

REVISTA CIESS

PUBLICACIÓN DEL
CENTRO INTERAMERICANO DE
ESTUDIOS DE SEGURIDAD SOCIAL

EDICIÓN
BILINGÜE
BILINGUAL EDITION

PRIMERA ÉPOCA

JUNIO

2005

NÚMERO

9



R E V I S T A

CIESS

Revista CIESS

9
June
2005

SEMI-ANNUAL PUBLICATION



**INTER-AMERICAN
CENTER
FOR SOCIAL
SECURITY
STUDIES**

Educational, training and research organ of the Inter-American
Conference on Social Security

REFLECTIONS ABOUT THE CHARACTERISTICS OF LABOR MARKETS AND THEIR RELATIONSHIP WITH SOCIAL SECURITY

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The subject matter that we will deal with is linked fundamentally to the trends existing today in the world with respect to labor; if it should be possible to synthesize, I could say that this is due to an evolution that has led from homogeneity to heterogeneity. We were used to the type of jobs that resulted from an indefinite period contract, one single contract, with very specific tasks, a very well determined and perhaps long lasting relationship.

Today's world has changed, it has led us to a globalized market in which work is related to other parameters. We have formal jobs, other jobs are informal, and within those that are formal, there is a great variety of tasks that were unknown before; we now face polyvalence, sub-contracting, outsourcing, etc., and this in turn has been reflected in Social Security.

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Allow me to introduce here a short reflection. It is commonly said that the world in the XX Century was marked by two gun shots: the first one put an end to the life of the heir to the Austro-Hungarian crown in Sarajevo in 1914 and, later on, the gun shot that put an end to the life of Adolf Hitler in April 1945 in Germany and thus put an end to the Second World War. Then came the Cold War, but there was no other event that would mark a milestone towards which the world would be headed, until the barrier of the East fell down and produced a gigantic change.

In Social Security I would make the same reflection, because almost in the same period, Social Securities started with Bismarck, and remained unharmed until the second great milestone that meant — almost at the end of the Second Great War— the arrival of Beveridge , and it would seem that after that no new situations have arisen that could be modeled in the world which could serve to face the gigantic changes that have been produced and continue to be produced in the labor ambit. In fact, if we consult the material available, we can verify that no great reflections have been produced with respect to the system nor have any important doctrinarian constructions emerged that could tend to solve the problems encountered. We have been facing facts that endanger the systems, to which circumstance Latin America is no exception; some of them derive fundamentally from the labor market; it is on this phenomenon that we pretend to present some brief reflections hereafter.

Essentially, we face today a socio-economic mutation of great importance, in an environment which is constantly changing and is interdependent, on the basis of a very competitive economy that forces enterprises to permanently adapt to this new labor market that induces them to be tremendously competitive; this is why the

ILO has brought up the theory of the decent job, seeking continued development under conditions of competition, but without attempting against the dignity of the human being.

This constitutes an arduous mission, because, on the one hand, there is competition and the urgency of the results of the work and, on the other, the human being has fundamental rights that must be respected, among them, to enjoy, both himself and his family, a basic Social Security.

It should be pointed out that Labor Law has become increasingly flexible on the matter of remunerations, labor contract, working hours, effectiveness of the contract, etc., and perhaps this has been mostly evident in the hiring process, because the formal contract as we considered it 20, 30 or 40 years ago, practically does not exist nowadays. We all hope that our job will last as long as possible, but if we have something absolutely clear is that it is not going to be a lifelong job as was expected sometime ago throughout the world.

The contract per se nowadays, has some variables that were not thinkable sometime ago, such as polyvalence, temporary work, sub-contracting, a person employed in one company and developing work in another, or that this work could become permanent, or that work outside the company could be brought to extremes and also become permanent. In other words, we have reduced the company today to a heart, to its minimum expression; the rest of the corporeity is outside, and that has shaken the Labor Law nowadays and has lead it to an extreme difficult to be conceived as one single technique or scheme.

