POLICY FEEDBACK EFFECTS OR RATIONAL CHOICE?

Social policy preferences of informal and formal sector workers in Latin America

Joel Hähnle

Abstract

This thesis aims to investigate how informal and formal sector workers in Latin America form their social policy preferences. I contribute to the already existing literature by introducing a new perspective that combines two theoretical approaches. Fist, an institutionalist approach expects that already established policies affect the social policy preferences through feedback effects. Therefore, I examine how the degree of privatization affects the policy preferences of informal and formal sector workers. Since many of these social policies have been promoted by external actors, this thesis can contribute to the understanding of feedback effects that are confronted with the problem of endogeneity. The second theoretical approach introduces a rational choice perspective which suggests that individuals rationally evaluate the collective action problem of publicly funded welfare states and consequently weigh up public versus private services. In order to test my theoretical assumptions, I obtain data from the Latinobarómetro 2008 that offers 19,105 respondents in 18 Latin American countries. The methodological approach involves a mixed-effects multi-level model that accounts for cross-country variation. The decision to choose this model is mainly motivated the fact that individual-level interactions are affected by country-specific factors on the macro-levels. The empirical results do not confirm the causal prediction of my hypotheses. The insignificant results imply that institutional factors might not affect the social policy preferences of informal and formal sector workers. Instead they support the claim that exogenously promoted policies do not cause feedback mechanisms on individual preferences.

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1. Introduction

Developing countries constitute a paradox for comparative welfare politics. Compared to wealthier countries, there are more poor people who might be dependent on social policies that might help them to escape poverty. At the same time, a higher share of poverty is making it more difficult for welfare states to finance those social policies since there are less citizens who can afford to contribute to the public pool. Therefore, welfare states in developing countries often struggle to balance a challenging proportion of welfare recipients and contributing citizens. I investigate how this welfare paradox affects the social policy preferences of contributing and non-contributing citizens.

Latin America is an interesting region to analyze the welfare paradox. Latin American welfare states are significantly affected by the characteristics of their labor market. Throughout the region, the informal sector constitutes a large share of the entire labor market. This implies for the welfare states that contributing formal sector workers have to finance the publicly organized benefits for the non-contributing informal sector workers. In the literature, the situation of contributing and free-riding individuals is referred to as a collective action problem. Inspired by the collective action problem of Latin American welfare states, the research question of this Master thesis is: how do formal and informal sector workers form their social policy preferences?

Previous studies (see Carnes and Mares 2012, Carnes and Mares 2016, Berens 2015) have examined the social policy preferences of formal and informal sector workers and this thesis contributes to the already existing literature by introducing a new perspective. A perspective that is a combination of theoretical approaches.

First, this thesis introduces an institutionalist perspective and argues that institutional factors affect the social policy preferences of formal and informal sector workers through feedback effects. In the case of Latin America, the welfare systems experienced some major social policy shifts, from the wave of privatization in the 1990s to the return of publicly funded social policies in the 2000s. In this context, there is a gap in the literature how policy shifts affected social policy preferences of informal and formal sector workers. Therefore, I focus on whether the welfare programs in place, and the extent to which they are primarily public or private, affect individual preferences for public or private welfare solutions.

Since many of these policy reforms have been promoted by external actors like the International Financial Institutions (IFIs), this thesis can contribute to the understanding of feedback effects.

Feedback effects are always confronted with an endogeneity problem; are public preferences resulting from policies or are policies a consequence of those preferences? The recurrent influence of external actors suggests that public policies do not always result as a consequence of domestic mass preferences. Hence, exogenously promoted policies can better isolate the effects of policy shifts on policy preferences and help to resolve the problem of endogeneity.

The second theoretical approach introduces a rational choice perspective. I suggest that individuals rationally evaluate the collective action problem of publicly funded welfare states. In this sense, especially contributing formal sector workers evaluate the advantages and disadvantages of public and private welfare benefits. Therefore, I assume that rational acting formal sector workers are expected to prefer private insurances since they avoid costly redistributive measures to freeriding informal sector workers.

The combination of these theoretical approaches implies that the rational evaluated social policy preferences of formal and informal sector workers for public or private insurances depend on institutional characteristics of the national welfare systems. Informal sector workers are expected to prefer public insurances no matter the degree of privatization. This is based on the assumption that they can benefit from the public non-contributory programs without contributing by paying payroll taxes. In contrast, formal sector workers are expected to adjust their social policy preferences according to the degree of privatization. They rationally evaluate the ratio of contributors and non-contributors to public welfare programs. If the ratio of non-contributing informal individuals is too high and therefore too costly, formal sector workers decide to opt out of public insurances and prefer private providers. This costly situation is the case in mainly publicly organized systems with a low degree of privatization.

Eventually, I test another rational choice perspective which implies that formal sector workers actually prefer public policies. One explanation for this might be that formal sector workers evaluate their perceived level of employment security. In case of a low level of employment security, formal sector workers speculate that they might be part of the informal sector one day and become dependent on public insurances. If formal sector workers prefer public social policies because of their unsecure employment status, they tolerate that non-contributing informal sector workers benefit from their contributions. Therefore, they prefer public policies and show *calculated solidarity* with the informal sector.

To test these theoretical assumptions, this thesis uses data from the Latinobarómetro 2008 to determine the individual employment status inside and outside of the formal sector and to measure the social policy preferences. The dataset offers 19,105 respondents in 18 Latin American countries. Based on the theoretical assumptions and the data structure, the methodological approach involves a mixed-effects multi-level model that accounts for cross-country variation. The decision to choose this model is mainly motivated the fact that individual-level interactions are affected by country-specific factors on the macro-levels.

The mainly insignificant results imply that exogenously promoted policies might not entail the familiar feedback mechanisms on policy preferences. However, the empirical findings can contribute to the endogeneity issue of feedback mechanisms. The fact that I could not find evidence for negative or positive feedback mechanisms implies that policies, if they are promoted exogenously, do not necessarily affect policy preferences. Vice versa, the reoccurring involvement of external actors implies that citizens and their public preferences are not the only decisive actors in the social policy decision-making. Furthermore, the insignificant empirical evidence suggests that feedback mechanisms of social policies might be dependent on the specific policy design and effectiveness.

The thesis is structured as follows. First, I will present the informal economy and the welfare systems in Latin America. I will discuss how the design of the Latin American welfare states and the social policy programs have always been influenced by the specific characteristics of the labor markets. Subsequently, I will introduce the theoretical framework and the hypotheses that focus on the social policy preferences of formal and informal sector workers. Afterwards, I will discuss the methodological framework by explaining the operationalization of the variables, the data sources and the decision to choose a mixed-effects logistic regression model. Finally, the empirical results are presented and discussed in the subsequent section.

2. Literature review

2.1. The informal economy in Latin America

In order to understand the relevance and societal context of my topic, it is crucial to be aware of the socioeconomic characteristics of Latin American societies. Portes and Hoffmann (2003) provide an in-depth overview of the composition of Latin American class structures. Traditionally applied in Western societies, class analyses imply the comparison of the bourgeoisie and the proletariat. The bourgeoisie controls the means of production and claims to

control the labour power of the proletariat. The proletariat does not own any means of production and offer their labour power to the capitalist bourgeoisie. Latin American countries differ from these traditional class structures since a significant proportion of the population is not incorporated into fully commodified, legally regulated working relations, but "survives at their margin in a wide variety of subsistence and semi-clandestine economic activities (Portes and Hoffmann 2003, p. 43). People working outside of the regulated formal sector are referred as informal sector workers. Throughout the literature, many authors attempted to define the informal sector. One prominent example is the definition by Portes, Castells and Benton (1989). The authors define the informal sector as "a process of income generation characterized by one central feature: it is unregulated by the institutions of society, in a legal and social environment in which similar activities are regulated" (Portes et al., p. 12).

One reason why authors struggle to find a common definition for the informal sector traces back to the problem that it is difficult to specify who belongs to the informal sector and who does not. Typically, the informal sector consists of people working as street vendors selling food or offering services like washing cars and polishing shoes. Other examples refer to people being informal construction workers or manufacturing low-price products. These examples correspond to an early definition by Peattie (1980): low entry barriers to entrepreneurship in terms of skills and capital requirements; family ownership of enterprises; small scale of operation; labour-intensive production with outdated technology; and unregulated and competitive markets (see Portes and Schauffler 2003, p. 93).

Portes and Hoffmann (2003) offer another definition and refer to informal sector workers as the "informal sector proletariat". This definition risks overestimating the informal sector since it includes own account workers, unpaid family workers, domestic servants and waged workers without social security and other legal protections in industry, services and agriculture (Portes and Hoffmann 2003, p. 50). However, this definition highlights the fact that informal sector workers not only work as self-employed microentrepreneurs, but also work in small and medium firms hired off the books and without written contracts (Portes and Hoffmann 2003, p. 50). A conservative estimation of the size of the informal sector would only include individuals with unregulated wages, irregular profits and non-monetary compensation.

How did the informal sector reach this immense size in Latin America? Portes and Schauffler (1993) examine the population growth in Latin America after the Second World War and its economic and social consequences. The authors point out that the growth of the informal sector

was caused by a massive rural-urban migration and the labour surplus in the cities. At that time, the model of import substitution industrialization (ISI) was broadly politically promoted throughout the continent. These policies had a strong urban bias and neglected the economic development of rural areas. The resulting migration towards cities created a labour surplus which the labour demand of Latin American economies could not cope with. People who failed to get integrated into the formal job market learned to adapt to the precarious socioeconomic conditions in the cities and partly became self-employed entrepreneurs (Portes and Schauffler 1993, p. 38). Whereas the ISI model managed to gradually decrease the size of the informal sector, the period of neoliberal adjustments and "open markets" doctrines in the 1980s caused a recurring growth of informal employment (Portes and Hoffmann 2003, p. 50).

2.2. Welfare states in Latin America

Latin American welfare states experienced an impressive history of changing reforms and policies. Throughout this history, the large informal sector always constituted a key challenge for policy makers in the region. In many cases, authors analyze the historical roots of Latin American welfare states by focusing on two challenging aspects: first, public versus private insurances and second, contributory versus non-contributory social programs. However, it is difficult to outline the development of Latin American welfare states by discussing only one aspect and missing the other. Therefore, I will address both.

