

Pre-Analysis Plan: The Wall and the Welfare State

How changes in trade interdependency between the U.S. and Mexico affect risk perception and individual social policy preferences

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Abstract

We promote the argument that countries' economic structural interdependence based on trade relationships influence individual preferences for social policy programs. When a central trading partner raises barriers in the form of increased tolls and tariffs it will increase the perception of labor market vulnerability and economic risk. Subsequently, increased risk perception should fuel different demands for different types of social policy reforms. Labor market segmentation into formal and informal workers thereby moderates the impact of risk. Our analysis contains two steps: the impact of changing trade relationships on individual economic risk perception, and, subsequently, the effect of risk on social policy preferences. To investigate the first part of the argument, we use a vignette experiment that primes individuals about hazards of changes in current trade relationships between Mexico and the U.S.. Next, we analyze how risk perception influences social policy preferences and how far different redistribution coalitions arise. As workers embedded in notoriously permeable labor markets not only frequently switch the sector of employment, but also share households with a spouse who works e. g. in the informal sector, social policy preferences cannot be simply derived from income level. Using a conjoint experiment that models the trade-off between different social policies and different degrees of *scope*, *level*, and *who pays for it*, allows to study the effect of increased risk perception and employment sector on policy preferences in a more nuanced way. We study our argument with an experimental survey for the case of Mexico in 2018.

Keywords: social policy preferences · trade · globalization · informal sector · survey experiment · Mexico

JEL classification: O170 · H4 · O54 · E2 ·

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1 Introduction

In times of international market integration and global trade, welfare states not only respond to domestic challenges but most likely, also to up's and down's of economic trade interdependencies. Globalization and economic downturns increase individual economic uncertainty, as especially foreign direct investments raise volatility of wages and risks of unemployment (Scheve and Slaughter, 2004; Rudra, 2005). The compensation hypothesis, which can certainly be called a classic in the welfare state literature, promotes the argument that welfare state expansion directly follows from the need to compensate citizens for the newly emerging economic risks that follow from globalization (Cameron, 1978; Katzenstein, 1985). Researchers found ample evidence for the impact of economic uncertainty (also resulting from immigration) on social policy preferences that sustains the link (Walter, 2010; Marx, 2014; Brady and Finnigan, 2014). While the mode of compensation roughly applies to high-income states (even though also this argument is heavily challenged (e.g. Rehm, 2009)), low- and middle-income countries have much more limited means to follow such a counter-cyclical spending strategy (Wibbels, 2006) and struggle with reliability to provide, so that actual demand for redistribution varies (Mares, 2005). But how voters respond to globalization externalities, if objective risks are actually perceived as risks at the individual level, and how such macroeconomic interdependencies drip through the voter channel to welfare state reforms in low- and middle-income economies, where institutional capacities are more volatile and labor markets are divided into formal and informal employment, is still a slowly growing field of research.

In this project, we ask to what extent do trade interdependencies and globalization induced labor migration precipitate the formation of new redistribution coalitions in middle-income countries? What drives support for a more restrictive welfare state that excludes labor market outsiders such as the large share of informal workers? Do individuals demand compensation for increased economic risks and does this hold for formal and informal sector workers alike?

To shed light on this field of research, we conduct a survey experiment in Mexico in November 2018 in the aftermath of the presidential elections from July 2018. In this setting, voters are confronted with current developments in US international trade policy and a vivid discourse of an election in which social policy and trade policy issues played a particularly decisive role. With the electoral success of López Obrador (AMLO), the elections ushered in a watershed

in the Mexican political landscape that was historically dominated by the rule of the Partido Revolucionario Institucional (PRI). Obrador competed on a campaign that promised more encompassing social policy programs, to fight corruption and crime and to lift Mexicans out of poverty. Due to the strong trade-related interdependencies between the USA and Mexico, the subject of trade relations was highly salient in Mexican election campaigns in 2018. This enables us to analyze the influence of significant trade-political changes in the form of the, presumably, protectionist plans of the U.S. government under the Republican president Donald Trump on Mexican voters. In 2015, the volume of trade between the USA and Mexico amounted to roughly \$583.6 billion, making Mexico the U.S.'s third largest trade partner (*U.S. Trade Representative*, 2017). The economic relations between the U.S. and Mexico are of particular relevance as they present a case of strong economic interdependencies and also their common border and the high frequency of illegal migration contribute to putting social policy issues under pressure.

Social policy reforms are usually multidimensional, influencing level and scope and thereby becoming differently attractive for different types of workers. While formal sector workers, defined by the possession of a legally binding working contract and by making regular social security contributions, are natural labor market insiders and benefit from a contribution-based system, informal wage earners remain unprotected and excluded. Taking budget constraints seriously then means that an increase in one policy area – either in level or scope or both – might mean a reduction in another. Moreover, asking about support for an increase in e. g. public health care, is not very revealing when neglecting to define who exactly benefits from such a change and who loses. Understanding the particular structure of a social policy regarding who benefits, who pays and what will be done (increase, stick to the status quo or decrease) is key to gain a nuanced picture of the often overly simplified preferences on distributive politics.¹ Untangling this knot of social policy multidimensionality is one of the goals of this project. Next to the analysis of the impact of changing trade-relationships and development of labor migration as externalities of globalization on social policy preferences, we will therefore zoom in on social-policy trade-offs among individuals.

The survey will be fielded in November 2018 in two Mexican federal states (Puebla and Querétaro) on a random sample of approximately 1'400 respondents. The questionnaire includes a battery of items that allows to identify informal and formal sector workers and a set of

¹See Flores-Macías (2018) on the importance of design features on taxation for individual tax preferences.

observational items to study attitudes toward social policy and perceptions of economic vulnerability. We employ a vignette experiment to test the first part of the argument regarding the impact of trade related risks on individual vulnerability. Furthermore, we investigate the demand for welfare state programs (universal, contributory or needs-based benefits) with the use of a conjoint experiment (see Häusermann, Kurer and Traber, 2018, for the case of Switzerland). The conjoint design allows to directly study the trade-off between different program characteristics regarding policy reform options. Our work makes three contributions: First, we add to the discussion on “dualization and welfare statehood” in the industrialized nations with a better identification of formal and informal sector workers. Due to imprecise data, this has previously only been possible to a limited extent (cf. Carnes and Mares, 2013, 2014, 2015; Berens, 2015*a,b*; Rueda, Wibbels and Altamirano, 2015; Altamirano, 2016; Baker and Velasco-Guachalla, 2018). Second, we study policy-trade-offs with an experimental setting for a middle-income country, which is to our knowledge a novel contribution. By studying heterogeneous treatment effects, we explore the formation of redistributive coalitions needed in order to pursue substantial social policy reforms. Third, we investigate the impact of macro-economic dependencies on risk perception and preference formation with a causal identification. The data collection, thus, serves to answer the main research question through a set of analyses that are divided into sub-projects as presented below.