Hiring, in turn, has become difficult, because the costs of regulations have been growing and this, in the world of today, has undoubtedly brought about the phenomenon of informality. Many

companies have lead workers to informality and here we must make an annotation: at least in our continent, small companies are predominant; in the Chilean case, 90% of the companies have from 5 to 6 workers. They are not structured enterprises, with many programs or large departments to guide them; they are employers with three or four employees and that is all. This type of enterprise has become growingly informal and it is the enterprise that offers a higher number of jobs in the present world.

Why have so many different or diverse forms been generated in the search for efficiency? Because the market is changeable and we have a very important but globalized market, and we are not indifferent to what happens in China or in North-American, or to whatever happens in Europe. Any change of technology in the labor environment or in the market — the duty reduction, the rate of exchange of the dollar, etc.— provokes constant changes and mutation in the labor world, and this forces enterprises to seek new parameters of efficiency that often involve leaving out a certain sector or workers hired. This is why important levels of outsourcing and of informal work, which go hand in hand, are being generated.

All of the above brings about a very distinct reduction for the Social Security System, because it is not prepared to face informality. We have generated, since Bismarck and Beveridge, systems that are all based on the generation of a labor contract, of a formal relationship, and we have left aside all informal jobs because they were not foreseen in that instance. This is why I mentioned that, in my opinion, a third gun shot is missing that will mark the start of this third stage of Social Security, because although we may pretend to go back in time and avoid informality, this does not seem possible nowadays; the world and the economy were changed. It

seems important to have utopias, but it is also important to be practical and realistic, and this Law has that great mission, to adhere to the truth.

Which is the option? Articulate the labor world with the world of Social Security and offer an adequate protection to the informal sector, so that we may have not only economic efficiency and effectiveness, but also efficiency and effectiveness of a social nature.

The labor market has a segment of persons who live in the world of formality and another segment in which a large group of informal workers do not have a labor contract nor a labor relationship; it should be added that besides, they lack a good income. Perhaps some of them may have a good income, but the majority, in general, do not.

There is also another sector that is not covered within anyone of the extremes mentioned. Those who have contractual employments with an extremely low income or those who have independent jobs with an aleatory income, and also the unemployed who are part of a growing contingent that is flogging our economies and which has been very difficult to face. This latter sector of workers tends to oscillate between one extreme and the other, they lack an adequate protection and this is something that should concern us deeply because it is a threat to social peace.

Article 9th of the International Pact of the United Nations for Economic, Social and Cultural Rights, contains a concept of what Social Security is, which reads as follows: *Social Security is the package of fringe benefits that society furnishes to citizens and to their homes —through public and collective measures— in order to guarantee for them a minimally dignified level of life and to protect them against the loss or reduction of that level caused by certain risks or fundamental needs.*

If you compare this system with other concepts that are a part of the doctrine and that are all of them similar, we can conclude that it must furnish to workers and their families a group of fringe benefits that will be sufficient to face a dignified life, and to protect them from the loss of benefits or income to which they may be exposed.

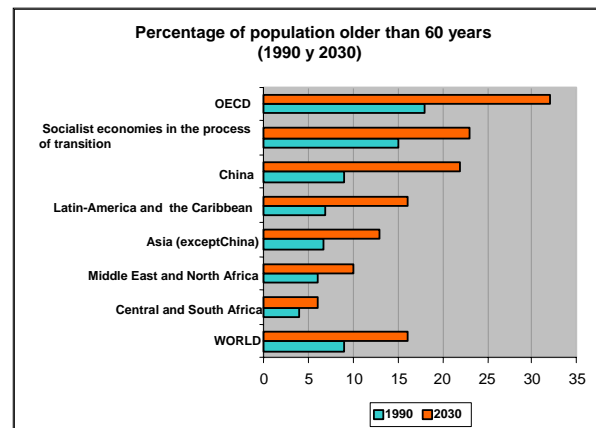
This concept is correct and has predominated in the present world during the last 50 years, but if we analyze it with a certain care, we should ask ourselves if it is actually providing a coverage to the phenomenon to which we referred before; we could say, is the informal word contemplated in this concept? In a quite subtle manner yes, but not in an actual or direct manner. We will have to complement this concept.

