

Combating Informal Employment in Latin America: A Critical Evaluation of the Neo-Liberal Policy Approach

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Abstract

This paper evaluates critically the neo-liberal perspective which contends that informal employment results from high taxes, public sector corruption and too much state interference in the free market and that the consequent remedy is to reduce taxes, public sector corruption and the regulatory burden via minimal state intervention. Reporting International Labor Organization data on the cross-national variations in the level of informal employment across 16 Latin American economies, and analyzing the economic and social conditions across these countries, no support is found for the neo-liberal tenets that higher tax rates, greater levels of corruption and state interference are correlated with higher levels of informal employment. Instead, higher levels of regulation and state intervention are associated with lower (not higher) levels of informal employment resulting in a tentative call for more, rather than less, regulation of the economy and state intervention to protect workers. The theoretical and policy implications are discussed.

Keywords: informal economy, economic development, developing countries, Latin America

1. Introduction

Over the past few decades, the recognition that informal employment is extensive and growing in many global regions has led to the emergence of a neo-liberal perspective which contends that such employment is a direct by-product of high taxes, public sector corruption and too much state interference in the free market and that reductions in taxation and corruption along with de-regulation so as to minimize state interference in the market are therefore required (Becker, 2004; De Soto, 1989, 2001; London and Hart, 2004; Nwabuzor, 2005). The aim of this paper is to evaluate critically the validity of this neo-liberal policy approach. To do this, the intention is to analyze whether the cross-national variations in the level of informal employment across 16 Latin American economies are correlated with the varying level of tax rates, corruption and state intervention across these countries.

In the first section, therefore, the neo-liberal perspective is reviewed along with the other competing explanations for the persistence and growth of informal employment. This will reveal that despite the emergence of this neo-liberal perspective, there have been so far few critical evaluations of its validity. To fill this gap, the second section outlines the methodology and data adopted in this paper to do so. This evaluates whether the cross-national variations in the level of informal employment are associated with cross-national variations in tax rates, corruption and state interference in the market across 16 Latin American countries using International Labor Office data on the level of informal employment and various World Bank development indicators on tax rates, corruption and state intervention. The third section then reports the descriptive results on the cross-national variations in the share of the non-agricultural workforce employed in informal employment whilst the fourth section conducts a preliminary analysis of the validity of the neo-liberal explanation. The fifth and final section then draws some conclusions regarding the validity of the neo-liberal approach towards tackling informal employment and explores both the theoretical and policy implications of the findings.

Before commencing, however, informal employment needs to be defined. All definitions of informal employment tend to define this employment relationship in terms of what is missing, lacking or absent relative to a formal employment relationship (Latouche, 1993; Williams, 2014). This is displayed in the multitude of adjectives used to denote such a form of employment, including 'atypical', 'cash-in-hand', 'hidden', 'non-visible', 'irregular',

‘shadow’, ‘unregulated’, ‘underground’ and ‘undeclared’. Despite this array of terms, a strong consensus has emerged regarding what is absent. As the 17th International Conference of Labor Statisticians (ICLS) in 2003 agreed, persons in informal employment are those whose main jobs lack basic social or legal protections or employment benefits and such employment may be found in the formal sector, informal sector or households. Persons in informal employment thus includes: own-account workers self-employed in their own informal sector enterprises; employers self-employed in their own informal sector enterprises; contributing family workers; members of informal producers’ cooperatives; employees with informal jobs in formal sector enterprises, informal sector enterprises, or as paid domestic workers employed by households, and own-account workers engaged in self-provisioning, if considered employed in the sense that the production makes an important contribution to household consumption (Hussmanns, 2005; ILO, 2012, 2013).

Employees are defined as in informal employment if the employment relationship is, in law or in practice, not subject to national labor legislation, income taxation, social protection or entitlement to certain employment benefits (e.g., notice of dismissal, severance pay, paid annual or sick leave) (ILO, 2012; 2013). The reasons may be the following: non-declaration of the jobs or the employees; casual jobs or jobs of a limited short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee’s place of work is outside the premises of the employer’s enterprise (e.g. outworkers without employment contract); or jobs for which labor regulations are not applied, not enforced, or not complied with for any other reason. The operational criteria for defining informal jobs of employees are to be determined in accordance with national circumstances and data availability.

This definition thus enables informal employment in informal sector enterprises to be distinguished from formal jobs in informal sector enterprises as well as informal employment in formal sector enterprises. Informal enterprises are defined by the 15th International Conference of Labor Statisticians in 1993 as private unincorporated enterprises which are unregistered or small in terms of the number of employed persons. An unincorporated enterprise is a production unit that is not constituted as a separate legal entity independently of the individual (or group of individuals) who owns it, and for which no complete set of accounts is kept. An enterprise is unregistered, meanwhile, if it is not registered under specific forms of national legislation (e.g., factories’ or commercial acts, tax or social security laws, professional groups’ regulatory acts). Holding a trade license or business permit under local regulations does not qualify as registration. An enterprise is small, meanwhile, if its size in terms of employment levels is below a specific threshold (e.g. five employees) determined according to national circumstances (Hussmanns, 2005; ILO, 2011, 2012).