The pre-analysis plan will subsequently discuss the state of the art on social policy preferences in developing countries in section 2, introduce our theoretical argument and predictions in section 3, before moving on to an overview of the empirical setup in section 4. Section 4.2 discusses the power analysis. We introduce the conjoint and vignette items for the survey experiment in section 4.3. We conclude with the presentation of the generic estimation models in 4.6 that will be conducted in several sub-projects.

2 Literature review

The welfare state protects individuals from income loss and adverse life events such as sickness and age. Similar to Western Europe, several Latin American countries already introduced welfare policies in the early 20th century such as Argentina, Chile, Uruguay and Brazil (see Mesa-Lago, 1978; Huber and Stephens, 2012). However, generosity and scope remained narrow

so that access was only available for the elite such as public employees or the military. This era of increased integration into the world market during the first wave of globalization – especially through the export of raw materials and agricultural products – already showcases a relationship between the expansion of international trade and domestic social policy. In the countries pursuing Import-Substitution Industrialization (ISI) strategies, social policy was geared towards social protection in the form of social insurance rather than social assistance, with a subsequent emphasis on contribution-based rather than universal tax-financed benefits. This privileged the position of employees in the public sector and white-collar workers in the formal sector over the majority of unprotected workers in the informal economy (Perry et al., 2007). The ensuing high degree of inequality and the privileged position of “insiders”, who were highly protected through labor law, as opposed to the labor market outsiders (Collier and Collier, 2002; Carnes, 2014), became characteristic for Latin American countries. In contrast to the developed economies of Western Europe, the welfare state in Latin America did not emerge as a protective measure against increased economic competition and global trade (Rodrik, 1998), but rather under protectionist conditions (Wibbels and Ahlquist, 2011). Leaving the ISI path and engaging in international trade in the 80’s and 90’s, however, severely constrained social policymaking due to budget limitations and insufficient liability to borrow forced Latin American governments to follow procyclical spending strategies, that cut welfare programs in times of economic downturns (Wibbels, 2006). Responding to extreme rates of income inequality and poverty, that became highly visible in the 1990’s, the last decades have seen a massive expansion of conditional cash-transfer programs (De La O, 2015; Diaz-Cayeros, Estévez and Magaloni, 2016; Garay, 2016).

Social policy can be financed through different schemes: contribution-based (that is, payroll taxation), universal (general taxes) or means-tested (only those, who fulfill concretely defined criteria have access). Financing of social policy reforms therefore either rests on an increase of payroll deductions or general taxes. The tax mix in many low- and middle-income countries often highly relies on consumption taxes (value added taxation VAT, or sales taxes), which presents a higher tax burden for low-income earners (Wibbels and Arce, 2003; Goñi, Humberto López and Servén, 2011). Non-contributory social policies are usually financed through general taxes and the size of the benefit is rather low (Holland and Schneider, 2017). Carnes

and Mares (2014) argue that deindustrialization is part of the explanation of the increase in non-contributory programs, as changes in employment sectors increased pressure on social policy reform and paved the way toward expansion of non-contributory social policies. As more and more workers move into insecure employment and the informal sector, electoral coalitions changed toward a broad base of supporters for non-contributory programs. Also Garay (2016) finds increased inclusion of labor market outsiders as key factor that explains the expansion of conditional cash transfer programs. Coverage, therefore, strongly increased but the size and quality of protection is insufficient to change economic disparities in the region. As Holland and Schneider (2017) reveal, non-contributory programs only represent the ceiling of “easy redistribution”, while redistributive policies that would have more substantive effects, such as unemployment insurance or expansion of pensions, need electoral coalitions that are much harder to build, as they bring changes to the sensitive balance of who benefits and who pays. To add complexity to an already multidimensional issue, governments in the Latin American context also make strategic use of “informal welfare” (Holland and Schneider, 2017) by pursuing a strategy of non-enforcement that turns a blind eye on squatting or theft of public goods such as electricity (Holland, 2016). Undermining demand from this larger group of potentially key voter segments, that is, low wage laborers and unemployed, by the ‘provision’ of such *informal welfare*, thereby blocks welfare state expansion in terms of depth and scope through the electoral arena.

Labor market and welfare policies therefore go to some extent hand in hand, as both determine the level of risk that the individual encounters. Currently, unemployment insurance is basically non-existent in Latin America. The labor market instrument instead is severance pay and minimum wage, which have, however, very distinguishable effects on individual economic risk compared to unemployment insurance, as exigent work from labor economics has illustrated (Botero et al., 2004; Heckman and Pagés, 2000; Pagés and Stampini, 2009). Some of these instruments rather nourish the segmentation of the labor market into secure and non-secure workers (for a discussion see Berens and Kemmerling, 2018).

However, existing evidence on the effect of labor market status on social policy preferences are mixed. While the dualization literature that evolved in the high-income country context observes an insider-outsider dynamic in the field of social policies and electoral outcomes (Rueda,

2005, 2006; Emmenegger, 2009; Häusermann, 2006; Lindvall and Rueda, 2014; Schwander and Häusermann, 2013), such divisions are much less visible in the Latin American context (Berens, 2015*b*; Baker and Velasco-Guachalla, 2018). This might be due to shortcomings in empirical identification of informal sector workers, as the literature builds on the conventional cross-sectional survey data such as the Latinobarometer or the LAPOP. However, alternative, so far undetected mechanisms might be at work, that induce solidarity between employment sectors that are also highly permeable. In a study on cross-sectional survey data Berens (2015*a*) observes a negative effect of a growing informal sector on average generic support for public pensions and health care. A possible mechanism that explains this preference for ‘exclusion’ might be fear to overburden the public system through an increased inflow of outsiders who do not contribute to the system. Furthermore, Altamirano (2016) reveals that informal sector workers are more strongly targeted by clientelistic appeals, which might then mask their vested social policy needs and thereby presents a further explanation for stagnating welfare state expansion. But without being able to clearly identify the exact type of social policy voters prefer, we need to be careful to draw conclusions. Following the thoughtful account of Holland and Schneider (2017) on possible electoral coalitions in favor of substantive social policy change, we need better empirical instruments to understand coalition formation among voters in segmented labor markets that subsequently influence policy making through the electoral arena. More precisely, we need to understand how different types of workers, with different types of employment histories and future trajectories regarding experience with formal and informal labor, respond to heightened economic risk. It is therefore also foremost an empirical question what determines demand for which types (universal or contributory) of social policies among different types of workers and how these change in times of economic risks.