From the 1920 to the 1940s, several Latin American countries gradually began to develop their welfare systems. Barrientos (2004) labels the early characteristics of those welfare states as the *conservative-informal regime*. The term *conservative* refers to the fact that welfare services were mainly organized by contributory programs. The benefits of contributory programs were dependent on the labor market status of a citizen. Inspired by a Bismarkian design, only contributing formal sector workers could receive social security services. The term *informal* refers to the outsiders of the formal sector. Non-contributing informal sector workers could not rely on the established welfare system and were dependent on social security provided by networks of family, friends and non-governmental organizations (Barrientos 2004, p. 140).

Beginning in the 1980s, many Latin American countries faced tremendous fiscal crises and times of recession. Especially IFIs like the World Bank or the International Monetary Fund (IMF) encouraged governments throughout the region to implement comprehensive structural

adjustments. The adjustments included a radical departure from the import substitution industrialization (ISI) model by focusing on an export-oriented growth approach (see also Edwards 1996). Furthermore, the proposed reforms included liberalization of trade and capital flows, cuts in the public-sector spending, relaxation of economic regulations and incentives for foreign direct investment (see also Williamson 1990, Freeman 2009, Huber and Bogliaccini 2010). Thus, the reforms implied major changes for the social welfare regimes and labor markets in Latin America (see also Williamson 1990, Barrientos 2004, Freeman 2009). While the welfare states struggled with less contributing citizens due to the economic crises of the 1980s and early 1990s, rising fiscal deficits have been countered with cutting social spending in the region.

Another important pillar of the neoliberal reforms included the privatization of social security services. The World Bank recommended Latin American governments in 1994 to reduce the role of the state in financing social policy and rather promoted welfare provision by private actors (Huber and Bogliaccini 2010, p. 4). Barrientos (2004) refers to *liberal-informal regimes* when many countries focused on private, market-driven insurances from the 1990s on. Formal sector worker now relied on self-insuring private accounts, instead of pooling the risk and funds among themselves or more broadly with the whole population (Carnes and Mares 2012).

The economic turmoil of the 1980s not just implied major consequences for Latin American welfare states but also for the labor markets in the region. As in the case of the welfare states, IFIs played a crucial role in the 1990s by encouraging governments to introduce significant labor market reforms. One essential aspect of their policy suggestions referred to the issue of the informal sector. At that time, the World Bank's view on social security in labor markets can be summarized best in the following statement:

> Minimum wages, job security regulations, and social security are usually intended to raise welfare or reduce exploitation. But they actually work to raise the cost of labor in the formal sector and reduce labor demand. […] There is little poverty, in any case, in the formal sector. Yet by trying to improve the welfare of workers there, governments reduced formal sector employment, increased the supply of labor to the rural and urban informal sectors, and thus depressed labor incomes where most of the poor are found.
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> (World Development Report 1990)

Inspired by these suggestions, several Latin American countries introduced significant changes in their labor market policies like the relaxation of labor contract regulations and employment terminations regulations (see Marshall 1996, Barrientos 2004). Additional to the continuous liberalization of formal employment protection, Lora and Pagés-Serra (1996) observed that employers also profited from a large informal sector. By subcontracting parts of their activity to the informal sector, employers also reduced costs because informal employers were not entitled to the same employment protection standards as their formal counterparts (Lora and Pagés-Serra 1996, p. 22).

The 2000s saw a comeback of publicly funded social policies in Latin America. In many countries, the promises of privatization and market-mechanisms in Latin American social security systems were not kept. A prime example is the privatization of the Chilean pensions which already started in 1981. In 2006, the Chilean government published the "Marcel Commission Report" which evaluates the status quo of the established substitutive pension system. First, the report points out the low coverage, the low density of contributions and the lack of competition of the system in place (Consejo 2006). Furthermore, it focuses on the failure to recognize the complexity of the current labor market. Similar to the findings of Consejo (2006) and Key and Sinha (2008) about social security systems in developing countries, the Marcel Commission Report concludes that the Chilean pension system should aim to cover the informal sector. After these insightful lessons of the Chilean case, many governments in the region that struggled with similar problems started to reevaluate their welfare agenda.

Additionally, several important actors in IFIs deviated from promoting privatization in Latin America. In the 1990s, the World Bank suggested a three-pillar system for pensions: the first pillar implied a pay-as-you-go (PAYG) component, the second an additional private scheme and the third a voluntary saving component (Key and Sinha 2008, p. 8). In the 2000s, the World Bank promoted a five-pillar system by adding two significant pillars. The fourth is called the "zero pillar" since it implies a non-contributory and universal pillar, whereas the fifth refers to direct monetary benefits for retirement consumption (Key and Sinha 2008, p. 8). Non-contributory social programs cover individuals working in the informal sector with low or limited capacity to contribute (Frölich et al. 2014). The introduction of non-contributory programs requires special attention since it started to break with the Latin American tradition of having contributory Bismarckian welfare systems.

I will conclude this section by drawing out two major implications. There have been considerable changes throughout the history of Latin American welfare states. Whereas the 1980s and 1900s have been characterized by trends towards privatization, the new millennium experienced a comeback of publicly funded social policies. At times, these changes occurred endogenous due to the national political debate, whereas at other times external actor like the IFIs promoted certain models of social protection. The significant role of IFIs has major implications for the analysis of this thesis. It suggests that when change stems from external actors, the important question arises if mass preferences matter at all for the decision-making and introduction of social policies.

The following section focuses on the causal interaction between social policies and individual social policy preferences. Whereas many scholars analyze how social policy preferences affect the decision-making of social policies, I will introduce an institutional perspective that turns the causal direction. It argues that (already established) policies shape policy preferences. In the case of Latin American welfare states, the influence of IFIs as external actors can help to resolve the problem of endogeneity in policy feedback research. I am particularly interested how formal and informal sector workers form their social policy preferences.

3. Theoretical framework

This thesis examines how individuals form their social policy preferences. So far, the literature has been quite diverse in analyzing social policy preferences and has been divided on what they can reveal about individual and collective behavior. Some scholars suggest that social policy preferences reflect ideological welfare attitudes that are relatively stable. One prominent theoretical approach argues that individuals form their preferences according to their personal political ideology (see Huber et al. 1993).

Another school of thought claims that social policy preferences do not necessarily have to be a stable manifestation of ideologies but rather a manifestation of rational and situational self-evaluation. Accordingly, individuals rationally evaluate their current socio-economic situation and choose the most beneficial policy option. Furthermore, several scholars suggest that individuals choose their social policy preferences by rationally evaluating perceptions of deservingness. For instance, Berens (2015) introduces the term *calculated solidarity* referring to formal sector workers that rationally form a cross-sector alliance with the informal sector.

In many cases, the findings of the basic literature did not take into account that social policy preferences could have been shaped differently in developing countries. This mainly traces back to the fact that the mainstream literature focuses on OECD countries and comparatively wealthier regions. Henceforth, I will combine the theoretical insights of the mainstream literature and combine it with the contextual factors of developing countries in order to understand whether the findings from countries with more developed welfare states hold in other contexts as well. As argued above, two important contextual factors in Latin American labor markets are the large informal sector and the consequential insider-outsider issue. The next sections will explore how these factors influence the provision of welfare services.

The duality of Latin American labor markets between the formal sector and the informal sector relates to Rueda's (2005) conceptualization of insider-outsider politics in industrialized democracies. The author defines insiders as workers with protected jobs who do not feel threatened by high levels of unemployment, whereas outsiders are either unemployed or hold jobs with low salaries and low levels of protection (Rueda 2005, p. 62). Although Rueda is mainly interested in analyzing the political interests of insiders and outsiders and how especially social democratic parties organize accordingly, his conceptualization provides insights about the organization of welfare states. Concerning the welfare state, insiders and outsiders may benefit from the services no matter if or how much they have contributed. Another interesting aspect discussed by Rueda is the conflict between insiders and outsiders about how to organize the contributions and the benefits of labor market policies. Insiders are often reluctant to support active labor policies since it might imply higher taxes for them and rather favor that resources are provided for employment protection policies.

Although the characteristics of the insider-outsider problem described by Rueda (2005) are similar to the formal and informal sector, the scope of the insider-outsider problem is more far-reaching in Latin American labor markets and welfare states. This relates to the issue that a large informal sector intensifies the collective action problem by introducing many non-contributing beneficiaries. On the one hand, there are insiders employed in the formal sector who contribute to the public revenue by paying taxes and therefore expect the certain welfare services like education, health, pension and unemployment benefits. On the other hand, the large share of informal sector workers is (sometimes deliberately, sometimes compulsory) freeriding on the social policies financed by formal sector workers.

The scope of the collective action problem of Latin American welfare states and the grave insider-outsider issue of the labor markets offers challenging research questions for political scientists. This refers in particular to the question how these socio-economic circumstances affect individual preferences and attitudes of those insiders and outsiders. In the following section I will present two theoretical approaches which relate to the research question regarding how formal and informal sector workers form their social policy preferences. First, I will refer to institutionalist effects on individual preferences, and secondly take rational choice perspectives into account. Each of those theoretical approaches intends to introduce a moderating factor which might help to explain why formal and informal sector workers prefer a certain social policy.

3.1. The institutional perspective

The institutional perspective is often applied in a cross-national and comparative approach. Scholars analyze how institutional and cultural factors affect preferences and attitudes in different countries (Svallfors 2012, p. 4). It implies that micro (individual) level outcomes can be explained by macro (national) level phenomena.

The institutionalism literature is heavily influenced by Lowi's (1972) assumption that *policies determine politics*. In this sense, institutionalists imply that the causality between policies and policy preferences runs in two ways. They agree that policy preferences determine policy(-making) but emphasize at the same time that already established policies als affect preferences. The implications for social policies and preferences are graphically illustrated in *Figure 1*.

Figure 1
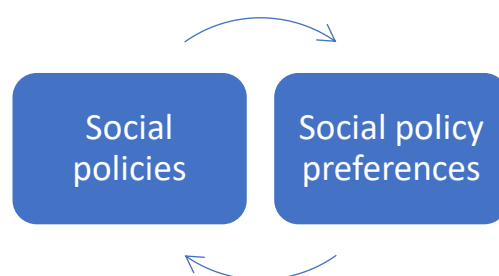
Scholars refer to the influence of previously established policies on attitudes, participation and policy making as feedback effects. Pierson (1993) provided a significant theoretical contribution to institutional effects in welfare research and stresses the role of path dependencies and positive feedback effects. He defines policies as producers of "resources and incentive" effects. These effects refer to the allocation and division of economic and political

resources and how they create incentives for individuals to articulate alternatives. Pierson identifies three different actors that are affected by feedback mechanisms; government elites, interest groups and mass publics. Since this thesis in particular focuses on individual level welfare attitudes, the category *mass publics* constitutes an important part for the analysis.