2. Perspectives towards Informal Employment

For much of the last century, a ‘modernization’ perspective prevailed that represented formal employment as naturally and inevitably expanding as the modern formal economy takes hold and depicted informal employment as a remnant from a pre-modern mode of production that was gradually waning and disappearing (Boeke, 1942; Geertz, 1963; Lewis, 1959). Viewed through this lens, as economies modernize and develop, the level of informal employment wanes. An abundance of informal employment in an economy, therefore, is seen to signal its “backwardness” and “under-development”.

Over the past decade or so, however, this traditional modernization perspective has been heavily criticized as it has been recognized that there appears to be no natural and inevitable trajectory towards modern formal economies given that informal employment remains extensive, persistent and even growing relative to formal employment in many global regions (Buehn and Schneider, 2012; Feld and Schneider, 2010; ILO, 2011, 2012; Jütting and Laiglesia, 2009; OECD, 2012; Rodgers and Williams, 2009; Schneider and Williams, 2013). Indeed, the modernization depiction of informal employment as a minor remnant, residue or relic from a pre-modern era has been resoundingly refuted as it has been recognized that 60 per cent of the global workforce are engaged in informal employment (Jütting and Laiglesia, 2009) and that it is formal rather than informal employment which appears to be the minority form of employment relationship. The outcome is that new explanations have emerged in order to explain its ongoing persistence and prevalence.

For some years, the modernization thesis was most commonly replaced by a political economy perspective. This views informal employment as an integral component of contemporary capitalism since it provides a channel for businesses to achieve flexible production, profit and cost reduction. Informal employment is thus seen as a central facet of the new sub-contracting, outsourcing and downsizing practices of de-regulated global capitalism and a practice to which marginalized populations turn as a last resort when alternative means of livelihood are absent (Castells and Portes, 1989; Davis, 2006; Gallin, 2001; Sassen, 1996; Slavnic, 2010; Taiwo, 2013). Informal employment is thus viewed as the product of a lack of intervention by the state to protect workers and such activity is

seen as almost entirely composed of “sweatshop-like” dependent employment and/or “false” self-employment undertaken by workers as a survival practice out of necessity (Ahmad, 2008; Geetz and O’Grady, 2002; Ghezzi, 2010).

Over the past few decades, nevertheless, there has been widespread recognition that the majority of informal employment is composed of self-employment which is often conducted as a matter of choice rather than due to a lack of choice (Cross, 2000; Cross and Morales, 2007; ILO, 2002; Neuwirth, 2011; Small Business Council, 2004; Snyder, 2004; Venkatesh, 2008; Williams, 2006; Williams and Martinez-Perez, 2014; Williams et al., 2012). Based on this recognition, a neo-liberal explanation has arisen that reads informal employment to result from over-regulation rather than under-regulation (Becker, 2004; De Soto, 1989, 2001; London and Hart, 2004; Nwabuzor, 2005; Small Business Council, 2004). From this neo-liberal perspective, the level of informal employment results from high taxes, a corrupt state system and too much interference in the free market, which leads workers to make the rational economic decision to voluntarily exit the formal economy in order to escape the time, costs and effort involved in operating in the formal economy (e.g., Becker, 2004; De Soto, 1989, 2001; London and Hart, 2004; Nwabuzor, 2005; Sauvy, 1984; Small Business Council, 2004). As Nwabuzor (2005: 126) asserts, “Informality is a response to burdensome controls, and an attempt to circumvent them”, or as Becker (2004: 10) puts it, “informal work arrangements are a rational response by micro-entrepreneurs to over-regulation by government bureaucracies”.

For neo-liberals, therefore, the level of informal employment will be greater in economies with higher taxes, public sector corruption and greater state interference and the consequent remedy is to reduce taxes, tackle public sector corruption, deregulation and minimal state intervention (De Soto, 1989, 2001; Perry and Maloney, 2007; Small Business Council, 2004). Informal workers are thus heralded as heroes voluntarily choosing to operate in the informal economy in order to cast off the constraints of state over-regulation (e.g., Sauvy, 1984; De Soto, 1989) and are seen as only breaking unfair rules and regulations imposed by excessively intrusive and burdensome governments. The informal sector is consequently construed as a form of popular resistance and even a political movement that can generate both true democracy and a rational competitive market economy (De Soto, 1989).

Nevertheless, although neo-liberals celebrate informality, this does not mean that they wish to promote such endeavor. Rather, they wish to eradicate informal employment as much as the political economists but seek to achieve this by reducing taxes, public sector corruption and state regulations in order to liberate the formal sector from the state-imposed constraints that increase labour costs, stifle flexibility and act as a disincentive to formalization. By diminishing the regulatory burden and state interference in work and welfare arrangements, the goal is that there will no longer be any distinction between the formal and informal economies since all work will be conducted in an “informal” manner, although this will be “formal” because it will not be breaking any rules.

The neo-liberal approach, therefore, is to reduce tax rates, combat public sector corruption and give the market free reign by reducing state interference in work and welfare arrangements. As such, neo-liberals, akin to political economists, depict the welfare state and the economy as adversaries. The difference is that political economists support the welfare state and represent free market capitalism as hindering advancement, whilst neo-liberals support the free market and oppose any state intervention in work and welfare provision as interfering with the market’s ability to efficiently allocate resources. Although debates exist within neo-liberalism in relation to the degree to which social protection might be provided (see Williams, 2004), neo-liberal commentators on the whole largely construe social protection as negative due to its deleterious effects on economic performance. Instead, competitive self-regulatory markets are portrayed as superior allocation mechanisms and government interference in allocation processes is seen to risk producing crowding-out effects, maldistribution and inefficiency resulting in economies producing less aggregate wealth than if a laissez-faire approach is pursued (Lindbeck, 1981; Okun, 1975).