Thus, drawing upon the compensation hypothesis and findings from advanced industrial economies (Walter, 2010) or other world regions (see Lim and Burgoon, 2018, on Asia), empirical results are either mixed, difficult to transfer to a developing country context or overlook the Latin American region. In a compensation logic model we would expect that an increase in economic vulnerability raises demand for compensation through the welfare state. But, factoring in that many workers in low- and middle-income countries who are considered to be the most vulnerable – informal laborers – receive informal welfare, small transfers through non-

contributory programs and are generally more accustomed to search for private risk-hedging strategies by having lived in a residual-welfare regime throughout their lives, it is a much more complex equation to derive social policy preferences from.

3 Theory

The project investigates how far economic interdependencies in the form of trade relationships affect the development of national welfare states. Moving from the country-level to the micro-foundation, we argue that social policy preferences are a function of economic risk perception and that these economic risks are to some extent influenced through a country's economic dependencies. If trade relationships such as in the case of Mexico and the U.S., deteriorate, so that levels of exports and imports change, this will naturally influence both country's economies and labor markets. Our argument therefore contains two key chain elements: (1) The first chain expects fluctuations and shocks in a countries' trade relationships to affect individual risk calculations, and (2) the second, assumes that these elevated risk accounts subsequently increase or reduce demand for certain types of social protection.

Trade relations between Mexico and the U.S. are characterized by a very high volume of imports and exports, due to Mexico's rigorous pursuit of trade liberalization policies during the 1980s and 1990s. As a result of Mexico's entry to the newly established free-trade zone of the North American Free Trade Agreement (NAFTA) in 1994, import duties and tariffs were massively reduced. In particular, this affected the agricultural sector in both countries and pay levels in the low-wage sector. In Mexico, the wages of highly-skilled workers profited from foreign direct investment (FDI) from the U.S., while the unemployment rate increased in the low-wage sector. Simultaneously, in political debates in the U.S, the increase in Mexican migrant labor as well as illegal migration are linked to falling wages in the agricultural and service sectors, such that public opinion on the status of international trade is increasingly being polarized, as became evident during the 2016 U.S. presidential election campaign and the presidency ever since. Especially in fall 2018, the politically driven public discourse in the U.S. drew attention to the issue of migration from Central America to the U.S. with reference to the "Caravan" (New York Times, 2018), which started in early October 2018 with roughly 7'000 migrants mainly from Honduras traveling by foot through Guatemala to reach the U.S. border.

Next to trade, migration is therefore a particularly salient issue in both, the U.S. and Mexico.

When governments create binding economic agreements that can entail both periods of booms and busts for the national economy, voters are likely to change their take on the function of the welfare state. Individuals respond to trade policy and hold distinct preferences on the issue of liberalization versus protectionism (see Baker, 2005), so that the impact of changes in trade relationships are likely to resonate with social policy preferences as well. Following a self-interest based model of distributive preferences (Meltzer and Richard, 1981) and the compensation logic, voters should demand an increase in transfers to buffer the risk (see Moene and Wallerstein, 2001). Especially in the immediate aftermath of an economic shock, are individuals more demanding of social protection as the case of the U.S. financial crisis revealed (Margalit, 2013). We expect heterogeneous treatment effects regarding increased risk perception due to changes in trade relationships (and alternatively, through changes in migration) and employment status (formal vs. informal). We expect that the prospect of trade disruptions between countries whose economic relationships are highly intertwined, increases economic uncertainty about one's own job situation at the individual level. Informal sector workers should be particularly responsive to uncertainty emanating from trade disruptions and worry about the job situation compared to formal sector workers, as informal workers can be laid off more easily due to lack of legal protection. In addition to changes in trade relationships as macroeconomic risk factor, we take into account how changes in the expectation of regular remittances from the U.S., which are highly influential for many households in developing countries (see Tertytchnaya et al., 2018), influence economic risk perception.

Trade hypotheses

Prediction 1 *Mexicans who worry about negative economic effects of U.S. trade policy are more likely to feel insecure about their own job situation.*

Prediction 1.a *Mexican informal sector workers who worry about negative economic effects of U.S. trade policy are more likely to feel insecure about their own job situation compared to formal sector workers.*

We now turn to the second chain of the argument that elevated risk accounts due to externalities of globalization (mainly trade, but also migration) subsequently increase or reduce demand for

certain types of social protection. One prominent claim against expansion of non-contributory welfare programs fears an increase of informality as direct response to growing universal programs, since formal employment thereby becomes less attractive (Levy, 2010). Put the other way around, formal workers might prefer a contributory system that excludes those who do not pay for it. However, when unemployment risk increases and the individual's probability to become part of the informal sector rises, this might shift preferences into the opposite direction, favoring a more universal system. Social policy preferences are therefore a function of employment sector history, current employment sector² (which entails the factor income) and future employment expectations. As Berens and Kemmerling (2018) reflect, labor market segmentation is an asymmetric divide: it is attractive to become an insider and once this status is attained, there is a tendency to shield this status from depletion. The debate therefore revolves around two key components, access and level of benefits, which can be combined in a variety of ways.