Concerning mass publics, Pierson refers to lock in effects and path dependencies. Policies provide incentives that encourage individuals to act in ways that lock in a particular path of policy development (Pierson 1993, p. 606). Furthermore, Pierson discusses the impact of the institutional design on the attitudes of mass publics. Following North's (1990) research, public policies that we conventionally recognize as institutions establish rules and create constraints that shape behavior (Pierson 1993, p. 608). Pierson points out that individual commitments to already established policies may cause a lack of acceptance against new policies that disturb these previous commitments. Therefore, previous policy decisions create lock in effects in mass attitudes and evoke a certain path dependency that is difficult to break.

Further research proceeded by differentiating positive from negative feedback mechanisms. Pierson claimed that individuals are unlikely to disturb the rules and commitments of previously established policies, thereby describing positive feedback effects. *Positive* feedback effects specifically imply that the policy causes interpretive effects on mass attitudes in a way that individuals support the intension and design of the program. A prominent advocate of positive feedback mechanisms in welfare politics is Rothstein. In an article published in 2005 with Kumlin, the authors analyze the impact of Scandinavian welfare institutions on social capital among citizens. Since the authors define social capital as the prevalence in society of "norms of reciprocity and networks of civil engagement"[1], it is closely related to the issue of social solidarity of this thesis. Kumlin and Rothstein (2016) state that the institutional characteristics of a universal welfare state in Sweden matter for the production of social capital among citizens. Thereby, the authors found evidence for positive feedback effects since the institutional design of the Swedish welfare system affected individual behavior.

In contrast, negative feedback mechanisms imply that individuals do not support the intension and design of introduced policies. Consequently, democratic participation rates decline, and individual attitudes are formed that do not comply with the attitudes the policy intends to propagate. In the context of negative feedback mechanisms, Wlezien (1995) developed the

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[1] This definition is inspired by Putnam (1993) and Coleman (1990)

thermostat model which illustrates how citizens acclimatize their preferences about public spending. Accordingly, the author finds empirical evidence that the public adjusts its preferences of spending downward when appropriations increase, whereas the demand increases if public spending is already high (Wlezien 1995, p. 981). This negative causal relation between individual preferences and level of public spending indicates the existence of negative feedback effects.[2]

Even before Pierson (1993) introduced the concept of feedback mechanisms, scholars examined how institutional trademarks and public policies affect individual attitudes. Schneider and Ingram (1993) note that target populations of public policies are often socially constructed by cultural characterizations of individuals and groups. The authors observe that these social constructions become embedded in policy as messages that are absorbed by citizens and affect their orientations (Schneider and Ingram 1993, p. 334). Thus, individuals also shape their attitudes about citizens who are deserving and who are undeserving.

Whereas case studies, as Kumlin and Rothstein (2005) in Sweden, enable research to understand institutional effects within a country, comparative studies facilitate to test for cross-national variation. A prominent question of comparative research is if the varying institutional designs of welfare states around the world generate different degrees of social solidarity. Without a doubt, Esping-Andersen took a pioneering role in comparative welfare research. In 1990, Esping-Andersen categorized the institutional characteristics of the three worlds of welfare capitalism. Accordingly, he distinguished between liberal, conservative and social-democratic welfare regimes. Although Esping-Andersen did not particularly analyze the effects of different institutional designs on individual welfare attitudes, he states that each regime type will create its unique type of social solidarity (Esping-Andersen 1990, p. 58).[3] Comparative studies that covered the impact of institutional factors on welfare attitudes mainly focused on OECD countries. However, scholars have found ambiguous empirical evidence. Some scholars argue that the institutional design matters in shaping individual preferences. Edlund's (2003)

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[2] Eventually, Campbell (2012) concludes that policy feedback effects can be positive or negative, depending on the program design. Thus, she introduces scholars who not only analyze feedback mechanisms caused by institutional factors, but rather examined how factors like the administration of policies affect individual preferences.

[3] Based on Esping-Andersen's findings, further comparative research concluded that the institutional structure has a large impact on institutions at one point in time and on welfare policies at a later point in time (Larsen 2008, p. 146). Consequently, Pierson (1993) got inspired to develop his theoretical concept of feedback mechanisms.

results imply that national institutions influence public preferences, since he found different degrees of redistributive attitudes comparing Norway and the United States. In that sense, Larsen (2007) argues that attitudes toward welfare policies can be (partly) explained by cross-national differences in the institutional structure of the different welfare regimes (Larsen 2007, p. 146). On the other side, Gelissen (2000) analyzed the popular support for institutionalized solidarity by comparing several European states. However, he found no empirical support that the institutional design would systematically determine individual attitudes.

There have been only few articles in the literature that specifically covered institutional feedback effects on preferences for private versus public social policy programs. An article by Busemeyer and Iversen (2014) argues that the composition of funding has positive feedback effects on preferences for public education spending. Accordingly, an increase in income in public-dominant educational systems is expected to be associated with higher levels of demand for public education provision, whereas the opposite is expected in private-dominant educational systems (Busemeyer and Iversen 2014, p. 311). Morgan and Campbell 2011 examined if the Medicare Modernization Act in the United States of 2003 created feedback mechanisms on welfare attitudes and preferences. Since the reforms entailed major privatization measures for the health care and pension sector, the authors were particularly interested in attitudinal changes concerning group consciousness, solidarity and private-public preferences. However, there has been no empirical evidence that the reforms changed the attitudes about the role of the state versus the market in health care, nor has it undermined feelings of group consciousness and solidarity among seniors (Morgan and Campbell 2011, p. 1).

To summarize, the institutional literature has two central arguments. First, policies determine politics. According to the Svallfors (2012), established viewpoints, normative expectations, concepts of justice, and similar perceptions are often very hard to change, and in this way, attitudes often function as a counterweight to abrupt policy changes (Svallfors 2012, p. 2). He continues by stating that policy reformers need to deal with normative orientations and expectations that have been established by previous politics and policies, and this often hinders or derails policy changes (Svallfors 2012, p. 2). This implies for this thesis, that previously established policies affect individual social policy preferences. The second central argument refers to Esping-Andersen (1990) and Rothstein (1998) categorization of welfare systems and their effects on individual preferences and attitudes. Therefore, institutions not only shape a certain behavior but also have a significant impact on the individual level of solidarity.

3.2.   Feedback effects in the Latin American welfare politics

In the case of Latin America, the welfare systems experienced some major social policy shifts, from the wave of privatization in the 1990s to the return of publicly funded social policies in the 2000s. Most of these policy reforms have been promoted by external actors like the IFIs. Thereby, this thesis can contribute to the literature as exogenously promoted policies can better isolate the effects of policy shifts on social policy preferences.

As illustrated in *Figure 1*, examinations of policy feedback effects are always confronted with questions of reversed causation, in other words whether public preferences result from policies, or instead contribute to those policies coming about in the first place. Inspired by Pierson, the mainstream literature has mainly focused how policy feedback effects occur in wealthier regions like the OECD countries. Accordingly, policies result as a consequence of domestic mass preferences while those preferences are again affected by the established policies. Concerning Latin American welfare states, many policies have not been introduced out of a domestic struggle for preferences but promoted by external actors. If institutions arise because of the pressure from external actors it is less likely, and perhaps even completely impossible, that they cause feedback effects on mass public preferences. In this sense, the influence of IFIs as external actors can help to resolve the problem of endogeneity in policy feedback research. *Figure 2* graphically illustrates the resolved endogeneity problem.

Figure 2

In order to test the existence of feedback effects in Latin American welfare states, *hypothesis 1* investigates the two central arguments of the institutional literature. This thesis considers the degree of privatization in the health care sector as an important institutional component of a Latin American countries. Thus, *hypothesis 1* analyzes how the degree of privatization affects individual social policy preferences in terms if citizens prefer health care to be in the hands of

the state (public) or private companies. By assuming that there are positive feedback effects in welfare states, individuals in a public-dominant system are expected to prefer the welfare services in the hand of the state. In case of a high level of privatization, positive feedback effects would suggest that individuals are more likely to prefer private providers. Vice versa, negative feedback effects would assume individuals in a mainly public system to demand more engagement by private providers, whereas they are more likely to prefer public organization in highly privatized systems.

> *Hypothesis 1:* The higher the degree of privatization, the higher the likelihood for individuals to prefer private insurances.

3.3. The rational choice approach

Whereas institutionalists like Lowi (1972) and Pierson (1993) describe how individuals adapt to previously established policies through feedback mechanisms, several scholars argued that the institutional perspective falls short to explain how social policy preferences (especially of formal sector workers) are formed on an individual level. In order to understand the particular mechanism on the individual level, these scholars consider the *rational choice* approach as an appropriate way to understand social policy preferences. Since Latin American welfare states are characterized by a large number of non-contributing free-riders of the informal sector, the social policy preferences of formal sector workers are characterized by several cost-benefit calculations. In this section, I will discuss how formal sector workers choose their social policy preferences by rationally evaluating their perceptions of deservingness. Accordingly, the essential question for formal sector workers is if informal sector workers "deserve" to freeride on their contributions.

One prominent question in comparative welfare research is; is it fair and just that a certain group receives welfare services? Following the logic of individual perceptions of deservingness, welfare states are challenged by how they organize their contributions in forms of taxes, and benefits in form of public social policies. One expression of rationally calculated deservingness could therefore be that only those who contribute to the common pool via taxes deserve welfare services. Anthony Downs (1960) offers an insightful theoretical framework to examine individual social policy preferences towards publicly funded welfare states. An essential aspect

of this theoretical approach is Downs' distinction between the "collective nature of government benefits" compared to transactions in the private sector.

The collective nature of government benefits refers to the organization of expenses (in this case especially welfare services) and revenues (taxes) in states. The organization of government benefits is collective since it does not exclude citizens that might not have contributed to it. By enabling non-contributing citizens to enjoy governmental benefits, the problem arises that every rational, budget-maximizing citizen has the incentive to freeride on the provided services without contributing. Scholars refer to these situations as the *collective action problem*. In that case, the necessary resources to provide the collective good are missing and nobody can receive the benefit (Downs 1960, p. 547). Therefore, individuals agree to coerce each other into payment through a collective agency like the government (Downs 1960, p. 547). Another aspect of collectively organized budgets by governments is the redistributive character. This refers to the fact that most modern democracies established welfare systems that provide the poorest citizens with more benefits than those citizens can afford and the tax allocation according to the individuals ability to pay (Downs 1960, p. 548).

