote solidarity enterprises and provide assistance for marginal workers, rather than formalizing informal workers and sanctioning noncompliant firms. In the supporting information, I analyze the content of these documents using the Structural Topic Model (STM) developed by Roberts et al. (2014). This model estimates both the content and prevalence of topics in the text as a function of covariates (in my case, simply state and year fixed effects). Of the topics identified by the model, many point to a regime of government support for informal-sector workers, rather than one encouraging the formalization of workers, including terms such as *solidarity*, *social*, and *family* and *allowance*, indicating support for workers enrolled in solidarity enterprises and *Bolsa Família*.³³

²⁹Interview BH3.

³⁰Interview RGDS12.

³¹Interview BH4.

³²This data was obtained from <http://www.portaldatransparencia.gov.br/convenios/>.

³³See Appendix C.

Discussion

I have shown that PT mayors cause a decline in labor inspections, especially among small firms and in municipalities experiencing negative labor-market conditions. In turn, the number of workers and organizations in the informal sector increases when the PT is in office locally. Below I discuss why mayors from other, more conservative parties do not follow suit. I also discuss the scope conditions of my argument.

Unlike the PT and a few other left parties (that also seem to engage in forbearance), political parties in Brazil are nonprogrammatic, highly personalistic organizations. While many of these are considered “reputationally conservative,” their main characteristic is that they are “nonprogrammatic and opportunistic” (Power and Rodrigues-Silveira 2018, 256). These parties are unlikely to have stable policy commitments or to share a consistent response towards the informal sector. The PT, by contrast, explicitly tried to cement ties among pivotal informal-sector workers (see Dirceu’s quote above). The PT built long-lasting linkages with informal workers and organizations, for instance, by supporting and funding workers, leaders, and institutions in the solidarity economy. Furthermore, producing forbearance is a costly activity: a mayoral team may need to identify informal firms and workers, change the actions of inspectors, and the like. For nonprogrammatic parties, clientelism is likely to trump forbearance as a link to informal-sector workers.

What about more programmatically conservative parties? These parties typically support lower taxes and more flexible labor laws; they may see forbearance of labor contracts as a way to lower labor costs for friendly firms. Yet their stance toward contract enforcement, like that of the Left, defies simple expectations, especially in countries where larger firms are more likely to comply with regulations (e.g., because their workers are unionized and have greater collective power). To the extent that these parties count on mayors to shape the distributive effects of enforcement, their preferences may be driven largely by their ties to larger companies, which may view reduced regulation among smaller firms as placing them at a competitive disadvantage.³⁴ In sum, the average forbearance vis-à-vis small firms should be greater among leftist mayors than others, whether these are more conservative or more clientelistic. Future analyses, however,

³⁴Especially in countries—like Brazil during the period under analysis—where inspectors can hold larger firms accountable for its smaller subcontractors, which “ultimately forces them to exercise some form of oversight of subcontractors” (Cardoso and Lage 2006, 25).

should study the enforcement preferences of non-left parties with respect to the informal sector in more detail.

While my work focuses on local politics, one may wonder whether pressures to shelter the informal sector also exist at the national level. National governments have access to massive fiscal resources that they can deploy to compensate informal workers and the unemployed. And local politicians are heavily constrained in their relationship with workers; the laws regulating individual and collective labor rights cannot be modified by local governments in Brazil. While I have shown suggestive evidence that informality at the local level increases when the PT controls the local government, informality receded during much of the PT's presidencies. According to data from the *Pesquisa Mensal de Emprego*, the informal sector peaked in 2000, reaching 48% of total employment; after that, it dropped continuously until 2015. The PT held the presidency between 2003 and 2016.