Expansion of universal social policies should become more attractive than a contribution-based system, the more the majority fears to be excluded from benefits (Carnes and Mares, 2014). Thus, individual expectations about future employment security should nourish individual interests in social policy expansion or restriction and the degree of access, assuming that individuals are not purely myopic. Past experiences with employment in either one of the sectors or changes between sectors will add to the formation of social policy expectations. To simplify: A universal system benefits informal sector workers and also informal employers (e.g. street vendors, informal micro-firms). It comes at the cost of higher general taxes for all (and in a tax system that places a higher burden on consumption tax, this means higher taxes for the poor). A contribution-based system in turn, is more favorable to formal sector workers, as only those who pay-in also benefit and thus, risk-pooling takes place among a specific group of workers, who probably also have lower probabilities of need, and the group itself is small. In addition, the benefit levels are usually higher in contribution-based- compared to universal programs (Carnes and Mares, 2014, p. 705). We expect informal sector workers to be more supportive of universal social policies, especially when the perception of economic vulnerability increases (that is in our case, economic risks through trade disruptions increase). In contrast, it is possible that informal workers, who worked in the formal sector in the past or who expect

²We refer to formal vs. informal sector here.

to find a job in formal employment in the near future, are less likely to demand an expansion of universal social policies, but to favor more generous contribution-based programs, which would meet the self-interested utility-maximization needs of a formal worker. Sector-specific mobility expectations should play an important role here (see Benabou and Ok, 2001). Moreover, the question is, how far past experience with either one of the sectors shaped the worker's view of economic vulnerability. We assume that working in the informal sector is more risky than being a formal sector worker. Only if informality is also perceived as an increase of economic vulnerability, should our expectations hold.

There are reasons to assume that a formal worker who continuously switches between formal and informal employment, and thereby knows economic vulnerability in the informal sector from own experience, might favor universal social policy, which would also cover herself when she experiences times of increased economic instability in the informal sector again. Past experience should sensitize individuals to the more strenuous situation of labor informality. However, it is also possible that such a worker favors a contribution-based system if she believes to enter or remain in the formal sector in the future. It is an empirical question with whom the worker (or also self-employed) identifies – insiders or outsiders – and how strongly mobility expectations and past experiences moderate preferences.

Globalization and social policy preferences hypotheses:

Prediction 2 *Formal sector workers who are more exposed to economic insecurities are more likely to support a contribution-based than a universal or means-tested social policy.*³

Prediction 3 *Informal sector workers who are more exposed to economic insecurities are more likely to support universal than contribution-based or means-tested social policy.*

Prediction 4 *Mexicans who fear to be cut from remittances from relatives in the U.S. are more likely to support an increase in social policy.*

Labor market segmentation and social policy preferences hypotheses:

³We use the generic term social policy instead of referring to each particular social policy that we inquire in the survey for presentation purposes. We expect health care to be the most strongly supported social policy in terms of level and we expect to see more conflict regarding redistributive coalitions with regard to the scope and financing for pension.

Prediction 5 *Formal sector workers who were informally employed in the past years are more likely to support a universal than a contribution-based or means-tested social policy.*

Prediction 6 *Formal sector workers who expect to lose the job/to work in the informal sector in the near future are more likely to support a universal than a contribution-based or means-tested social policy.*

We can express the same amount of predictions for informal sector workers⁴ so that we state only the main predictions. Exploring how preferences for redistribution and social policies are linked (if linked at all) to the fiscal scheme that lays out how it will be financed, we expect that individuals are generally more favorable toward an expansion of social policy programs if these are financed by placing a higher tax burden on the rich (see Fairfield, 2013; Flores-Macías, 2014; Berens and von Schiller, 2017; Flores-Macías, 2018). As Flores-Macías (2018) reveals for the Mexican case, willingness to accept taxation is however very much dependent on institutional trust and can be ameliorated through design features that reduce uncertainty about the misuse of tax money. Considering preferences of formal and informal sector workers, we expect that both prefer an increase of a social policy (contribution-based regarding formals and a universal scheme regarding informals), when the tax burden can be shifted on someone else. For formal workers this means financing the reform through increased taxes (which basically means consumption tax in the Mexican case and thus, it places a higher tax burden on lower-income earners) or increasing taxes on the rich. For informal workers, supporting a social policy expansion should hinge on shifting the costs to workers with written contract and government or on placing the tax burden on the rich.

Preferences for social policy conditional on financing:

Prediction 7 *Informal sector workers are more likely to support an increase for a universal social policy if the form of financing is based on contributions from the government increasing taxes from people with higher incomes or based on workers with written contract and the government.*

⁴Equivalently: H4a: Informal sector workers who were formally employed in the past years are more likely to support a contribution-based or means-tested social policy than a universal. H5a: Informal sector workers who expect to work in the formal sector in the near future are more likely to support a contribution-based or means-tested social policy.

Prediction 8 *Formal sector workers are more likely to accept an increase of contribution-based social policy if the form of financing is through contributions from the government increasing taxes from people with higher incomes or with contributions from the government with increased taxes.*

Finally, also risk-sharing within households is a crucial component for social policy preference formation (Häusermann, Kurer and Schwander, 2016), but rarely investigated for the developing country-context. A formal worker, who shares a household with an informal sector worker, might judge social policy from the position of an informal worker instead of the pure egotropic perception of a formal wage earner. A reform that eases access for informal workers might therefore be more popular among mixed households. But we might also expect that individuals, working in the informal sector, who share a household with a formal worker, feel less economically insecure and are, consequently, also less likely to support a more universal welfare system. So far, theory nourishes competing hypothesis as there are no empirical findings to these questions yet and we, therefore, aim to take a closer look at this group and contribute with explorative work. We express the hypotheses with regard to scope (contribution-based versus universal/means-tested programs). But the predictions can be equally expressed for level (increase, status quo or decrease in benefits). For presentation purposes, we display the level-hypotheses in the appendix.

Prediction 9 *Formal sector workers who are more exposed to economic insecurities, and share a household with an informal sector worker, are more likely to support a contribution-based than a universal social policy.*

Prediction 10 *Formal sector workers who are more exposed to economic insecurities and share a household with an informal sector worker are more likely to support a universal than contribution-based social policy.*

We assume that distributive preferences are based on utility maximizing principles, – that is, income and access to transfers and benefits – but as research revealed, justice considerations also play a key role (Reeskens and van Oorschot, 2013). The welfare state literature on

high-income economies identified the mechanism of “deservingness” as critical component for individual attitudes (Van Oorschot, 2006). Only when the large share of recipients of benefits are deemed as deserving (e. g. the elderly) are individuals willing to support an increase of spending. Perceived as deserving are mostly those who contribute through payroll taxes and contributions. This debate taps into the difficulty of coalition building among voters in low- and middle-income economies, where some individuals benefit from social protection while others are excluded from contribution-based benefits but somehow also indirectly pay through consumption taxes (see Berens, 2015a). Factoring in the distinction into formal and informal sector workers, thus, further increases the complexity of justice considerations and the willingness to pool risks in public policy programs in the formation of social policy preferences. Regarding justice considerations, we expect informal sector workers to be more favorable toward *need* as distributive principle compared to contribution-based, as the latter would exclude them. In contrast, applying a cost-benefit rationale, we would expect formal workers to be more exclusionary, to save the program from depletion and thereby, favor a justice principle based on contribution.