Downs (1960) discusses public government benefits by distinguishing it from transactions in the private sector. Essential to this distinction is the fact that private benefits work in a pro quo basis. This means that citizens pay for private benefits directly and individually and it is only them who enjoy the benefits (Downs 1960, p 547). In contrast to that, public governments organize revenues and expenses in and out of a common pool which provides each citizen, contributing or not, with the necessary services. In mixed welfare regimes, private and public benefits compete against each other and there are several factors to consider. Basically, publicly organized government expenses are organized in a way that individuals do not entirely know if they suffer or benefit from the distributive measures. Public benefits therefore entail the problem for a rational individual that the benefits may be spent on programs she politically opposes or distributed to groups that do not align according to her perception of deservingness. Unlike public transactions, private benefits offer rational individuals to possess all the necessary information about what they have to contribute and how they can benefit from it.

The collective action problem of publicly financed welfare states has severe implications for Latin American countries since their large informal sectors imply a high number of free-riders. Assuming that formal sector workers form their social policy preferences rationally implies that they evaluate this collective action problem. By choosing between public and private social

policies, this thesis assumes that especially formal sector workers consider the advantages and disadvantages of welfare transactions. This relates to Downs' (1960) insights about the nature of public services that entail redistributive elements whereas private services guarantee quid pro quo conditions. In the context of Latin American welfare states and social policy preferences, Berens (2015) formulated the *exclusion hypothesis*. If formal sector workers prefer private welfare providers, they restrict redistribution only to those who contribute to the social policy and promote the exclusion of freeriding informal sector workers. Building on these rational assumptions, *hypothesis 2* expects that formal sector employees prefer private social policies.

> *Hypothesis 2:* Formal sector workers are more likely to prefer private insurances compered to informal sector workers.
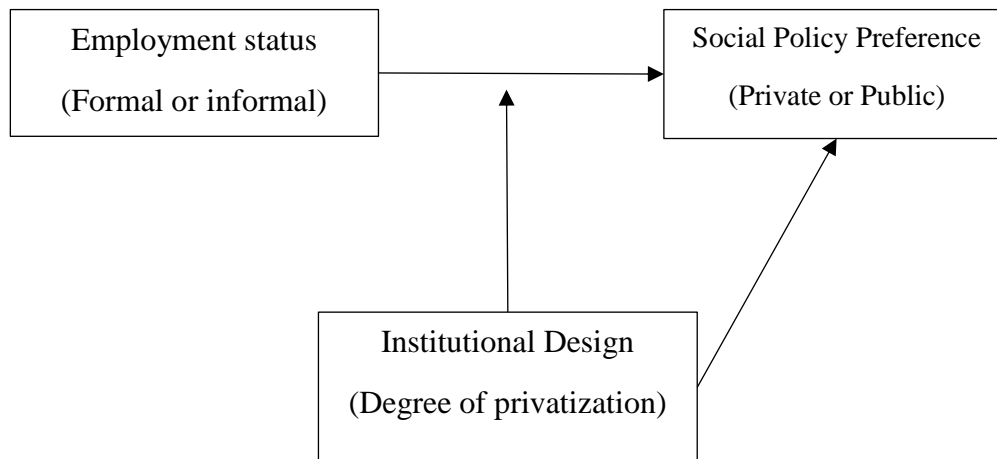
3.4.   Combining the rational choice approach and the institutional perspective

Hereafter, the thesis goes more in depth on the rational explanations of the social policy preferences of informal and formal sector workers. Furthermore, I combine the rational choice approach with the institutional perspective. The institutional perspective assumes that individual social policy preferences are affected by feedback effects. According to positive feedback effects, individuals in mainly privatized welfare systems are more likely to prefer private insurances, whereas individuals in mainly public systems are expected to prefer welfare services in the hand of the state. The rational choice approach argued that formal sector workers would rationally prefer private providers since those insurances prevent the redistribution to non-contributing citizens.

The contribution of this thesis to the current literature implies the involvement of institutional factors as a moderating variable to the already established causal relation of *hypothesis 2*. *Figure 3* illustrates the underlying causal structure. This decision to include this moderating variable is based on the assumption that institutional aspects matter and affect the individual preferences of informal and formal sector workers differently. The previous literature has overlooked the impressive historical developments of Latin American welfare states that can account for a cross-national variance in social policy preferences. The independent variable of this thesis is the individual employment status. This refers of course to the question if a citizen works in the formal or the informal sector. The dependent variable determines individual social

policy preferences. In this case, the thesis focuses if on whether individuals prefer private or public insurances.

Figure 3: Causal mechanisms

```
┌──────────────────────┐                    ┌──────────────────────┐
│  Employment status   │                    │ Social Policy Preference │
│ (Formal or informal) │ ─────────────────► │  (Private or Public)  │
└──────────────────────┘          ▲         └──────────────────────┘
                                   │                    ▲
                                   │                   ╱
                          ┌──────────────────────┐    ╱
                          │ Institutional Design │ ──╱
                          │ (Degree of privatization) │
                          └──────────────────────┘
```

I will start by discussing the social policy preferences of informal sector workers. In general, the informal sector is a heterogenous group in many ways. Some members have relatively high incomes and therefore can be expected to prefer private insurances (Carnes and Mares 2016, p. 1652). However, informal sector workers are predominantly benefitting from public social insurances like non-contributory programs since they can receive welfare support without contributing by payroll paying taxes. This traces back to the fact that informal sector workers are mainly characterized by low socioeconomic levels[4] (see also Carnes and Mares 2016). Furthermore, informal sector workers often do not have the financial capabilities to contribute to public programs or even afford private insurances. Based on these rational choice assumptions, informal sector workers are expected to prefer public insurances. *Figure 4* illustrates that even in a highly privatized welfare system, informal sector workers are not expected to adjust their preferences. The moderating effect of the institutional design is not expected to affect the public-private preferences significantly. According to this assumption, *hypothesis 3a* is conceptualized as follows:

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[4] The effect of the socioeconomic level on social policy preferences will be discussed by introducing the control variables.

Hypothesis 3a: No matter the degree of privatization, informal sector workers are expected to prefer public insurances.

Whereas informal sector workers are expected to prefer public insurances, the formal sector constitutes a pivotal role concerning social policy preferences. Formal sector workers usually pay payroll taxes and are not dependent on non-contributory insurances. Instead, they can weigh up the advantages and disadvantages of public insurances compared to private providers. Since the formal sector is also a heterogenous group, it is also crucial to control for socioeconomic levels by analysing public-private preferences. This thesis assumes that the institutional design of the welfare system affects the social policy preferences of formal sector workers. The causal structure is illustrated in *Figure 3*. Previously established policies create feedback effects on the preferences and behaviour. Positive feedback effect would suggest that a higher degree of privatization as the institutional trademark accounts for a higher likelihood for formal sector workers to prefer private provider.

However, I expect negative feedback effects on the social policy preferences of formal sector workers. This expectation is based on the rational choice assumption. The degree of publicly or privately organized welfare services is expected to influence the rational evaluated social policy preferences of formal sector workers. As the proportion of citizens covered by public social policies increases, formal sector workers start to reevaluate the collective action problem. This refers in particular to the ratio of contributors to non-contributors. In mainly publicly organized welfare systems and a low level of privatization, formal sector workers perceive that the enhanced freeriding effects make their contributions increasingly costly and irrational. Therefore, they prefer to opt out of public insurances and chose private welfare providers. In countries that demonstrate high degrees of privatization, formal sector workers are not as aware of the freeriding effects of non-contributing informal workers. Accordingly, they are not expected to be as reluctant against public insurances. The discussed assumptions are expressed in hypothesis 3b. Furthermore, *hypothesis 3a* and *hypothesis 3b* are graphically illustrated in *Figure 4*.

Hypothesis 3b: The lower the degree of privatization, the more likely formal sector workers prefer private insurances.

Figure 4:
Social Policy Preferences of formal sector workers
depending on the degree of privatization
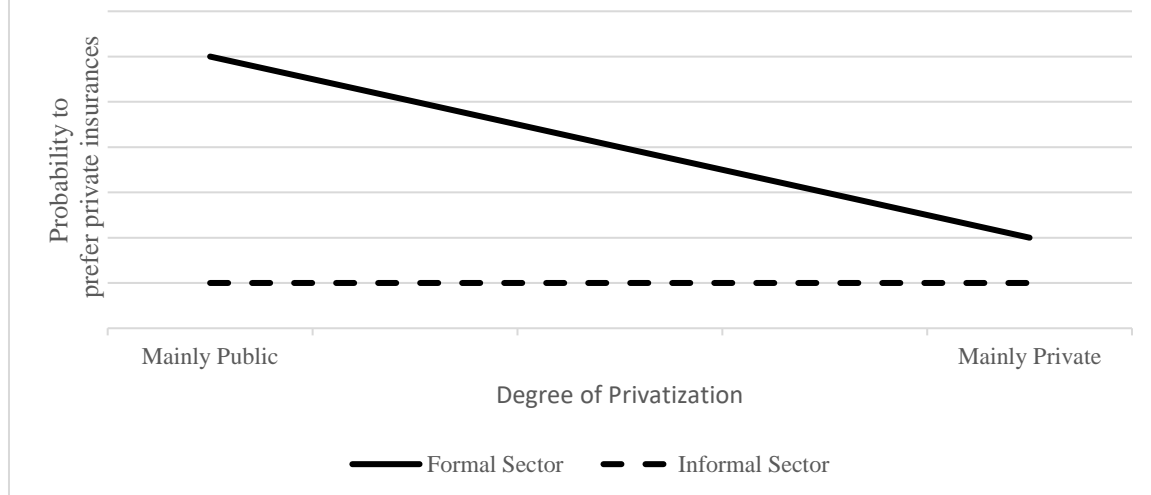
3.5.   Socio-economic factors

Another school of thought implies that individuals form social policy preferences depending on the evaluation of socio-economic situational factors. The literature implies that social policy preferences can change depending on the economic development of the country or the individual household income. According to Kumlin (2007), welfare attitudes become more expansionist in times of recession and unemployment. Blekesaune and Quadagno (2003) analyzed in 24 countries how public attitudes toward welfare state policies are shaped and affected by situational (unemployment) and ideology factors (egalitarian ideology) at the individual level and national level. According to their empirical findings, public support for welfare policies is generally higher in situations of high unemployment (Blekesaune and Quadagno 2003, p. 424). The authors explain this increased support for the welfare state by the citizens' growing awareness of the risk of becoming unemployed and the solidarity to those who are affected by unemployment.