Then, I think it is necessary to review what we could adapt in this respect in the Social Security System; we will approach this premise under four aspects that I consider fundamental to examine: the contingencies to which we are subject nowadays; the designs of the Social Security programs; their governability; and, finally, the crucial topic of coverage. We will briefly analyze each one of them.

I. Present Contingencies

The system must face minimum life and survival standards according to the concept that we have commented. During a long time these standards have not considered a phenomenon that nowadays has evidenced the above discussion, the aging of population. Figures have been offered and graphs have been prepared—we insert below one of these graphs—in which you will observe that we have a great percentage of population that is rapidly becoming old, and on the other hand life

expectations of the world population are strongly increasing.*

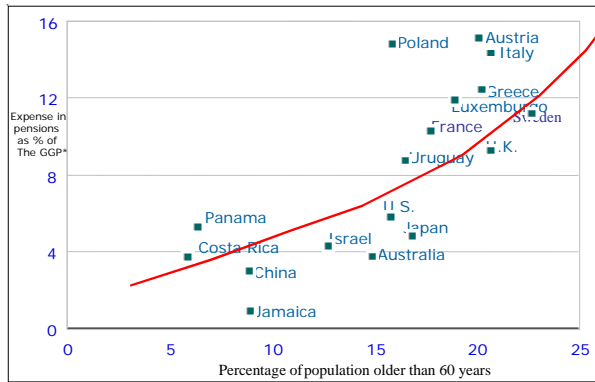


This is what has provoked the enormous crisis suffered by distribution systems on the matter of pensions, because no one foresaw that the population would age in a higher degree and that progressively we would have lower incomes on the part of the young sector of the economy; but these older people have all the rights to live a dignified old age with reasonably good economic resources. This was not foreseen and it is a phenomenon which we are facing nowadays. The solution is not easy, but we must try earnestly to find it; in this sense Latin America has taken important steps towards achieving this end, making emphasis on the efforts of individual savings, which may constitute an alternative for the solution of the problem.

This aspect that we are commenting will lead us to the matter of costs, because since we do not have a growing working force, especially in the formal sector, day after day we have less resources to face a Social Security system that will respond to the expectations of its users and beneficiaries.

* Source: James 1998.

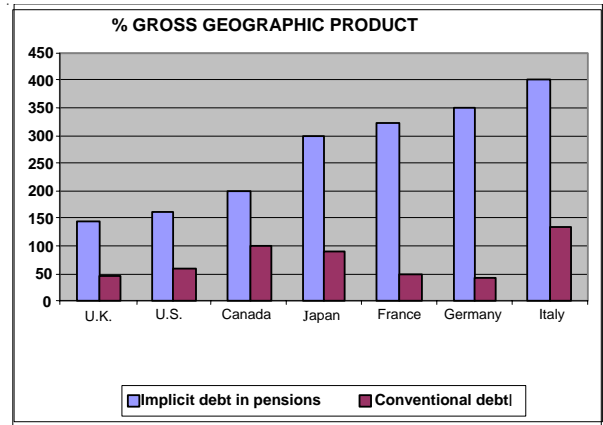
The following graph shows the percentage of population older than sixty years and the percentage of public expense:



* Gross Geographic Product

It is possible to appreciate in this chart that, as we climb towards the upper right hand corner, where the more developed countries that have a higher coverage on the matter of Social Security are located, we can verify that they are also the countries that have a higher investment in public expense on the matter, which is at rather strong levels. Consequently, this verification of the public expense should move us to reflection, because not all the countries of the world —mainly those in the process of development— are in a position to increase their public expense, and least of all in an indefinite manner, in order to face the phenomenon of the growing expense on the matter of Social Security.