Justice consideration hypotheses

Prediction 11 *Informal workers who are more exposed to economic insecurities are more likely to support an increase of social benefits for people in need.*

Prediction 12 *Formal workers who are more exposed to economic insecurities are more likely to support a system of social justice in which only those individuals receive benefits who also contribute to it.*

Finally, next to economic risks following from trade interdependencies (e. g. renegotiation of NAFTA), a new wave of migration is hitting the Mexican economy. To approach the impact of globalization from a broader angle, we also consider economic vulnerability induced by changes in migration. A large share of immigrants comes from Central America, escaping from poverty and violence and is heading North to the United States (e.g. see New York Times, 2018). Many of the refugees are aiming at only passing through Mexico, but forced to stay, giving the mounting difficulties to enter the United States. This phenomenon is complex and hard to isolate with regard to what exactly is perceived as problematic for the local job market by

Mexicans. But there is also an increased wave of migration toward Mexico from North America from Mexicans who are either forced to leave the U.S. or voluntary remigrate to Mexico for a variety of economic reasons. A study by the Pew Research Center (2015) shows that migration to the United States from Mexico has stagnated and that now a greater outflow of Mexicans returning to their home country can be observed. Between 2009 and 2014, roughly one million immigrants returned to Mexico, whereas only 870'000 individuals decided to leave toward the United States in the same time period. Especially this latter group of migrants brings increased tension to Mexican labor markets, as there is no legal hurdle to enter the labor market, and possibly also drive redistributive preferences for a more or less restrictive welfare state. Mexicans who remigrate will have the same access to welfare programs as Mexican citizens. We therefore expect an increased demand for welfare state expansion to buffer possible layoffs due to greater competition at the labor market, but also tendencies of exclusion when economic pressure comes from migration from Central America:

Migration hypotheses

Prediction 13 *Mexicans who are more exposed to re-migration from Mexicans that are coming back from the U.S. are more likely to support an increase in level of [social policy] benefits.*

Prediction 14 *Mexicans who are more exposed to migration from Central America are more likely to support a contribution-based social policy.*⁵

4 Research Design

In the following, we introduce our research design, starting with a discussion of the sampling strategy, before we introduce the set up of the vignette and conjoint experiment. The experimental survey will be conducted face-to-face (computer-assisted-personal interviewing) through the Mexican survey company BGC (Beltrán, Juárez y Asociados). The field period starts on November 9th 2018. The enumerators use tablets for the conjoint analysis and to document the responses of the interviewee.

⁵Considering the conjoint analysis, we would also expect that formal workers in particular who are more exposed to migration from Central America have an increased support for a contribution-based social policy program.

4.1 Case selection and Sampling Strategy

Instead of a nationally representative survey, which would go beyond our funding capacities and due to difficulties to field the survey in geographic areas dominated by drug cartels, we aim at drawing a random sample of Mexicans in two average federal states, Puebla and Querétaro. Thereby, we focus on selecting two states of Mexico with average values on trade and GDP per capita as this allows to reach the active working population without over- or underestimating a possible impact from changes in trade interdependencies. In both, Puebla and Querétaro, GDP per capita (in Querétaro, GDP per capita is 0.22 (in millions of Pesos) and in Puebla it is 0.10 in 2017 with a national average of 0.16 (INEGI 2018)) and the level of exports as share of GDP (in Querétaro, export/GDP is 44.14 and in Puebla it is 28.01 in 2017 with a national average of 31.45 (INEGI 2018)) are roughly similar to the national average. Querétaro is slightly above the national GDP per capita and export share average while Puebla is somewhat below on both indicators giving us some variation on these dimensions. In addition, both states are equally close to Mexico City, the capital city, and do not share a border with a foreign country which could otherwise bias our study due to migration flows. Selecting two states allows to cover a larger range of economic activities reflected in a variety of economic sectors (manufacturing, service and agriculture). In each state, a state-representative probability sample is drawn. We also include rural areas in the sample proportionate to the distribution of the state population across urban and rural areas.

Within the two Mexican states a cluster sample will be carried out. We apply a similar strategy as in García-Ponce, Young and Zeitzoff (2018) and Baker, Ames and Renno (2006) in which the researchers made use of electoral precincts. These are used as the primary sampling units (PSU) and will then be further divided into smaller secondary sampling units (SSU). In case a randomly selected unit is considered as too insecure for the enumerators, this unit will be replaced (but this is less likely to happen in Puebla and Querétaro).⁶ Within the SSUs, the enumerators will go from house to house asking for the head of the household or a member of the family that knows about the employment and financial situation of all household members. It is necessary to interview the head of the household or knowledgeable members since

⁶However, when selecting the states in which the study will take place, we also paid attention to the security situation within the states. Since individuals living in more insecure areas will in general be less likely to answer survey question in their homes (due to safety considerations), we exclude states with extreme rates of violence from our sampling strategy.

the respondent should know about the tax and social security system in which the particular household is enrolled. Therefore, a random selection of the respondent of the household will not be applied. In each SSU, only five interviews will be conducted. Furthermore, the enumerator is instructed to not conduct all interviews in only one street of the SSU, which often is a district connected to four streets, but to, at least, collect one interview per street.

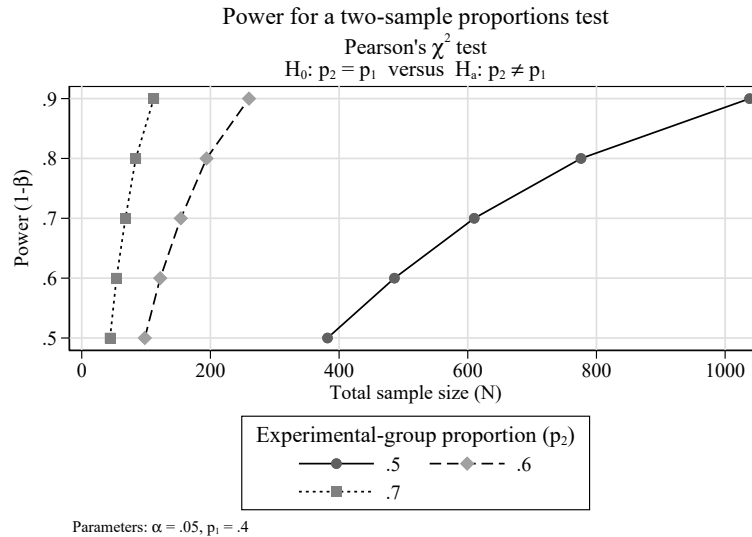
Furthermore, in the sampling strategy, we attach slightly more importance to areas with higher economic activity to create a sample with marginally more working population. Typically, approximately 50% of the respondents are part of the working population. Due to our particular interest in labor market history, status and social security which often comes with employment, we conduct the survey in relatively more urban areas and in the two states Puebla and Querétaro which yield at least an average employment rate compared to the national average so that we maximize the chance to interview slightly more formal and informal workers (or employers/self-employed).