For neo-liberals, in sum, the persistence and growth of informal employment is a direct result of high taxes, corruption and state interference in the free market. To evaluate critically the validity of this neo-liberal explanation, therefore, the following hypotheses can be evaluated:

- *Neo-liberal tax rates hypothesis (H1)*: the level of informal employment is greater in countries with higher tax rates;
- *Neo-liberal public sector corruption hypothesis (H2)*: the level of informal employment is greater in countries with higher levels of public sector corruption; and
- *Neo-liberal state interference hypothesis (H3)*: the level of informal employment is greater in countries with higher levels of state interference in the workings of the free market.

Until now, the only study to have evaluated the neo-liberal explanation for the cross-national variations in informal employment is a study focused upon the member states of the European Union which found no evidence to support this neo-liberal perspective but some evidence to support the modernization and political economy explanations (Williams, 2013). No studies have yet evaluated the validity of these competing explanations beyond the European context. This paper therefore seeks to fill that gap. Here, the intention is to evaluate critically each of these neo-liberal hypotheses in relation to the variations in the level of informal employment across 16 Latin American countries.

3. Methodology

To evaluate the neo-liberal explanation for the variations in the level of informal employment across Latin American countries, firstly, the cross-national variations in the level of informal employment is evaluated using an International Labour Organization (ILO) dataset that uses the same common broad definition of informal employment across all 16 Latin American countries covered and also the same survey methodology. For each country, the Bureau of Statistics of the ILO sends a common questionnaire to all statistical offices of each country requesting for the national offices to complete detailed tables on statistics regarding the level of informal employment. To collect this data, either an ILO Department of Statistics questionnaire is used to conduct a survey or data is used from their existing national labour force or informal sector surveys (for further details, see ILO, 2012). For each country, the ILO definition of informal employment as discussed above is used, although minor variations occur across countries due to the variations in national-level laws. In all countries, those with more than one job are classified by their self-reported main employment and only the non-agricultural workforce is analyzed. As such, the data evaluated can be considered sufficiently comparable between countries.

To select relevant indicators on the economic and social conditions that the neo-liberal perspective associates with higher levels of informal employment, meanwhile, the World Bank development indicators database is employed from which data is used for the same (or closest) year to the year of the survey on informal employment (World Bank, 2013). The only non-official indicator relates to public sector corruption, taken from Transparency International's corruption perceptions index (Transparency International, 2013).

In order to evaluate the neo-liberal tax rates hypothesis (H1), in consequence, the following World Bank (2013) country-level indicators are used:

Taxes on goods and services as a percentage of revenue. This includes general sales and turnover as well as value added taxes, excise duties on goods, taxes on services, taxes on the use of goods or property, taxes on extraction and the production of minerals and the profits of fiscal monopolies;

Taxes on income, profits and capital gains as a percentage of revenue. This covers taxes on the actual or presumptive net income of individuals, the profits of businesses and capital gains on land, securities and other assets.

Taxes on revenue (excluding grants) as a percentage of GDP. Revenue covers cash receipts from taxes, social contributions and other revenues (e.g., fines, fees, rent and income from property or sales).

Tax revenue as a percentage of GDP. Tax revenue includes compulsory transfers to central government for public purposes including fines and penalties. Most social security contributions are excluded. Refunds of wrongly collected tax revenue are treated as negative revenue.

Total tax rate as percentage of commercial profits. This includes all taxes and mandatory contributions payable by organizations after allowable deductions and exemptions, as a share of commercial profits. Taxes withheld (e.g., personal income tax) or paid to tax authorities (e.g., value added taxes, sales taxes or goods and service taxes) are not included.

Meanwhile, the neo-liberal public sector corruption hypothesis (H2) is evaluated using three indicators:

Transparency International's Corruption Perceptions Index (CPI), which is a composite index of perceptions of public sector corruption from 14 expert opinion surveys. It scores nations on a 0-10 scale, with zero indicating high levels and 10 low levels of perceived public sector corruption (Transparency International, 2013).

The percentage of firms making informal payments to public officials, and

The percentage of firms expected to give gifts in meetings with tax officials.

The neo-liberal state interference hypothesis (H3), finally, is evaluated using the following seven World Bank development indicators:

Time required to obtain an operating license;

The time required (in days) to start a business;

The time spent dealing with tax officials as a share of total management time;

The 'ease of doing business' ranking for each country from the World Bank Doing Business Surveys, which is a relative proxy indicator of the regulatory burden in each country;

Social contributions as a % of revenue. This includes social security contributions by employees, employers and self-employed individuals, and other contributions whose source cannot be determined, as well as actual or imputed contributions to social insurance schemes operated by governments;

The generosity of social protection in each country, namely the percentage of the population receiving social protection which is adequate to have progressive effects on the distribution of well-being and help reduce poverty by providing adequate support to beneficiaries, and

The expense of government as a share of GDP, which covers cash payments for the operating activities of the government in terms of providing goods and services. It covers compensation of employees (e.g., salaries), interest and subsidies, grants, social benefits and expenses such as rent and dividends.