The previous section discussed the advantages of private welfare services compared to public transactions from a rational perspective. Accordingly, private services create rational incentives since they avoid redistributive measures like public transactions. Despite of the apparent advantages of private services, several scholars indicate that situational socio-economic factors could explain why formal sector workers rationally prefer public insurances.

Carnes and Mares (2016) indicate that the formal sector workers consider redistributive aspects into their social policy preferences when their employment stability status is threatened. Accordingly, formal sector workers who are insured by private providers and contributory programs are so heavily dependent on contributions that interruptions to their employment pose a significant threat to their insurance status (Carnes and Mares 2016, p. 1650). However, the authors only discuss this theoretically without testing the implication in their empirical section. Berens (2015) eventually introduces the *prospect hypothesis* which suggests that those employed in the formal sector could prefer public welfare services when the potential danger of losing their employment possibly entails that they have to work in the informal sector in the future.

Based on the assumptions of the prospect hypothesis, the moderating variable of *hypothesis 4* is employment security. Accordingly, formal sector workers are more likely to prefer public insurances if their perceived level of employment security is low. In contrast, this assumption is not applicable to the social policy preferences of informal sector workers. Informal sector workers are not expected to adjust their preferences since their do not have to calculate what a possible employment in the informal sector would imply. The assumptions and the causal structure of *hypothesis 4* are graphically illustrated in *Figure 5* and *Figure 6*.

> *Hypothesis 4:* The higher the level of perceived individual employment security, the more likely formal sector workers prefer private insurances.
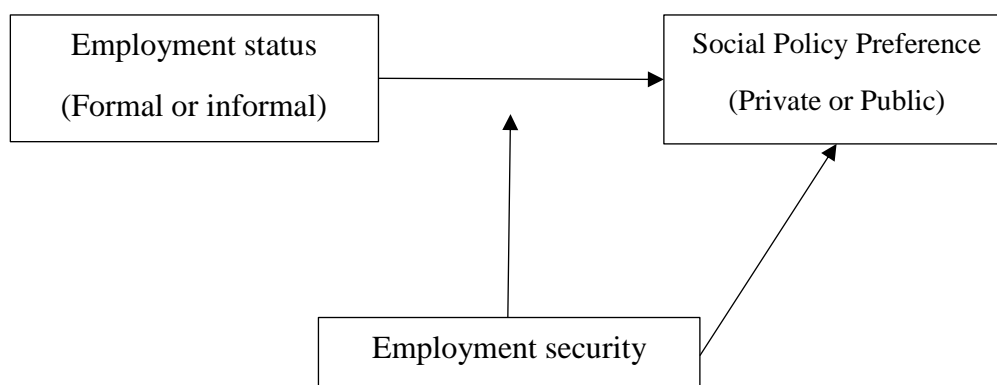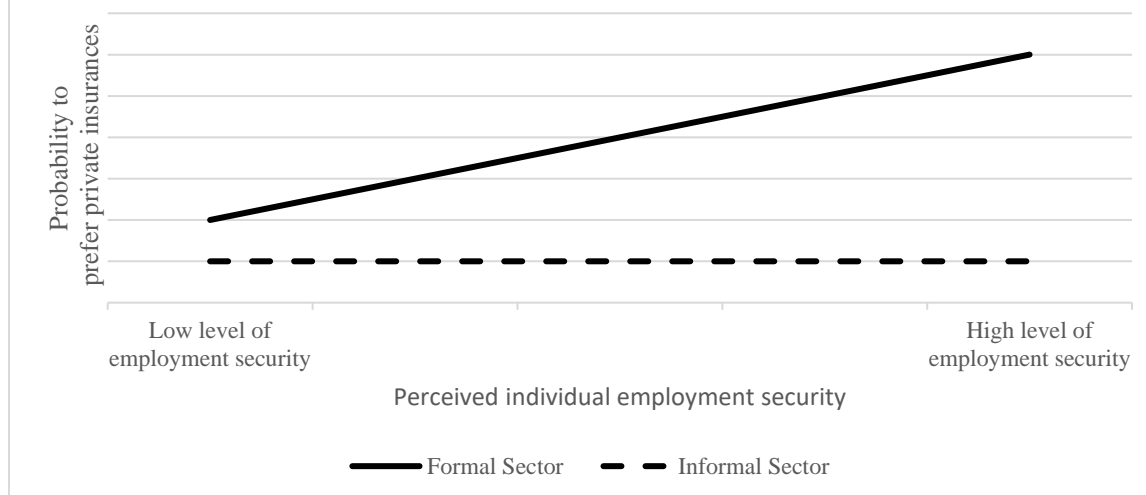
Figure 5: Causal mechanism

Figure 6:
Social Policy Preferences of formal sector workers
depending on the perceived individual employment security

Although *hypothesis 4* claims that social policy preferences are affected by the rational evaluations on an individual level, it provides insights about solidarity on a macro-level. This approach corresponds with Baldwin's (1990) conception of social solidarity. Baldwin (1990) referred to the importance of the social solidarity between classes. Although he acknowledges that social policy preferences often correspond to class positions, he indicates that welfare attitudes can be determined by two additional factors: employment security (the risk to lose a job) and "capacity of a group for self-reliance". Accordingly, groups of high risk and low capacity for self-reliance are expected to favor redistributive forms of insurance, whereas groups of low risk and high capacity of self-reliance favor policies with a narrower scope (Carnes and Mares 2009, p. 10).

In the case of Latin American welfare states, the employment security of formal sector workers determines if *cross-sector alliances* are formed. A cross-sector alliance is based on the mutual understanding for the reliance on publicly provided welfare service. Therefore, Berens (2015) introduces the concept of *calculated solidarity*. The occupational uncertainty of formal sector workers results into a rationally calculated solidarity with the informal sector, since public benefits can be enjoyed if formal sector workers are immediately affected by job loss and potential engagement in the informal sector. In the case of *hypothesis 4*, the formal sector forms a cross-sector alliance with the informal sector, accepts redistributive measures of public social policies and tolerates freeriding effects of non-contributing citizens.

4. Methodological framework

4.1. Data and operationalization of the variables

The majority of the data is obtained from Latinobarómetro 2008. The decision to choose the data from the year 2008 is motivated by two aspects. First, the 2008 dataset includes specific questions about the employment status. Second, the data provide information about public-private preferences in health care. The dataset includes 18 Latin American countries. Costa Rica, EL Salvador, Guatemala, Honduras, Mexico, Nicaragua and Panama account for the Central American countries, whereas the Dominican Republic complements the data as a Caribbean country. The countries from the Southern American continent include Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay and Venezuela. In total, the dataset offers 19,105 questioned participants as units of analysis. The other source of data is the publication *"Health Situation in the Americas Basic - Indicators 2008"* by the Pan American Health Organization (PAHO). The PAHO is a regional office of the World Health Organization. Their data provide information about the national health expenditure as a percentage of GDP in Northern, Central and Southern America and the Caribbean, which captures the size of the national public welfare programs.

The dependent variable of this thesis is the individual social policy preference. Central to this concept is the respondent's opinion on whether welfare services should be the responsibility of private or public entities. I draw my data from the Latinobarómetro surveys of 2008 and focus on social policy preferences for the healthcare sector. Within the survey, Question p93st_a asks: "Health should mostly be in the hands of State /Private companies". Therefore, I code my dependent variable as a binary, categorical variable. Respondents who prefer private companies as health care providers are coded as the value 1, whereas respondents who claim that health care should be in the hand of the state are coded as 0.

The key independent variable of *hypothesis 2, 3a, 3b and 4* consists of the respondent's employment status. In this case, the employment status does not imply employment or unemployment but being part formal or informal sector. The Latinobarómetro of 2008 is asking in question s17a: "What is current employment situation?" The following question s18 is categorizing the "Respondent kind of work". I will merge the answer categories of self-employment (including professionals, business owner, farmer and fisherman) and salaried employment (including professionals, senior management, middle management) as the formal sector. The informal sector will be coded of respondents specifying to be "self-employed –

informal". According to this insider/outsider dichotomy, my independent variable will be designed as a binary, categorical variable. Formal sector workers are coded with the value 1, whereas informal workers are coded with the value 0. Unemployed respondents are coded as missing.

The institutional design of a country's welfare system, operationalized by the degree of privatization, is the independent variable of *hypothesis 1* and the moderating variable according to *hypothesis 3a* and *hypothesis 3b*. In the case of health care, the degree of privatization is calculated by obtaining data from the PAHO basic indicators. The PAHO data presents the national health expenditure as a percentage of GDP, comparing public with private spending. The degree of privatization is deduced from the share of private spending of the overall health expenditure. Hence, a ratio scale is constructed reflecting the percentage of private health spending within a country.

Employment security is the moderating variable of *hypothesis 4*. The Latinobarómetro of 2008 is asking in question s1: "How concerned would you say you are that you will be left without work or unemployed during the next 12 months or you don´t have job?". However, the data has to be edited significantly in order to use it for analysis. First, respondents who refuse to answer are coded as missing. Secondly, respondents who state that they "do not have a job" are coded as missing. This traces back to the fact that they are coded with the value 5 in original dataset. Since increasing values imply a higher level of employment security, they would distort the estimation and would make a theoretical interpretation difficult. Eventually, 10.574 respondents are left who estimate their employment security on a scale where 1 is *very concerned* and 4 is *not at all concerned*.

4.2.   Control variables

In order to estimate the social policy preferences of formal and informal sector workers it is necessary to include several control variables into the analysis. There are two ways to include control variables. First, confounding variables ensure that the causal effect between two variables is not interfered by other factors. Controlling for those confounders is especially recommended when they have a causal effect on the independent *and* the dependent variable. Second, control variables that have an essential explanatory power for the dependent variable

can increase the statistical efficiency of the analysis. Those control variables have the potential to reduce the residual variance and the standard error of the treatment effect.

Hypothesis 1 is analysing the effect of a macro-level phenomenon (the degree of privatization) on a micro-level phenomenon (social security preferences). For the first model of this hypothesis, only confounding variables are included. Micro-level factors are not expected to have a confounding effect since there is no sign of evidence they may causally affect the dependent variable degree of privatization. However, several control variables on the macro-level are included as confounding variables. The literature suggests that a low level of state capacity increases the likelihood for citizens to prefer private insurances (see also Carnes and Mares 2009, Carnes and Mares 2016). Citizens might prefer public insurances until the state capacity decreases through economic or political turbulences. In this case, citizens are prone to look for alternatives in the private sector. Therefore, state capacity indicators like the national *level of corruption* and the *rule of law* performance are included.