If we face specifically the matter of pensions, we can appreciate —in the following chart— the implicit indebtedness of pensions in traditional systems:



Source: Palacios 1999

This chart shows the United Kingdom, the United States, Canada, Japan, France, Germany and Italy, and it is easy to observe the enormous proportion between the conventional and the implicit debts, that is to say, the actual commitment faced by the countries that have traditional pension regimes, where there is a low active population and a high passive mass waiting for their benefits.

Finally, I consider that an unavoidable present contingency is the matter of unemployment. Unemployment will continue to accompany us; it is impossible to expect that it will disappear from the scene, because economy is changing, is very competitive and strongly influenced by the international environment; nowadays, any phenomenon that occurs in any country of the world, affects us directly in our economy and in our jobs. Consequently, I believe that no nation at present can close its eyes and say: "I am not going to face the matter of unemployment".

Therefore, we must face this point and consider it as one of the principal objectives of the Social Security system. In fact, the unemployed is one person without a job who faces a variety of problems: naturally, the problem that of not having enough money to live a dignified life, both himself and his family; furthermore, he is a person

* Source: James 1998.

who receives a social slap in the face because he is outside the circuit of the community to which he belongs, he is outside his own world. When we find someone in any daily activity, the first question that arises is: what do you do? Where do you work? And at that moment that person is totally strange to the common world, to the normal world; moreover, he is a person who requires a high dose of help and the minimum help we can furnish him is to establish an unemployment insurance that will grant him a decent income, which may motivate him to return to work; this is not an easy task because many of the systems existing in the world nowadays carry along many errors from the point of view of reincorporation to the labor world.

II. Design of the system

In the report prepared by the CIESS, mention is made in several of its paragraphs to the subject of fragmentation, that is, the fact that there are different pension or health systems in one single country and with different methods of jobs and benefits.

I would like to comment in this respect that the Multi-Pillar theory has come forth, which sustains that there are different sectors within the scheme of Social Security, which have different missions and also respond to different needs. It has been pointed out that there are three pillars: the basic pillar, the intermediate pillar and the final pillar, and what is more, nowadays, the incorporation of a fourth pillar; the pillar zero, is being considered.

I am going to present a graph of the Chilean case whose pillars are structured as follows:

THE PILLARS OF THE CHILEAN PENSIONS SYSTEM



Source: Primamerica 2005

In pillar zero, the worker is taken care of regardless of his social situation and to this effect it is not necessary for him to have contributed to the financing of the system, and it is not necessary either for him to be unemployed; he is the person who may be in indigence or in the most ample unemployment. In pillar one, on the other hand, certain basic conditions or characteristics are mandatory; in Chile — it must frankly be said— this is not so, because coverage is granted on the basis of extremely rigid demands, which do not seem to be in accordance with the informality and de-structuring of employment that are common in our days.

In the same order of ideas, it should be pointed out that in this pillar, the pension is granted to any worker who runs out of funds in the individual account, but he must also have a minimum number of contributions and there I believe that we have a task to face because, if we link this for just one second with the matter of informality, we will realize that there are many persons who in their labor life are leaving and entering the labor market and in many of these segments they have not contributed. Often they have contributions, a certain number of years, but not enough as required by law to have access to the minimum pension.

And here we have a question we should ask ourselves: is this limit really adequate for a minimum pension, demanding a certain number of years, sometimes too high for persons lacking stable or permanent jobs? Would it not be fair and perhaps more convenient to establish a gradual pension such as, for instance: with five years of contributions guarantee a certain level of benefits, with ten years another level, and so on? Perhaps in this manner it would be possible to incorporate this informal worker that we have left aside on the matter of protection, in order to at least protect him in this respect.

The second pillar in Chile is integrated by the AFP pensions and the Welfare Funds of the Armed Forces and Carabineers, which are outside the general System. This pillar is integrated by the workers who are in the AFP and those who still remain in the old system, and we should also ask ourselves if it would not be feasible to establish the gradual principle with respect to these workers.