To analyze this relationship between cross-national variations in the level of informal employment and the economic and social conditions each hypothesis asserts are associated, and given the small sample size (i.e., 16 countries) and lack of necessary controls to include in a multivariate regression analysis, only bivariate regression analyses can be here undertaken. Given the non-parametric nature of the data, Spearman's rank correlation coefficient (r_s) is employed to do this. As will now be seen, despite this limitation, some meaningful findings are uncovered in relation to the validity of the neo-liberal perspective.

4. Results

Across the 16 Latin American economies covered by the ILO data, the finding is that 57 per cent of the non-agricultural workforce are in informal employment as their main job. This, however, is an unweighted average. Given the variable size of the workforce across these economies, a weighted average figure is required. This finds that 50.5 per cent of the non-agricultural workforce is in informal employment across these 16 Latin American countries. Informal employment, in consequence, is not a residue or remnant existing in a few enclaves. The majority of the non-agricultural workforce is engaged in informal employment.

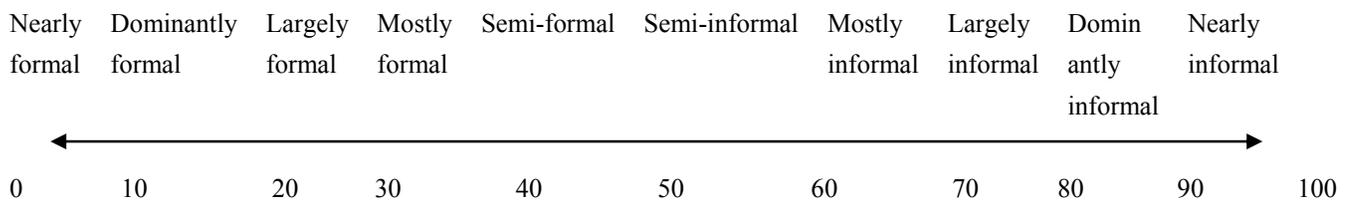
However, this overall figure masks some marked cross-national variations. As Table 1 reports, the proportion of the non-agricultural workforce whose main job is informal employment ranges from 75.1 per cent in Bolivia and 73.9 per cent in Honduras to 39.8 per cent in Uruguay. Indeed, in nine of the 16 Latin American countries surveyed, the majority of the non-agricultural workforce is engaged in informal employment. As indicated earlier, the growing recognition that much informal employment is conducted on a self-employed basis is reflected in Table 1, ranging from 70.1 per cent in Colombia to 40.2 per cent in Paraguay. However, the proportion of the non-agricultural workforce employed in informal employment is not significantly correlated with the proportion that is self-employed.

Table 1. Informal employment as share of non-agricultural employment in Latin America, by country

Country	Year	% of jobs in informal employment	% of informal employment which is self-employment	Type of economy
Bolivia	2006	75.1	53.6	Largely informal
Honduras	2009	73.9	60.2	Largely informal
Paraguay	2009	70.7	40.2	Largely informal
Peru	2009	69.9	59.0	Mostly informal
El Salvador	2009	66.4	57.6	Mostly informal
Nicaragua	2009	65.7	58.4	Mostly informal
Ecuador	2009	60.9	47.5	Mostly informal
Colombia	2010	59.6	70.1	Semi-informal
Mexico	2009	53.7	44.4	Semi-informal
Argentina	2009	49.7	45.7	Semi-formal
Dominican rep	2009	48.5	57.9	Semi-formal
Venezuela	2009	47.5	65.7	Semi-formal
Panama	2009	43.8	60.3	Semi-formal
Costa Rica	2009	43.8	56.1	Semi-formal
Brazil	2009	42.2	46.3	Semi-formal
Uruguay	2009	39.8	65.7	Mostly formal

Source: derived from ILO (2012)

To chart the relative importance of informal employment in these Latin American countries, Figure 1 provides a spectrum along which countries can be positioned according to the share of the non-agricultural workforce in informal employment. As the final column of Table 1 reveals, none of these Latin American countries have all non-agricultural workers either in formal or informal employment, and there are no ‘nearly formal’, or even ‘dominantly formal’ or ‘dominantly informal’ economies. Instead, 6 per cent are ‘largely formal’ economies, 37 per cent are ‘semi-formal’ economies, 13 per cent are ‘semi-formal’ economies, 25 per cent ‘mostly formal’ economies and 19 per cent are ‘largely informal’ economies. These Latin American countries, therefore, are largely clustered towards the center of the spectrum but slightly skewed towards the informalised side of the continuum.



Given these findings concerning the cross-national variations in the proportion of the non-agricultural workforce in informal employment, an evaluation is now conducted of the validity of the neo-liberal perspective as an explanation for these cross-national variations in the level of informal employment.

5. Analysis: Evaluating the Neo-Liberal Policy Approach

To evaluate the neo-liberal explanation for the cross-national variations in the level of informal employment, an exploratory analysis of the validity of each neo-liberal hypothesis is here conducted.

An evaluation of the neo-liberal tax rates hypothesis (H1)

The neo-liberal tax rates hypothesis asserts that the level of informal employment is greater in countries with higher tax rates. Here, therefore, an evaluation is conducted of the relationship between cross-national variations in tax rates and cross-national variations in the level of informal employment across these 16 Latin American countries by examining five different taxation measures.