The Transparency International Corruption Perceptions Index (CPI) measures the perceived levels of public-sector corruption in a given country and is a composite index, drawing on different expert and business surveys (Transparency International 2008). The CPI is organized by a scale judging national corruption performances from zero (highly corrupt) to ten (highly clean). The control variable rule of law is operationalized by drawing data from the World Bank. According to the World Bank, Rule of Law captures perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence (World Bank 2018). The measurement for rule of law reaches from 0 (low performance) to 5 (high performance).

Since Carnes and Mares (2009) argue that citizens in comparatively less developed countries cannot rely on publicly organized social security systems and might opt out to private insurances, it is necessary to control for macro-economic indicators. In this case, I will include the national GDP per capita score and the Gini coefficient. The data for the GDP per capita score is obtained from the World Bank. Since the data of GDP per capita implies a problematic distribution, the literature suggests transforming the variable into a logarithmic variable (see Olivier and Norberg 2010). The data for the Gini coefficient is provided by Solt (2016).

The second model of *hypothesis 1* is including several micro-level control variables that affect the dependent variable social policy preferences. The data for the operationalization of these individual-level controls comes from the Latinobarómetro 2008. Two factors which affect the social policy preferences are the *political ideology* and the *socio-economic level*. Political ideology provides necessary information about social policy preferences. As the power resource literature suggests, individuals supporting left or labour parties are more likely to support public insurances (see also Huber et al. 1993). Latinobarómetro 2008 measures political ideology by asking respondents to place themselves on a scale where 0 is left and 10 is right. The *socioeconomic level* is another determinant which affects the social policy preferences significantly. According to the literature, private insurances are a particularly attractive for relatively wealthier groups since they often entail better and more exclusive services and avoid public redistribution (see also Carnes and Mares 2012, Carnes and Mares 2016). In contrast to that, individuals in precarious socioeconomic situations do not often have the resources to afford private insurances and have to rely on publicly provided services. In order to determine the socioeconomic situation of each survey participant, this thesis uses question S26. Question S26 is the assessment of the interviewee's socioeconomic level. The interviewer takes the quality of the dwelling, the furniture and the interviewee's general appearance as a reference to estimate her socioeconomic situation.

Hypothesis 2, 3 and *4* are exploring causal effects on the micro-level. They examine how the employment status affect social policy preferences. Besides the political ideology and the socioeconomic level, it is necessary to include further micro-level control variables that might affect the employment status *as well as* the individual social policy preferences. For those hypotheses, typical control variables like *age*, *sex* and *years of education* are included. The information of gender is quite important since the literature states that women are especially disadvantaged in Latin American labour markets. They have more breaks in their work lives, are more likely to work in the informal sector and are earning less than men both in the formal and informal sector (Huber and Bogliaccini 2010, p. 5).

In the analysis, I will estimate three different models for *hypothesis 2*, *3* and *4*. The fist models will estimate the baseline effect by simply regressing the independent on the dependent variable. The second models will include the individual-level control variables. The third models will combine micro-level and macro-level control variables. In the case of these hypotheses this refers to the macro-level variables GDP per capita and the Gini coefficient.

4.3. Model

Two aspects are determining the methodological approach of my model. First, hypothesis 3a, 3b and hypothesis 4 are formulated with a moderating variable. This implies that interaction term between the independent variable X and moderating variable Z has to be considered. The second aspect refers to the fact that individual-level interactions are affected by country-specific factors on the macro-levels. Since country-specific factors matter empirically and theoretically for the social policy preferences of formal and informal sector workers, a mixed-effects multi-level model accounts for cross-country variation.

Hypothesis 3a and 3b are treating institutional characteristics, measured by the degree of privatization, as a moderating variable to explain the social policy preferences of formal and informal sector workers. This assumption corresponds to Brambor et al. (2006) who imply that the relationship between political inputs and outcomes varies depending on the institutional context. Hypothesis 4 is also characterized by a moderating variable, namely the level of individual perceived employment security. However, this moderating variable is not revealing institutional characteristics but individual-level information. Hypothesis 3a, 3b and hypothesis 4 are conditional hypotheses. A conditional hypothesis is simply one in which a relationship between two or more variables depends on the value of one or more other variables (Brambor et al 2006, p. 64).

In the case of this thesis the dependent variable (Y) is *social policy preference*, the independent variable (X) is the *employment status* and the moderating variables (Z) are the *degree of privatization* and the perceived level of *employment security*. Brambor et al. (2006) further describe conditional hypotheses as that an increase in X is associated with an increase in Y when condition Z is met, but not when condition Z is absent. However, this analysis rather expects that the effect of X and Y depends on Y in a sense that the slope for the effect of X changes at differ levels of Z. The model is specified in *Equation 1* which illustrates an interaction term XZ.

Equation 1: $\qquad Y = \beta_0 + \beta_1 X + \beta_2 Z + \beta_3 XZ + \varepsilon$

Therefore, I have the following implications for this analysis. The effect of the employment status on social policy preferences depends on the degree of privatization as well as on the perceived level of employment security. In the case of *hypothesis 3a* and *3b*, I expect that the effect of the employment status (formal or informal) on social policy preferences differs at

different degrees of privatization. Thereby, formal sector workers are expected to be significantly affected by the degree of privatization, whereas informal sector workers are not expected to adjust their preferences. The same assumptions hold for hypothesis 4 in the case of employment security.

Since my dependent variable is binary and categorical, logistic regression models are the appropriate method. Logit models predict the log-odds that the outcome variable equals zero instead of one (Sommet and Morselli 2017, p. 205). However, my theoretical assumptions and the structure of my data do not allow a standard logistic regression analysis. The clustered structure of individuals within their countries violates the assumption of independence of the residuals (see also Bressoux 2010). The clustered structure of my data dictates a mixed-effects logistic regression model (see *Equation 2*).

Equation 2: $Logit\ (odds) \ = \ \beta_{00} + (\beta_{10} + u_{1j}) \times x_{ij} + u_{0j}$

The fixed slope of β_{10} is the general effect of the micro (individual) level variable x_{ij}. In this case it provides information if formal sector workers are more likely (or how big their log odds are) to prefer private insurances compared to informal sector workers.[5] In this sense, the term x_{ij} is revealing the overall effect on the individual level across all countries. However, the basic assumption of all hypotheses is that it matters in which country the formal or informal sector worker lives. The effect of the employment status on social policy preferences is expected to vary across countries. This traces back to my expectation that the national degree of privatization is affecting individual preferences of formal and informal sector workers. Therefore, the residual u_{0j} demonstrates how much this effect varies across countries.

5. Analysis

The empirical analysis of this thesis starts by presenting descriptive statistics. *Graph 1* shows a scatter plot that refers to *hypothesis 1*: positive feedback effects of the degree of privatization in health care on individual social policy preferences. The y-axis illustrates the mean (or average) scores of social policy preferences among the 18 Latin American countries of the analysis, whereas the x-axis depicts the degree of health privatization.

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[5] Assuming an informal sector worker (coded 0) an increase of one unit would imply changing towards a formal sector worker (coded 1). In other words: the effects of formal sector workers (X=1) compared to their reference category from the informal sector (X=0). Furthermore, preferring public insurances is coded by 0, whereas preferring private insurances is coded with 1.

Several country cases fit to the causal expectation of *hypothesis 1[6]*. Countries like the Dominican Republic and Ecuador which feature the highest levels of health privatization demonstrate high average scores in preferring private insurances. However, it is possible to observe several outliers at first glance. This refers in particular to Bolivia which is characterized by the lowest degree of privatization in health among all countries but shows a comparatively high average score for private preferences. Another outlier is Peru which ranks among the middle field in terms of health privatization but demonstrates the second highest average score to prefer private insurances. Although these outliers may have the potential to distort the causal prediction of *hypothesis 1*, they might fit to the expectations of *hypothesis 3b*. This hypothesis claims that institutional factors cause negative feedback effects on the social policy preferences of formal sector workers. Accordingly, formal sector workers are more likely to prefer private insurances in countries with low levels of privatization and mainly publicly organized welfare systems.

Graph 3

(mean) privhe

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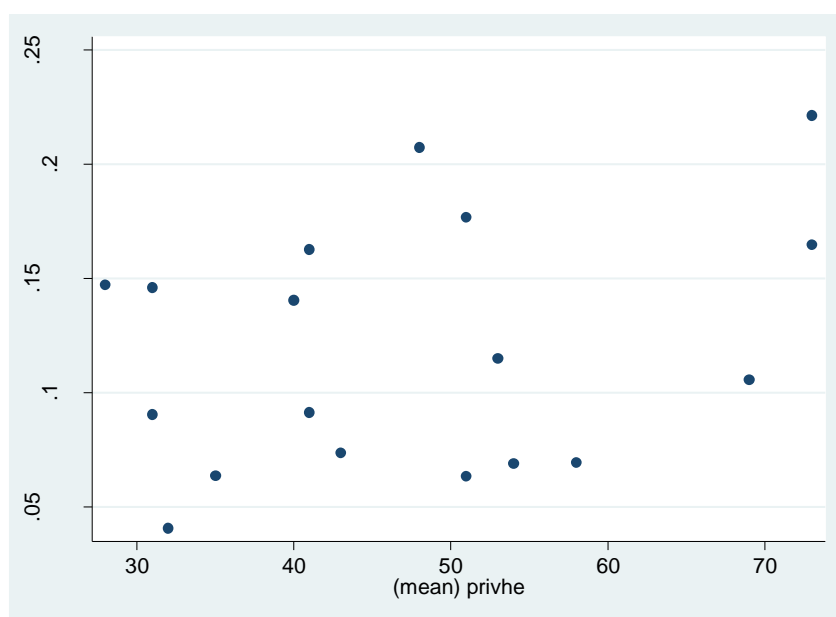
[6] The degree of health privatization for each country can be found in the Appendix.

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Whereas the descriptive illustration of the scatter plot is able to indicate the causal relation of hypothesis 1, the mixed-effects logistic regression model can provide further empirical insights. The empirical results of *hypothesis 1* and *hypothesis 2* are illustrated in *Table 1*.