The survey company will interview roughly 1'400 individuals in total, therefore around 700 persons per state. Before the actual survey, we conduct 30 interviews in Puebla and 30 in Querétaro as pre-tests. This will help us to identify problematic question wording and give us the opportunity to adapt questions in a more comprehensive sense. Additionally, we carry out cognitive interviews with students at the Colegio de Mexico in the period before the survey is fielded. The in-depth interviews give more insights on selected questions that might suffer from social desirability bias or might still be too general for the specific context of Mexico. Especially the experimental part will be tested.⁷

4.2 Power analysis and sample size

To estimate the sample size that is needed to detect significant effects, a Chi-Square Test is carried out, which compares to different proportions. We divide the sample in treatment and control group due to the vignette experiment. The following graph presents the varying total sample size by varying powers. However, to receive a significant outcome, the power level of 0.8 and corresponding sample size should be considered. All power calculations in this graph are conducted using a 0.05 significance level.

⁷Finally, we also made an attempt to test the vignette with Amazon's Mechanical Turk with a bigger sample population than the 60 pre-test interviews through BGC. However, after more than a week online, we did not yield any responses to our survey so that the attempt failed and we took it offline.



As can be seen in the graph, the smaller the effect difference between the control and experimental group, the more respondents we need. Considering a delta of 0.1 between treatment and control group, the sample needs to consist of 816 respondents of which 408 belong to the two groups respectively. On power level of 0.9 and with a effect difference of 0.1, the total sample size includes 1076 responses. An effect size of 0.2 difference between control group and treatment group (on 0.9 power level) can already be detected with a total sample size of 280. Since our sample size will include a total of 1400 responses, it should be possible to make significant inferences.

4.3 Survey items

The survey consists of two parts: an observational and an experimental section. The observational part includes socio-demographic control variables such as age, gender, education, urban-rural, and religious denomination. Furthermore, labor market status, employment sector, employment history, social policy coverage and preferences, labor market security perception, voting behavior and party preferences will be inquired. Due to security reasons, Mexican respondents are more hesitant to respond to questions concerning income. Therefore we use the socioeconomic level index (NSE) which was established by the Mexican association of Market and Opinion Intelligence (AMAI). The population is segmented into six to eight income levels. Respondents will be asked asset questions, e. g. how many bathrooms they have, if they have access to the internet, if they have cars and how many etc., which will then be used to calculate

the income bracket of the respective individuals. We thereby receive insights into income levels of the respondents without directly asking.

We construct a battery of items that allows to identify informal and formal sector workers and how far they experienced switches between sectors of employment and if they share a household with a formal/informal spouse. In addition, surveying job security perception and social policy preferences through standard survey items and experimentally gives us the opportunity to study our argument in two steps: with observational data and subsequently, in an experimental setting.

We are particularly interested to explaining social policy preferences in Mexico related to the following three main themes: trade relationships, migration (also remittances), and social policy/policy trade-off. We consider two different types of dependent variables: support for social policy regarding scope (universal, needs-, and contribution based), level (increase benefits, status quo, decrease benefits) and how it should be financed (workers with written contract and government, high-income earners, or through higher taxes for all) and employment security perception. As independent variables we are interested in the impact of economic risk perception (change in U.S. trade policy with Mexico, risk of unemployment, migration), which possibly varies by labor market status (formal, informal, household composition).

Drawing upon research on immigration policy and trade policy preferences such as Scheve and Slaughter (2001) and Ardanaz, Murillo and Pinto (2013), we create a vignette experiment to tease out the impact of changing trade relationships on individual perception of economic security. We prime the individual with the issue of trade, emphasizing the possible economic downturn that might follow from the U.S. strategy of protectionism. The vignette will offer direct insight on how Mexicans set their preferences for social policy formation, considering trade and different types of workers. The conjoint experiment offers a policy reform trade-off scenario in which individuals have to choose between different policy reforms similar to the recent contribution of Häusermann, Kurer and Traber (2018) for the case of pension reforms in Switzerland.⁸ All survey respondents will receive the conjoint battery.

⁸Neimanns, Busemeyer and Garrizmann (2018) study policy-trade-off statistically more conventionally with observational items that ask the respondents how far they support an increase in policy A when the financing comes through a decrease in policy B. Thereby, they zoom in on the budget dynamic. In our scenario, we study social policy preferences based on clear program features on how the differences in attributes affect policy support.

4.4 Conjoint item

In the setup of the conjoint item we build on recent insights on related research questions (Häusermann, Kurer and Traber, 2018; Stadelmann-Steffen and Dermont, 2018). Conjoint analysis has become more popular in recent years with the seminal contribution of Hainmueller, Hopkins and Yamamoto (2014) and Hainmueller and Hopkins (2015). The experimental design allows to test the causal impact of different attributes in a choice-scenario. As we are interested in preferences for social policy, this tool gives us the opportunity to confront the respondent with the choice between different social policy reforms that differ in a defined set of attributes. The policy reform packages vary across 4 different attributes ('type of policy', 'who should pay for it', 'scope', and 'what should be done'). Each respondent receives two policy packages for comparison and we repeat this step three times ($N=1'400 \times 3$, thus, we can roughly analyze 4'200 choices). In three attributes we use 3 categories and only in the first attribute we employ 5 categories. The possible number of combinations is thus $(5 \times 3 \times 3 \times 3)$ 135. After a pair of policy reform profiles is displayed to the respondent, the respondent has to choose one of them. Subsequently, the respondent is asked to evaluate the policy reform on a scale from 1 to 10 how much she likes the policy reform that she has chosen and also the one that she did not choose. Asking the respondent to rate both options will deliver more detailed information about the choice scenario.