Starting with the correlation between cross-national variations in the level of informal employment and the level of taxes on goods and services as a share of revenue, and using Spearman's rank correlation coefficient due to the nonparametric nature of the data, the finding is that there is no statistically significant relationship ($r_s=.248$). Examining the relationship between the level of informal employment and the level of taxes on income, profits and capital gains as a share of revenue, it is similarly the case that there is no significant relationship ($r_s=.055$) and this is again the case when the cross-national variations in the level of taxes on revenue (excluding grants) as a share of GDP ($r_s=-.394$), tax revenue as a percentage of GDP ($r_s=-.430$) and the total tax rate ($r_s=-.162$) are analyzed. Cross-national variations in the level of informal employment, therefore, are not associated with taxation levels whichever tax measure is analyzed. There is thus no evidence to support the neo-liberal tax rates hypothesis that the level of informal employment is greater in countries with higher tax rates and that a solution for tackling informal employment is therefore to reduce tax rates. Indeed, these results in Latin America reinforce earlier findings in Europe which similarly find no association between cross-national variations in tax rates and cross-national variations in the prevalence of informal employment (Vanderseyen et al., 2013; Williams, 2013).

An evaluation of the neo-liberal public sector corruption hypothesis (H2)

The neo-liberal public sector corruption hypothesis asserts that the level of informal employment is greater in countries with higher public sector corruption levels. To evaluate this, three different measures of such corruption can be analyzed.

Commencing with Transparency International's perceptions of public sector corruption index, the finding is that a significant association at the 0.05 level is identified between cross-national variations in the level of informal employment and levels of public sector corruption ($r_s=-.582^*$). As Figure 2 reveals, the direction of this relationship is that the greater is the perceived level of public sector corruption in a country, the higher is the level of informal employment. This, therefore, validates the neo-liberal public sector corruption hypothesis. However, this is not the

case when two further measures of public sector corruption are examined. When the cross-national variations in the percentage of firms who make informal payments to public officials is compared with the cross-national variations in the level of informal employment is analyzed, no significant correlation is identified ($r_s = .071$). Neither is any statistically significant association identified between cross-national variations in the percentage of firms who state that they are expected to give gifts in meetings with tax officials and cross-national variations in the level of informal employment ($r_s = -.261$). Although one composite indicator of public perceptions of public sector corruption thus provides some evidence to support the neo-liberal public sector corruption hypothesis, more direct indicators that ask organizations about whether they have suffered such corruption do not find any significant correlation.

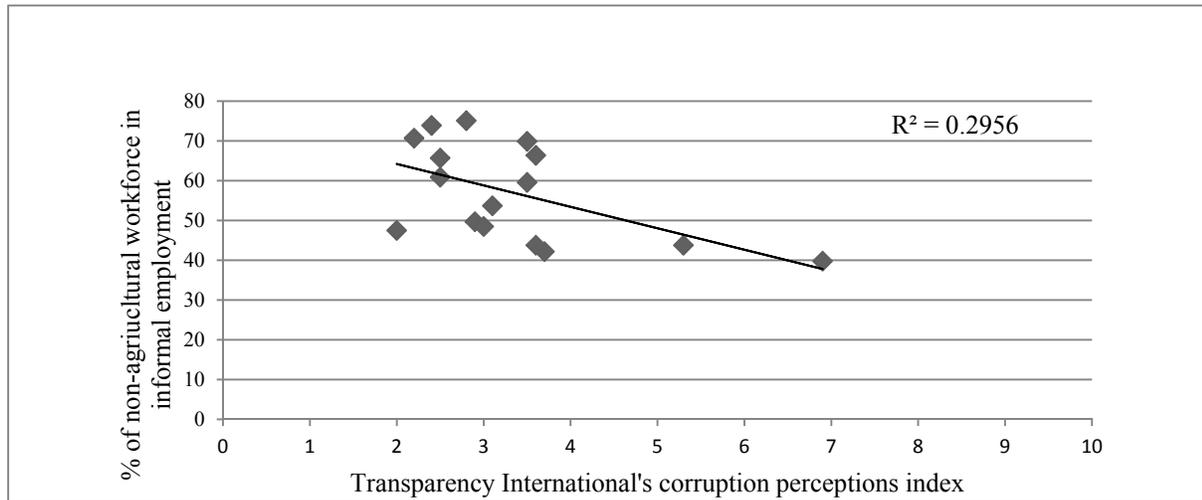


Figure 2. Relationship between informal employment and corruption

Evaluating the neo-liberal state interference hypothesis (H3)

The neo-liberal state interference hypothesis asserts that the level of informal employment is greater in countries with higher levels of state interference in the workings of the free market. Here, various measures of state intervention in work and welfare arrangements are evaluated.

Comparing the cross-national variations in the level of informal employment and cross-national variations in the time required in days to start a business, which signals whether there is a burdensome regulatory environment for start-ups, no significant association is identified ($r_s = -.256$). Neither is a significant correlation identified between cross-national variations in the level of informal employment and either cross-national variations in the time spent dealing with officials as a percentage of management time by enterprise owners ($r_s = -.278$) or the World Bank's 'ease of doing business' ranking of countries, which is a relative proxy of the regulatory burden in countries ($r_s = .196$). However, and as Figure 3 displays, a statistically significant association at the 0.05 level is identified between cross-national variations in the level of informal employment and cross-national variations in the time required in days to obtain an operating license ($r_s = -.502^*$). This relationship, nevertheless, is not in the direction suggested by the neo-liberal approach. The greater the number of days required to obtain an operating license, the smaller (not larger) is the level of informal employment, thus contradicting neo-liberal thought.