In *Table 1*, the baseline *model 1* is regressing the degree of health privatization on social policy preferences. The model demonstrates significant empirical results that support the causal assumptions of hypothesis 1. However, the results should be interpreted with caution since they do not include important control variables. *Model 2* is testing hypothesis 1 by including the relevant confounding variables on the macro level. By controlling for the level of national corruption, the rule of law performance, the GDP per capita score and the Gini coefficient, the effect of the degree of health privatization becomes insignificant. Model 3 is including micro-level control variables that have an effect on the outcome.

Micro-level factors like age, sex, education significantly affect the possibility to be employed in the informal or formal sector, whereas the socioeconomic level and the political ideology influence social policy preferences. In this case, too, the results indicate no empirical significance for the effect of the degree of privatization on social policy preferences. Therefore, *hypothesis 1* cannot be confirmed.

Model 4 is illustrating the empirical results of *hypothesis 2*. It is also a baseline model by simply testing the effect of the employment status on social policy preferences. However, the empirical results do not show a significant effect. This also applies for *model 5* which is including micro-level control variables and *model 6* which is combining micro-level and macro-level control variables. Therefore, hypothesis cannot be confirmed. The empirical do not results indicate that formal sector workers are more likely to prefer private insurances.

Table 1

	(1) Social policy preferences	(2) Social policy preferences	(3) Social policy preferences	(4) Social policy preferences	(5) Social policy preferences	(6) Social policy preferences
Degree of privatization health	0.0105***	0.0120	0.0127			
	(0.00158)	(0.00825)	(0.00822)			
Level of national Corruption		0.364	0.390			
		(0.203)	(0.202)			
Rule of Law Performance		-0.797	-0.896*			
		(0.430)	(0.429)			
Log GDP per capita		0.297	0.271			0.135
		(0.198)	(0.198)			(0.201)
Gini Coefficient		0.00608	0.00637			0.00528
		(0.00357)	(0.00355)			(0.00384)
Left/right ideology			0.0384***		0.0672***	0.0668***
			(0.0100)		(0.0132)	(0.0132)
Socioeconomic Level			-0.185***		-0.163***	-0.163***
			(0.0286)		(0.0408)	(0.0408)
Employment Status				-0.0459	-0.0353	-0.0350

	(1)	(2)	(3)	(4)	(5)	(6)
				(0.0632)	(0.0715)	(0.0715)
Age					-0.00958***	-0.00959***
					(0.00246)	(0.00246)
Sex					-0.0215	-0.0212
					(0.0662)	(0.0662)
Education					0.0588**	0.0583**
					(0.0214)	(0.0215)
Constant	-2.491***	-7.706**	-7.202**	-1.927***	-1.763***	-5.346
	(0.0798)	(2.644)	(2.636)	(0.0527)	(0.265)	(2.836)
var(_cons[idenpa])						
Constant		0.179**	0.175**		0.271**	0.241**
		(0.0636)	(0.0634)		(0.0982)	(0.0885)
Observations	19105	19105	15766	10934	9218	9218

Standard errors in parentheses
$^{*}\ p < 0.05$, $^{**}\ p < 0.01$, $^{***}\ p < 0.001$

The analysis of *hypothesis 3a* and *hypothesis 3b* also starts with descriptive statistics. *Table 2* shows the social policy preferences of formal and informal sector workers in absolute numbers and percentages. From my theoretical assumptions it is somewhat unexpected that both formal and informal sector workers constitute almost equally high levels in preferring public insurances. Compared with informal sector workers who are expected to prefer public insurances, hypothesis 2b suggests that formal sector workers are more likely to consider private alternatives. However, *Table 2* demonstrates that there is actually a significant majority among formal sector workers that prefers public insurances.

Table 2

Employment status	Social policy preferences		Total
	Public insurances	Private insurances	
Informal sector	2,837	413	3,250
	(87.29 %)	(12.71 %)	(100.00 %)
Formal sector	6,746	938	7,684
	(87.79 %)	(12.21 %)	(100.00 %)
Total	9,583	1,351	10,934
	(87.64 %)	(12.36 %)	(100.00 %)

Table 2 cannot illustrate a comprehensive empirical analysis of *hypothesis 3a* and *hypothesis 3b*. This refers especially to the causal construct of these hypotheses that the degree of privatization is included as a moderating variable. Therefore, the fist model of *Table 3* will present a mixed-effects logistic regression model with a multivariate interaction term in order to analyze *hypothesis 3a* and *hypothesis 3b*. A significant aspect of this model is the interaction effect (XZ) between the employment status (X) and the degree of privatization (Z). *Table 3* is also showing the empirical results of *hypothesis 4* that includes employment security as a moderating variable.

The results indicate that there is no empirical evidence for the theoretical expectations of the *hypotheses 3a* and *3b*. According to *hypothesis 3a*, the social policy preferences of informal

sector workers are not expected to be affected by the degree of privatization. Instead they are expected to prefer public insurances no matter the institutional circumstances. The results of the first interaction term are investigating the effect of the degree of privatization on informal sector workers (X=0). There is no statistical significance found in the baseline *model 1*, neither in the *model 2* which includes micro-level control variables such as age, sex, political ideology, education and the socioeconomic level. The empirical evidence can also not confirm the expected evidence in *model 3* which combines micro-level and macro-level controls. Therefore, I cannot conclude if informal sector workers are unaffected by the degree of privatization in their social policy preferences.

Hypothesis 3b expects that institutional factors cause negative feedback effects for the social policy preferences of formal sector workers. The lower the degree of privatization, the more likely formal sector workers prefer private insurances. The empirical results do not imply a statistical significance for the effect of the degree of privatization on the social policy preferences of formal sector workers. The interaction terms illustrating the moderating effect between formal sector workers (X=1) and the degree of privatization is not demonstrating significant evidence in all models. This applies to the baseline *model 1*, *model 2* which includes micro-level controls and *model 3* which combines micro-level and macro-level controls.

Table 3

	(1) Social policy preferences	(2) Social policy preferences	(3) Social policy preferences	(4) Social policy preferences	(5) Social policy preferences	(6) Social policy preferences
Employment Status =0[a] * Degree of privatization health	0.00464	0.00678	0.00689			
	(0.00358)	(0.00941)	(0.00929)			
Employment Status =1[b]	-0.337	-0.263	-0.267	0.0271	0.0672	0.0670
	(0.224)	(0.240)	(0.240)	(0.139)	(0.153)	(0.153)
Employment Status =1[b] * Degree of privatization health	0.00625	0.00465	0.00474			
	(0.00437)	(0.00469)	(0.00469)			
Age		-0.00948***	-0.00951***		-0.00946***	-0.00948***
		(0.00246)	(0.00246)		(0.00251)	(0.00251)
Sex		-0.0215	-0.0213		-0.00389	-0.00354
		(0.0662)	(0.0662)		(0.0672)	(0.0672)
Left/right ideology		0.0670***	0.0667***		0.0674***	0.0670***
		(0.0132)	(0.0132)		(0.0134)	(0.0134)
Education		0.0609**	0.0600**		0.0570**	0.0564**
		(0.0215)	(0.0215)		(0.0217)	(0.0217)

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	(1)	(2)	(3)	(4)	(5)	(6)
Socioeconomic Level		-0.162***	-0.161***		-0.157***	-0.156***
		(0.0407)	(0.0407)		(0.0413)	(0.0413)
Log GDP per capita			0.190			0.141
			(0.199)			(0.201)
Gini Coefficient			0.00483			0.00542
			(0.00372)			(0.00382)
Employment Status =0[a] * Employment Security				0.0367	0.0215	0.0224
				(0.0510)	(0.0569)	(0.0569)
Employment Status =1[b] * Employment Security				-0.0261	-0.0416	-0.0414
				(0.0605)	(0.0666)	(0.0666)
Constant	-2.155***	-2.092***	-5.933*	-2.002***	-1.850***	-5.550*
	(0.184)	(0.524)	(2.798)	(0.116)	(0.292)	(2.830)
var(_cons[idenpa])						
Constant		0.250**	0.221**		0.269**	0.237**
		(0.0913)	(0.0819)		(0.0976)	(0.0874)
Observations	10934	9218	9218	10574	8939	8939

Standard errors in parentheses

* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

[a] Reference category informal sector employment

[b] Reference category formal sector employment

Based on *model* 3 of *Table 3*, *Graph 2* illustrates the marginal effects of *hypothesis 3*. The graph shows the conditional marginal effects between the independent variable and the dependent variable at different levels of the moderating variable. Thus, the y-axis demonstrates the effects of the employment status on the social preferences, whereas the x-axis reflects different levels of the degree of privatization. At the approximate level 55 of the degree of privatization, the slope goes into the somewhat unpredicted direction of hypothesis 3b and constitutes positive effects. According to theory of *hypothesis 3b*, I expect that negative feedback effects would cause that formal sector workers are less likely to prefer private insurances in a highly privatized health care system.

However, there are several aspects to consider by interpreting this graph. Although the marginal effects appear to increase, the levels of privatization that might have a positive effect constitute wide confidence intervals that also reach below zero. This span over zero implies that there is a high uncertainty that the effect is positive or negative. The confidence intervals are especially wide at very high levels of health privatization. Extreme levels of privatization represent huge confidence intervals since there are no or few cases that might give empirical evidence. In general, the statistical uncertainty of this graph makes it almost impossible to draw conclusions for the hypothesis. This is in accordance to the insignificant findings of hypothesis 3a and 3b in *Table 3*.

Graph 2

Average Marginal Effects of 1.empstat with 95% CIs
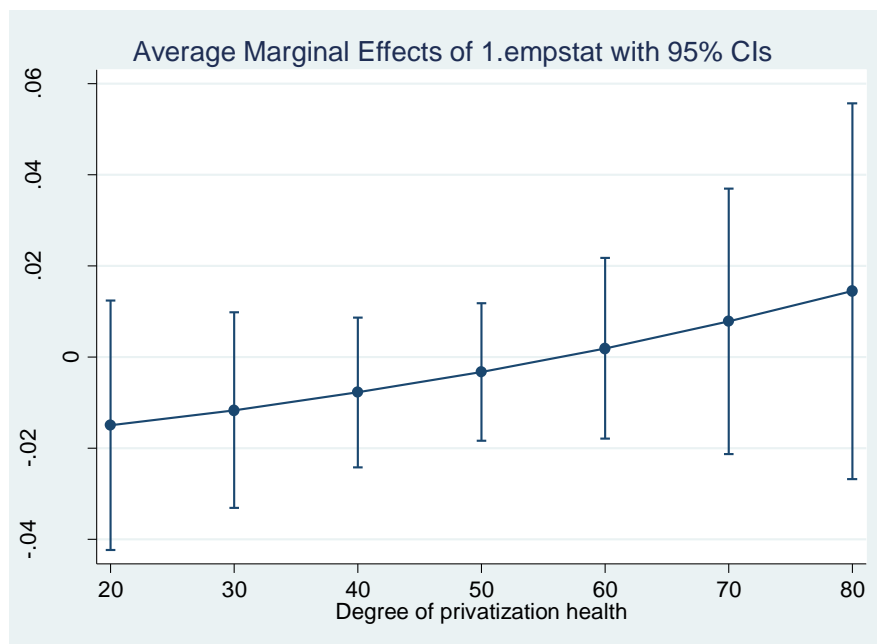
The results of the last three models in *Table 3* demonstrate that the interaction terms between employment status and employment security lack statistical significance. This is especially important for the interaction term of formal sector workers (X=1) and employment security. It implies for *hypothesis 3*, that there is no empirical evidence that employment security affects the social policy preferences of formal sector workers. This conclusion also applies to the investigation of the marginal effects of the last model. The y-axis illustrates the effect of the employment status on the social preferences, whereas the x-axis reflects different levels of employment security. Although the marginal effects present a negative slope which contradicts the causal expectation of the hypothesis, the confidence intervals cannot provide significant and reliable results. This is based on the fact that the confidence intervals cover areas over and under zero.