We deliberately use reform options that are more general in nature than referring to particular programs, to reduce complexity. At the same time, we use a concrete idea about what would change in this policy field, so that respondents have a clear understanding about the options. The Mexican pension program is regulated by the state and constructed as a defined-contribution program, which means that access to pension is based on prior contributions through pay-roll deductions. The pension contributions are managed by private pension funds. Family allowances are part of social security and based on means tests. The program provides support for families with children below the age of 4-years. Family allowances also fall into the conditional cash-transfer program PROSPERA, as they provide means-tested transfers to households below a certain income level. Expansion of family support was a salient topic of AMLO's presidential candidacy. Mexico's housing program is managed through the Instituto del Fondo Nacional de la Vivienda para los Trabajadores (INFONAVIT), which grants mortgages

to Mexican formal sector workers. Employees mandatorily contribute to the program through payroll deductions. The public health care program was reformed in 2013 from a contribution-based to a universal program (Seguro Popular). Formal sector workers are however covered by the Instituto Mexicano del Seguro Social (IMSS) and public employees by the Instituto de Seguridad y Servicios Sociales de los Trabajadores del Estado (ISSSTE). We specifically ask about health care in general without referring to a concrete plan, as we are interested in the individual's general support for public health care. Keeping this status quo in mind we confront the respondents with a hypothetical scenario in which they could reform or entirely remodel one of the five policy programs, varying by scope, who should pay for it and what should be done (increase, status quo, decrease).

The dimensions will not be randomized. Only the attributes of the particular dimensions appear randomly for each respondent, but the order of the attributes will not change. We decided to not completely randomize the conjoint because this would make the conjoint cognitively very demanding for the respondent and thereby, potentially lower the quality of the data. By starting with the type of policy, then presenting options on who should be covered by the program, going to what should actually be done and finally talking about the financing, we ensure that the conjoint dimensions are presented in a logical order. Furthermore, by not randomizing the dimensions, we try to decrease the chance of respondent fatigue. Since the respondent is presented with variations of the conjoint three consecutive times, we are aware of the fact that the respondent might learn in answering the questions. However, we do not consider this a problem.

We ask two questions after showing the conjoint table. Respondents should first make a decision and chose one of the exhibited policy programs. In the second step, respondents are asked to rate each policy program on a 10-point scale (we deliberately exclude a mid-point as respondents can already indicate indifference in the previous question). Comparing the ratings on the two policy programs gives us more fine-grained information on the degree of supporting one policy package over another.

Types of policy: old-age pensions, health service, housing credit, financial support for low-income households, day care centers⁹ (5)

⁹Spanisch wording: "pensiones de vejez, servicio de salud, crédito para vivienda, apoyos económicos para

Beneficiary: universal - everyone has access; workers with written contract; only those in need¹⁰ (3)

What should be done: increase benefits, reduce benefits, keep benefits as they are¹¹ (3)

Form of financing: only with contributions from workers with written contract and government; with contributions from the government with increased taxes; with contributions from the government increasing taxes from people with higher incomes¹² (3)

Introduction text to the conjoint: Imagine that you have the opportunity to change some public policies. Below is a table with two public policies for you to choose from. Think about which would bring you the most benefits. For your choice, take into account the 4 aspects seen in the table. We will show you several tables.¹³

Table 1: Random draw of policy programs

	Policy Program 1	Policy Program 2
<i>Type of policy</i>	Old-age pensions	Health service
<i>Beneficiary</i>	Workers with written contract	Universal - everyone has access
<i>What should be done</i>	Increase benefits	Keep benefits as they are
<i>Form of financing</i>	Only with contributions from workers with written contract and government	with contributions from the government increasing taxes from people with higher incomes

QA.1: If you have to choose one of the policy programs, which one would you prefer?

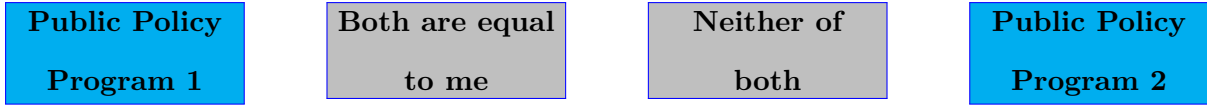
hogares de bajos recursos, guarderías”.

¹⁰Spanish wording: “universal – todos tienen acceso; trabajadores con contrato escrito; sólo para los que más lo necesitan”.

¹¹Spanish wording: aumentar el beneficio; reducir el beneficio; mantener los beneficios como están

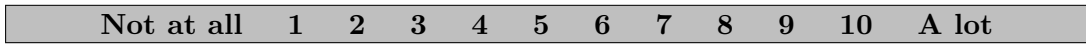
¹²Spanish wording: “Sólo con contribuciones del trabajador con contrato escrito y gobierno; con aportaciones del gobierno con aumento de impuestos; con aportaciones del gobierno aumentando impuestos, sólo a las personas de mayores ingresos”.

¹³The Spanish question reads: Imagine que tiene la oportunidad de cambiar algunas políticas públicas. A continuación, verá una tabla con dos políticas públicas para que usted escoja una. Considerando la que le traería a usted más beneficios. Para su elección, tome en cuenta los 4 aspectos que se ven en la tabla. Le vamos a mostrar varias tablas.



QA.2: On a scale of one to ten, as in school, where 1 is that you don't approve at all and 10 approves a lot, where would you place your approval level in each case?

Public Policy Program 1



Public Policy program 2



4.5 Vignette items

Before we prime our respondents with the vignette, we will first ask the respondent our baseline questions (Q1 and Q2 below) about their worries to lose their job (sociotropic and egotropic item). The questions will be asked early on in the survey, followed by a range of other observational items. We will end the questionnaire with the vignette and ask Q1 and Q2 again. Calculating the change in Q1 and Q2 pre- and post-vignette provides us with a more efficient estimator.

In the following section, we present and discuss the vignette scenario. We use information from a study by Klachkin and Daco (2018) on the consequences of breaking up NAFTA. It should also be noted that we will provide the source for each particular scenario at the end of the questionnaire. Therefore, respondents are aware of the validity of the stated information.

Trade Vignette

Introduction text for both, control and treatment group: In the last 20 years, Mexico has increased its exports to more than USD 400 billion, of which 80% goes to the United States.¹⁴

¹⁴Spanish wording: En los últimos 20 años, México ha incrementado sus exportaciones a más de 400 mil millones de dólares, de los cuales el 80% va a los Estados Unidos.