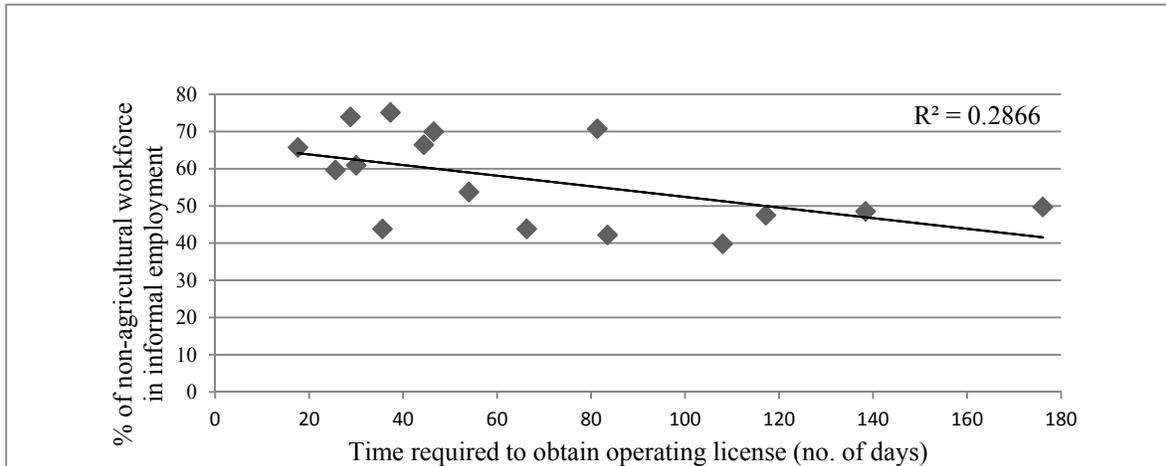


Figure 3. Relationship between informal employment and administrative burden

Examining whether state interference in welfare arrangements increases the level of informal employment as neo-liberals argue, or decreases the level of informal employment as political economists assert, the relationship between cross-national variations in the level of informal employment and the level of social contributions as a percentage of revenue can be evaluated. No significant association is identified ($r_s = -.450$). Similarly, no association is identified between the expense of government as a share of GDP, which is a proxy of the degree to which governments intervene in work and welfare arrangements, and the level of informal employment ($r_s = .549$). However, a statistically significant association at the 0.05 level is found between cross-national variations in the share of the workforce in informal employment and the generosity of all social protection as measured by the World Bank ($r_s = -.569^*$). As Figure 4 displays, the higher is the coverage and generosity of social protection, the lower is the level of informal employment in a country. This refutes the neo-liberal state interference hypothesis. Instead, it provides support for the political economy explanation that greater state intervention to protect workers from poverty reduces the level of informal employment since it provides an alternative means of support and prevents marginalised populations turning to informal employment as a last resort.

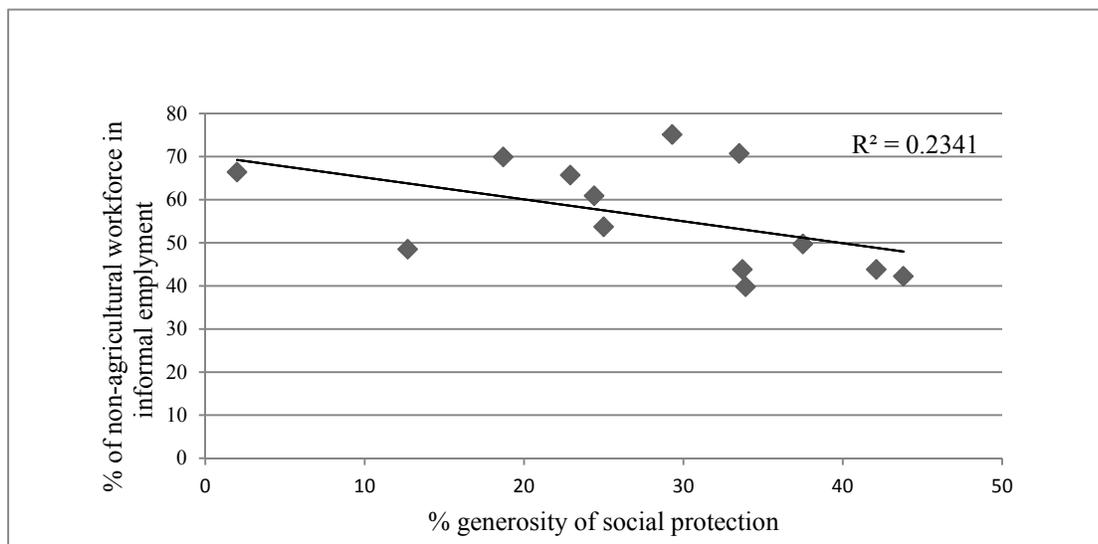


Figure 4. Relationship between informal employment and generosity of social protection

Indeed, the neo-liberal state interference hypothesis is further refuted when the cross-national variations in the level of informal employment and cross-national variations in the proportion of the population living below the national

poverty line is analyzed. As Figure 5 reveals, there is a strong statistically significant relationship at the 0.01 level ($r_s = .735^{**}$). The greater is the share of the population living below the national poverty line, the higher is the level of informal employment. This supports the political economy argument that informal employment is more an activity of last resort turned to by populations in the absence of alternative sources of livelihood, rather than a voluntarily chosen endeavor as asserted by the neo-liberal approach.