Labor inspections, however, are an unlikely explanation for this retrenchment. The number of labor inspectors in fact decreased during PT's tenure, going from 34.7 inspectors per million workers in 2002 to 27.6 in 2014 (the International Labour Organization recommended standard for "rapidly industrializing countries" is 67 inspectors per million workers; ILO 2006). While the number of workers reached by inspectors increased during this period, inspectors also started to conduct many inspections electronically, which are ineffective in detecting workers who are "off the books."³⁵ Berg (2011) mentions improvements in labor inspections as a contributing factor to the retrenchment of informality but many of these improvements can be traced to reforms introduced in the late-1990s. They included tying inspectors' wages to the efficiency of the overall enforcement system and assembling teams of inspectors dedicated to solving specific sectoral problems. In that regard, the PT administration improved the operational capacity of squads or teams of highly motivated labor inspectors (first formed in 1995) in charge of fighting "slave-like" and child labor (Coslovsky 2014).

Instead of upping the institutional capacity for labor inspections to detect informal work (leaving out its most egregious forms), the PT under presidents Lula and Dilma focused on tripartite councils to bring unions and employers together to govern the formal segment of the labor market (Cook 2010; Etchemendy 2020). At the same time, the PT implemented policies that benefited workers in the informal sector—conditional cash transfers such as *Bolsa Familia* and the creation of the National Secretary of Solidarity Economy, among other

initiatives. These policies enabled the PT to mitigate its coalitional dilemma, extending linkages to the poorest segments of the population while retaining a significant share of its core constituency (Luna 2014; Samuels and Zucco Jr 2014).

Conclusion

We would expect leftist governments—whose core constituents are workers—to extend the reach of labor protections by sanctioning noncompliant firms and shifting informal workers to the formal sector. But in the world's second largest developing democracy, these expectations were not met. Far from reducing or simply tolerating informality, leftist mayors redirect inspections away from firms more likely to employ workers "off the books" and encourage the creation of solidarity enterprises mostly composed of informal workers. These policies make informal workers relatively better off than they were before but also reinforce the informal sector. In the words of Tandler (2002), they make "informality [...] more attractive, and formalization less attractive, than they otherwise might be" (p. 3).

In line with Holland (2017), I show that politicians with working-class support frequently ignore legal violations by the poor and engage in unconventional efforts to alleviate their most immediate needs. And, in line with Hummel (2017), I show that local governments often improve the situation of informal workers *not* by forcefully enforcing regulations but, instead, by helping them organize in self-managed cooperatives. But whereas these studies bypass the role of partisanship, I argue that in the context of segmented labor markets and social security systems, parties with working-class constituencies have powerful incentives to shelter the informal sector.

Turning to the broader implications of this study, prior research into labor and the Left in Latin America concluded that labor-backed governments strengthen job-security regulations, and take other measures that privilege the interests of formal workers (Etchemendy 2011; Murillo 2001). My research, by contrast, reveals strategies that the Left has adopted that protect informal workers. This phenomenon is relevant for more advanced nations, too, where the number of workers in precarious jobs (often performed in the shadows of the state by illegal immigrants) has grown dramatically (King and Rueda 2008). In these countries, social democratic parties have been torn over advancing the interests of insider groups (Emmenegger et al. 2012; Rueda 2007) or upgrading the position of labor outsiders by embracing

³⁵Interview DF3.

market promoting reforms (Thelen 2014). Meanwhile, some left-labor parties in Latin America have followed a middle-of-the-road strategy, combining benefits for both formal and informal workers. Forbearance vis-à-vis informal workers allows left-leaning parties to balance the competing interests of their divided labor constituencies.

That said, not all leftist governments in Latin America followed the same course in their relations with formal- and informal-sector workers. In some countries, such as Venezuela and Ecuador, leftist politicians privileged their informal workers and clashed with organized labor. Why some leftist parties are able to put together formal-informal coalitions, whereas others rely on a narrow base of workers, will be an important question for future research. So will examining the consequences of forbearance for the ideological cohesiveness and electoral success of left-leaning parties in the long run.

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Supporting Information

Additional supporting information may be found online in the Supporting Information section at the end of the article.

Appendix A: RD: tests of design and robustness checks.

Appendix B: Measuring the trade liberalization shock.

Appendix C: Text analysis of cooperation agreements.

Appendix D: Details about interviews in Brazil.