Table 2: Vignette

Treatment	Control Group
If Mexico and the United States break their free trade relationship, experts say there is a greater likelihood that Mexican prices will rise and Mexican wages will fall. ¹⁵	Nothing

Q1. How likely do you think Mexico will be affected if there are changes with the United States in their trade relationships?¹⁶

- (a) Very likely
- (b) Somewhat likely
- (c) Not very likely
- (d) Not likely at all
- (e) Don't know
- (f) No response

Q2. Considering Mexico's trade relations with other countries and what this means for you and your work. How concerned are you that the situation of Mexico's trade relationship with the United States will affect your working conditions?¹⁷

- (a) Very worried
- (b) Somewhat worried
- (c) Not very worried
- (d) Not worried at all
- (e) Don't know
- (f) No response

¹⁶Spanish wording: "Qué tan probable cree usted que México pueda verse afectado si hay cambios con los Estados Unidos en la relación comercial?"

¹⁷Spanish wording: "Considerando las relaciones comerciales de México con otros países y lo que esto significa para usted y su trabajo. Qué tan preocupado(a) está usted de que la situación de la relación del comercio de México con Estados Unidos afecte sus condiciones de trabajo?"

4.6 Estimation model

We add a battery of standard socio-demographic controls in the estimation model on economic insecurity and social policy preferences (see Dion and Birchfield, 2010; Morgan and Kelly, 2013; Carnes and Mares, 2015; Berens, 2015*b*). We include information on gender, age, education, income and level of urbanization. To study the mechanism that explains the change in social policy preferences, we control for vertical reciprocity in particular (trust in public institutions/government, see Flores-Macías (2014); Berens and von Schiller (2017), through an item which asks about corruption in the public system or insecurity perception as an alternative for state capacity). Our main dependent variables are (1) economic risk perception and (2) social policy preferences. As discussed above, we measure both through a variety of channels. For economic risk perception, we use observational items that ask about the individual’s concern regarding job loss and down- or up-ward mobility. Especially with regard to social policy preferences we employ an entire battery: we measure preferences for redistribution, (progressive) income taxation, trade-off between different social policies, demand for an increase in level of health care, primary and secondary education, pensions and PROSPERA and justice considerations (deservigness vs. need regarding the policy field of pensions). In the experimental setup, our DV is the trade-off between the policy reform options pension, health care, housing, child care and transfers to the poor that vary by scope, source of financing and level. Thus, here we investigate support for a policy reform that is more or less encompassing and preferences for reduction versus expansion and different types of financing (progressive vs. regressive). In the following, we describe the general setup of the estimation models to study our theoretical predictions.

4.6.1 Prediction 1 & 1.a: Trade hypotheses

- Operationalization
 - DV options
 - ◇ Concern to lose job
 - ◇ Adverse effects on employment from trade (vignette outcome)
 - IV options

- ◇ Trade related insecurity (either through vignette or observational item)
- ◇ Interaction model: labor status (formal/informal) \times trade related insecurity
- Controls: gender, age, age², education, income, urban/rural, sector of employment, religion, level of information

4.6.2 Prediction 2, 3, & 4: Globalization and social policy preferences hypotheses

Subsequently, we study the estimation model for the DV social policy preferences, that we study both experimentally (trade-off regarding scope, level, financing) with a conjoint design and observationally (only regarding level), with a standard item. Economic insecurity (through change in trade relationships with the U.S., migration or loss of remittances) can also be measured through a variety of indirect channels: labor market status (formal/informal), sector of employment (production, agriculture etc.), or directly through observational items (worried about job loss).

- Operationalization:
 - DV options
 - ◇ Policy area priority (distribute 100 points across 4 different policies)
 - ◇ Conjoint item
 - ◇ Social policy battery (demand for level change)
 - IV
 - ◇ Economic insecurity (concern to lose job)
 - ◇ Formal/Informal
 - ◇ Dependence from remittances
 - ◇ Regarding conjoint design: Attributes: scope, level, who should pay
 - Controls: gender, age, age², education, income, urban/rural, sector of employment, religion, institutional trust

4.6.3 Predictions 5 & 6: Labor market segmentation and social policy preferences hypotheses:

- Operationalization:

- DV options
 - ◇ Policy area priority (distribute 100 points across 4 different policies)
 - ◇ Conjoint item
 - ◇ Social policy battery (demand for level change)
- IV
 - ◇ Formal/informal: experience or expectation of formality/informality
- Controls: gender, age, age², education, income, urban/rural, sector of employment, religion, institutional trust

4.6.4 Prediction 7 & 8: Preferences for social policy conditional on financing:

- Operationalization
 - DV
 - ◇ conjoint: beneficiary & what should be done
 - IV
 - ◇ formal/informal × conjoint: form of financing (workers with written contract and government, tax increase, taxes on high-income earners)
 - Controls: gender, age, age², education, income, urban/rural, sector of employment, religion, institutional trust

4.6.5 Predictions 9 & 10: Labor market segmentation and social policy preferences hypotheses:

- Operationalization:
 - DV options
 - ◇ Policy area priority (distribute 100 points across 4 different policies)
 - ◇ Conjoint item
 - ◇ Social policy battery (demand for level change)
 - IV
 - ◇ Formal/informal: respondent and household status

- Controls: gender, age, age², education, income, urban/rural, sector of employment, religion, institutional trust

4.6.6 Prediction 11 & 12: Justice Considerations

- Operationalization

- DV
 - ◇ who should receive pension benefits: those who contributed or those most in need
- IV
 - ◇ economic insecurity
 - ◇ interaction model: formal/informal × economic insecurity
- Controls: gender, age, age², education, income, urban/rural, sector of employment, religion, institutional trust

4.6.7 Prediction 13 & 14: Migration

- Operationalization

- DV
 - ◇ social policy preference battery
 - ◇ possibly also conjoint
- IV
 - ◇ worry about re-migration from US
 - ◇ worry about migration from Central America
- Controls: gender, age, age², education, income, urban/rural, sector of employment, religion, institutional trust, having lived in the U.S., having family members in the U.S.

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Appendix

Social policy hypotheses regarding level of benefits

Prediction 15 *Formal sector workers who are more exposed to economic insecurities are more likely to support an increase in the level of social benefits.*

Prediction 16 *Informal sector workers who are more exposed to economic insecurities are more likely to support an increase in the level of social benefits than formal sector workers, when the social policy is universal.*

Prediction 17 *Informal sector workers who are more exposed to economic insecurities are more likely to support a status quo or a decrease of benefits when the social policy is contribution-based.*