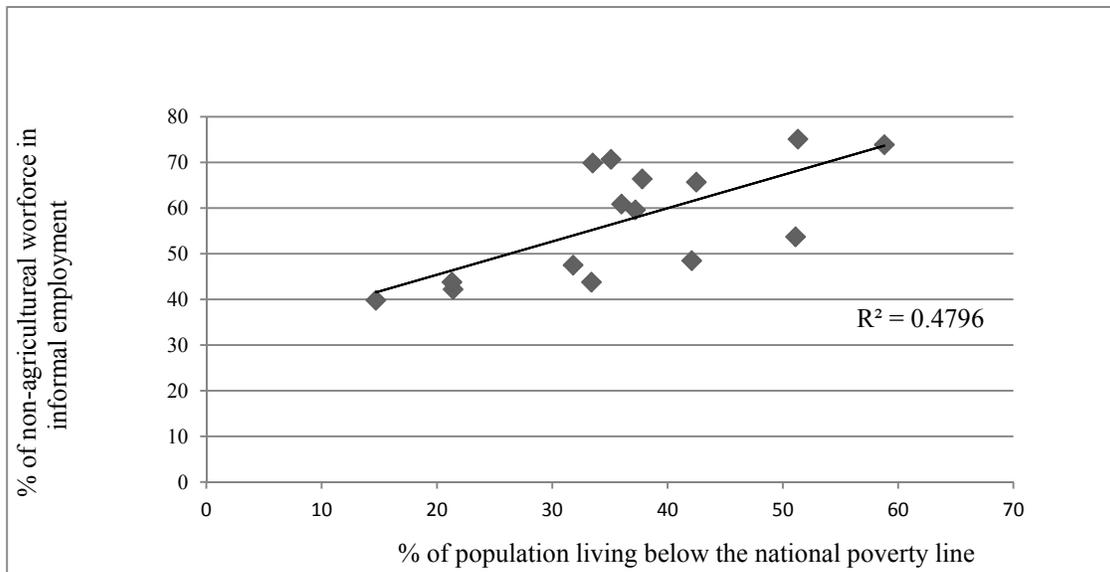


Figure 5. Relationship between informal employment and % of population living below national poverty line

Indeed, it is not support for the political economy perspective which is found when comparing the cross-national variations in the level of informal employment with broader economic and social conditions across these 16 Latin American countries. The conventional modernization perspective which argues that the level of informal employment is lower in 'developed' wealthier economies and higher in 'less developed' economies is also supported. As Figure 6 displays, a strong statistically significant association is identified between cross-national variations in the level of informal employment and cross-national variations in GNP per capita ($r_s = -.867^{**}$). The direction of this relationship is that the share of the non-agricultural workforce employed in informal employment is higher in economies with lower levels of GNP per capita, thus supporting the modernization perspective.