Graph 3
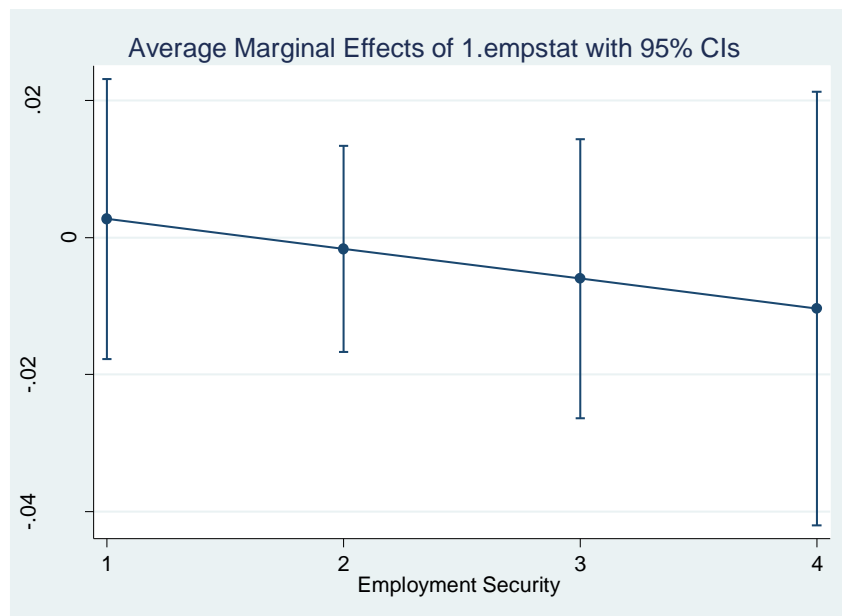
6. Discussion

There are two approaches that can explain the occurrence of the insignificant empirical results. The first approach refers to the lack of data especially on the country-cluster level. Insufficient country units on the macro level reduces the statistical power by increasing the Type I error and the probability to detect the false effect in multi-level modelling (Sommet and Morselli 2017, p. 207). Throughout the literature, several scholars suggest a minimum number of units on the macro level to accurately estimate the standard errors of the analysis. Paccagnella (2011) argues that that multi-level models should include a minimum of 50 macro-level units, whereas Schoeneberger's (2016) suggestions vary between a minimum of 40 to 80 macro-level units depending on the intercept variance. However, Latin America is a continent with a very limited number of countries. Including countries from other regions would increase the macro-level sample size but complicate the theoretical interpretation of the empirical results.

The second approach to explain the statistical insignificance is the critical reflection of my theoretical assumptions. My first theoretical assumptions expected that institution factors affect individual social policy preferences. This refers to the literature of institutionalism which argues that previously established policies affect the behavior, attitudes and preferences of individuals through feedback effects. Positive feedback effects suggest that individuals adapt to and support previously established policies. Hence, I hypothesized that a degree of privatization in health care would increase the probability for individuals to prefer private insurances. *Hypothesis 3b* assumed that institutional factors cause negative feedback effects for the social policy preferences of formal sector workers. The lower the degree of privatization, the more likely formal sector workers prefer private insurances. In other words, the higher the degree of publicly organized welfare systems, the more likely formal sector workers prefer private insurances.

The existence of positive or negative feedback effects could not be confirmed in the empirical analysis. Highly privatized health care systems apparently do not demonstrate higher levels of preferences for private providers. Furthermore, there was no empirical evidence that formal sector workers rather prefer private insurances in health care systems that are mainly organized by the state. Although the empirical findings are mainly insignificant, they have the potential to contribute to the literature of policy feedback effects by referring to the problem of endogeneity. The problem of endogeneity implies the uncertainty if policy preferences result from policies or if preferences affect policies.

The mainstream literature has mainly focused on comparatively wealthier regions and how policy feedbacks and the problem of endogeneity arises in domestic processes. Domestic processes refer to the fact that policies are mainly introduced political elites while citizens can express their preferences through elections. However, many policy shifts in Latin American welfare states were promoted by external actors like the International Financial Institutions (IFIs). On the one hand, their involvement implies that domestic policy makers and their constituency are not the only relevant actors for the introduction of policies. On the other hand, the empirical evidence of this thesis suggests that institutional factors apparently do not affect the social policy preferences of informal and formal sector workers. It raises the question if exogenously promoted policies cause feedback effects after all. If external actors instead of public preferences affect public policy making and established policies do not influence individual preferences, the issue of endogeneity has to be reevaluated.

At this point, this thesis refers to its limitations. It cannot provide further insight how the causal mechanisms of exogenously promoted policies affect individual preferences compared to domestic policy decision-making. This refers in particular to the question if policy feedback mechanisms occur differently. Possible mechanisms that could explain different feedback effects might refer to the issue of political salience and accountability. If social policies are salient issues in a domestic election process it might be more likely that negative or positive feedback arise. Citizens can form their opinions and shape their preferences if the social policies are salient issues that are expressed by political actors. In terms of accountability, citizens can reward or punish domestic actors like governments and parties for the introduction of certain policies through democratic elections. In contrast, exogenously promoted policies might not entail that citizens get informed and form an opinion about them. Furthermore, citizens might not have the possibility to hold external actors like the World Bank accountable for policy reforms.

Another possible explanation for the insignificant empirical results could imply that policy feedback mechanisms on individual preferences heavily depend on the specific design of a policy. Campbell (2012) argued that the design of a policies could determine if positive or negative feedback effects arise. Are effective designs of public policies causing positive feedback effects in the individual preferences whereas ineffective and unpopular designs evoke negative feedback effects? Several factors like the administrative design, the visibility of the

program and the size and duration of benefits affect the success and failure of social policies and therefore influence how individuals form their preferences (see also Campbell 2012).

Graph 1 demonstrates that while several countries fit to the theoretical expectations of positive feedback effects, many countries constitute outliers. As I have mentioned before, especially Bolivia and Peru exhibit high average scores of private preferences compared to their level of privatization. Further research should examine those outliers within case studies. Case study research can approach individual social policy preferences more policy specific. This means that a case study can examine how a certain policy design within a country affect individual preferences and the public opinion. How should a social policy designed to be effective and considered successful among informal and formal workers? By examining the effect of social policy designs on individual preferences in country-specific case studies, scholars could increase the internal validity of their research. The price they pay is giving up the potential for external validity of comparative studies.

7. Conclusion

This thesis intended to synthesize theoretical arguments and empirical findings from various strands of welfare research and apply them to the Latin American context.

From an institutional perspective, I tried to analyze how previously established social policies cause feedback effects on individual preferences. Latin American welfare states experienced several major social policy shifts that were often initiated by external actors like the International Financial Institutions (IFIs). Especially in the 1990s those IFIs encouraged governments throughout the region to promote the privatization of welfare services and social security policies. Therefore, I tested how the degree of privatization as an institutional trademark affects the public-private preferences of citizens.

From a rational choice perspective, I investigated how the collective action problem of the Latin American welfare states affects individual social policy preferences. Latin American welfare states have always been challenged and characterized by the large size of the informal sector. Since the ratio of non-contributing informal sector workers is comparatively high, the social policy preferences of the contributing formal sector are especially interesting. Therefore, I examined the rationally calculated social policy preferences of formal sector workers who might consider private providers if the redistributive measures of public insurances are too costly.

The empirical results could not confirm the institutional theoretical expectations. This raises a central question that contributes to the understanding of policy feedback mechanisms. Are exogenously promoted policies breaking the issue of endogeneity? The fact that I could not find evidence for negative or positive feedback mechanisms implies that policies, if they are promoted exogenously, do not necessarily affect policy preferences. Vice versa, the reoccurring involvement of external actors entails that citizens and their public preferences are not the only decisive actors in the social policy decision-making.

Further research can shed further light how the influence of International Financial Institutions on social policy making in Latin America has developed over time. This refers in particular to the perspective that considers external and domestic actors as competing forces for the power to introduce public policies. The literature emphasizes that the IFIs had significant influence in the 1990s by promoting the privatization of social welfare. With the beginning of the 2000s, several left governments were elected into office in Latin America and introduced publicly organized welfare programs (see Huber and Bogliaccini 2010). Furthermore, the region experienced a wave of reversing privatization in these years. These developments suggest that the influence of the IFIs decreased in the new millennium.

I conclude my Master thesis with the following remarks. Welfare states in Latin America face the enormous challenge to provide social security for a large share of the population which lives in precarious socioeconomic conditions. Meanwhile, the share of the population that can afford to contribute to the welfare system is comparatively small. External actors from International Financial Institutions and domestic policy makers have to decide on and introduce adequate welfare designs that cover contributing and non-contributing citizens.

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9. Appendix

#	Country	Degree of health privatization (in %)
1	Argentina	41,0
2	Bolivia	27,6
3	Brazil	51,4
4	Chile	35,0
5	Colombia	41,4
6	Costa Rica	40,0
7	Dominican Republic	72,7
8	Ecuador	73,5
9	El Salvador	51,3
10	Guatemala	68,6
11	Honduras	42,6
12	Mexico	52,9
13	Nicaragua	53,9
14	Panama	31,7
15	Paraguay	58,0
16	Peru	47,7
17	Uruguay	30,7
18	Venezuela	31,3