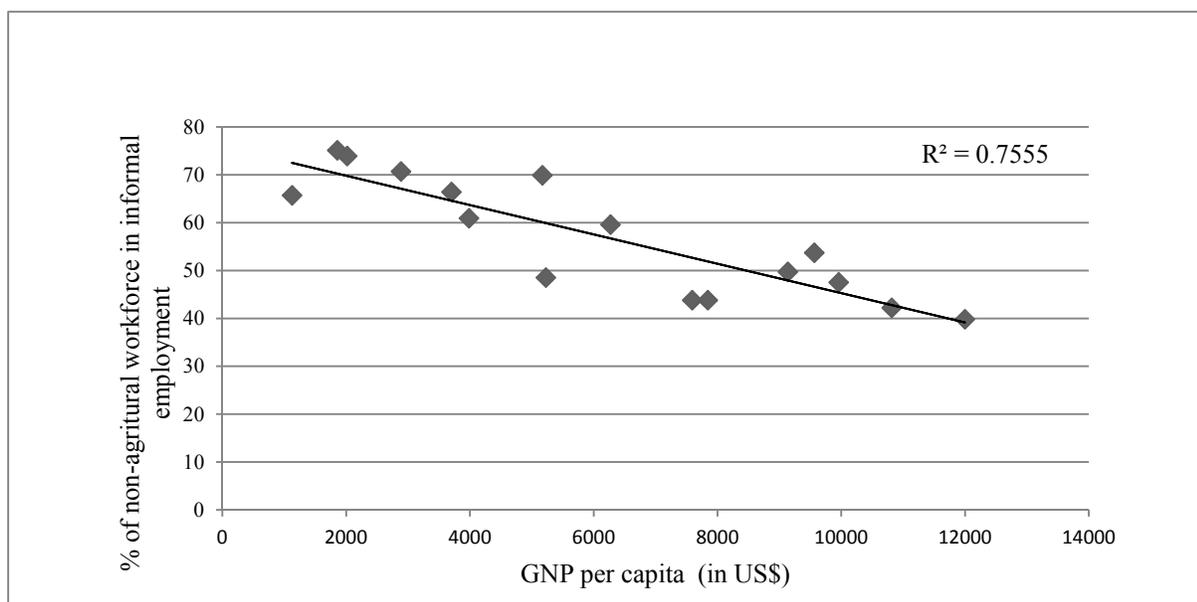


Figure 6. Relationship between informal employment and GNP per capita

6. Conclusions

Reporting ILO data on the cross-national variations in the level of informal employment across 16 Latin American economies, this paper has revealed that over half (50.5 per cent) of non-agricultural workers are in informal employment as their main job. This brings informal employment out of the shadows. Such workers are not a small segment of the workforce in Latin American of limited importance. Nevertheless, marked cross-national variations exist in the level of informal employment and this paper has evaluated critically the neo-liberal approach which views countries with higher taxes, corruption and state interference to have higher levels of informal employment and therefore advocates tax reductions, tackling corruption and pursuing minimal state intervention as the required policy approach for tackling informal employment.

Evaluating the validity of this neo-liberal approach in relation to Latin American countries, the finding is that cross-national variations in the level of informal employment are not correlated with the level of taxation (H1) whichever taxation measure is used and associated with the level of corruption (H2) only when perceptions of public sector corruption are evaluated. When indicators of actual public sector corruption behavior are investigated, no association is identified. Analyzing the association between the cross-national variations in the level of informal employment and the degree of state interference in work and welfare arrangements (H3), there is again no evidence found that supports the neo-liberal argument that the level of informal employment is higher in economies with higher levels of state interference. Whichever tenet of the neo-liberal approach is evaluated, in consequence, little or no evidence supports the view that higher levels of informal employment are prevalent in countries with higher taxes, corruption and state interference, and that the solution is therefore tax reductions, tackling corruption and pursuing minimal state intervention.

Nevertheless, support has been found for the political economy approach which argues that higher levels of informal employment are found in Latin American countries where there is less state intervention to protect workers from poverty. Not only has it been shown that cross-national variations in the level of informal employment are strongly correlated with the level of poverty, but also that higher levels of social protection result in lower levels of informal employment, doubtless because this diminishes the need for marginalized populations to turn to informal employment as a survival practice. This study of the cross-national variations in the level of informal employment in Latin America does not only provide support for the political economy approach but also the modernization perspective since it shows that the level of informal employment is lower in more developed modern economies as measured by GNP per capita.

These findings have both theoretical and policy implications. Starting with the theoretical implications, they raise serious concerns whether higher levels of informal employment are due to higher tax rates, corruption and state interference and thus whether tax reductions, combating corruption and decreasing the regulatory burden and state interference is the way forward. Instead, these findings tentatively support both the modernization explanation which views higher levels of informal employment as associated with economic under-development and the political economy explanation which argues that higher levels of informal employment results from an under-regulation (not over-regulation) of economies and a lack of state intervention to protect workers from poverty. Consequently, if cross-national variations in the level of informal employment in Latin America are to be explained, a synthesis of the modernization and political economy approaches is required which explains lower levels of informal employment to be associated with economic development, smaller shares of the population in poverty and greater levels of social protection. The validity of this new 'neo-modernization' explanation now needs to be evaluated in other global regions and when time-series data is analyzed for individual nations. It might also be useful to explore a wider range of economic and social conditions associated with state intervention in, and regulation of, work and welfare provision (e.g., the quality of state governance, labour market policy interventions to protect vulnerable groups, regulations on temporary employment) in order to further develop this neo-modernization perspective in a more nuanced manner regarding what state interventions reduce informal employment and which do not.

The findings of this paper also have implications for policy. Over the past few decades, there has been a shift away from eradicating informal employment and towards facilitating its formalization as it has been recognized that the intention in tackling informal employment is to address the growth of the formal economy, decent work, fuller employment and increasing tax revenue to support wider societal objectives (Chen, 2012; Williams and Lansky, 2013). To achieve this, the vast majority of the policy debate has revolved around whether targeted repressive measures and/or targeted incentives are most effective at facilitating its formalization (Dibben and Williams, 2012; Eurofound, 2013; Feld and Larsen, 2012; OECD, 2012; Williams and Lansky, 2013; Williams and Nadin, 2012a,b, 2014). This paper, however, and in contrast to this conventional policy debate, reveals that broader economic and social policy measures are also important. The overarching modernization of economies, reducing poverty and social protection are all shown

to be closely associated with the level of informal employment. Tackling informal employment, therefore, seemingly requires not only a mix of targeted policy measures but also the introduction of broader economic and social policies. Whether this policy implication is confirmed when other global regions are analyzed and when time-series data is examined for individual countries, needs to be evaluated in future research.

In sum, this study has raised questions regarding the validity of the neo-liberal approach that advocates tax reductions, tackling corruption, de-regulation and minimal state intervention when tackling informal employment. To take this further forward, it will be now necessary to evaluate whether the findings are more widely valid beyond Latin America. If these results thus stimulate a wider evaluation of this neo-liberal approach in other global regions, then it will have fulfilled one of its intentions. If it also leads to a rethinking both in Latin America and beyond of whether state intervention to protect workers from poverty might be the way forward in tackling informal employment, then it will have fulfilled all of its objectives.

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