Pillar three, that has arisen recently in Chile, relates to the voluntary welfare savings, that is, we are going from pillar one that has the base of the system, to pillar two that has individual quotas and to pillar three that is complemented with the voluntary contributions. In Chile the APV has as of this date two years of effectiveness, but has had an excellent response on the part of workers, which shows that they have understood that they must also cooperate voluntarily —to the extent of their possibilities— to enjoy better pensions; consequently, the system is not made up only of the basic pillars (pillar two and one) but the workers also make voluntary contributions and this will allow them to face their old age in a better condition.

This multi-pillar system has a virtue: to better focus the effort that we will make, mainly public expense, because I believe that pillar three is for the worker, and pillar two is in the hands of the worker and of the employer with their contributions. Then, which pillar do we have to reinforce? Pillar one, undoubtedly, because pillar one involves the informal sector, the unemployed and the temporary workers; this sector must be given priority.

Consequently, to the extent that we maintain a unity of criteria, we are supporters of the multi-pillars to better focus and orient public expense.

FINANCING

On the matter of financing, there are contributive and non contributive systems. Lately, priority has been given to the contributive system and perhaps the time has come to think also that non contributive systems must adopt an increased preponderance, because there are persons from whom we cannot demand to make higher contributions and, by not doing so, they are excluded from all systems; I feel that these persons should be furnished a certain basic aid, for which purpose there are different routes, such as subsidies and taxes. In general, we do not support the idea of increasing taxes, but when subsidies granted to low resources or informal people are insufficient, I think that they could constitute a potent lever for development.

FRINGE BENEFITS

Traditional fringe benefits are reflected in what so far we know as Agreement 152 of the ILO, which provides the following on this matter:

Benefits established by Agreement No. 152 (Minimum Norm)

- 1) Medical care
- 2) Illness benefit
- 3) Maternity benefit
- 4) Labor accident benefit
- 5) Old age benefit
- 6) Disability Benefit
- 7) Survival benefit
- 8) Unemployment benefit
- 9) Family benefits

Said scheme results from what we could call a "classic scheme", but perhaps our national legislations should be adapted to the new realities we are living and add to this inventory, to this catalogue, other diverse fringe benefits, perhaps partial or applied in a more particular manner to a

sector or to a segment that is not working in a formal manner. These people should be helped otherwise, because what has been mentioned here is linked to a labor contract and, honestly, this has been surpassed in time.

III. Governability

I consider that on this matter we must respect what each country considers to be convenient for its future, because each country has its own idiosyncrasy, its own problems, it knows its own development potential and knows exactly where it can go and how to reach said objective; in this respect there are no universal formulas nor panaceas applicable *urbi et orbi*. To proclaim this premise implies falling into an extreme easiness that ignores the so diverse realities inherent to each Nation.

To illustrate this point, I would like to point out, for example, the Mexican case, which is a country with more than one hundred million inhabitants, very rich and with a great potential; Chile, on the other hand, is a country with fifteen million inhabitants, with a working force of only six million and it is a country that has much lesser resources, that has found it hard, very hard to rise. In spite of the above, I believe that we have reached a consensus with respect to what we have to do in the social aspect, which has allowed us to orient ourselves. But I also believe that this experience —that is considered in many ambits as successful— is in no way extrapolated in its entirety to Mexico, as to other country, because each one of them has its own realities.

What does seem to be very important, is that a country must seat down to discuss these matters, trace a line with respect to the direction towards which it wants to go, and do so firmly and with a strong will, but this undoubtedly requires the commitment

of the workers. If the citizenship does not share this decision nor accepts it, it is very difficult to go ahead, because the matter of credibility is very relevant to obtain effective and efficient results on this matter.

I also believe that once the country has adopted this decision, it must tend to institutionalize it, to protect it; I will not mention here specific cases—it would be hateful—but we have known certain countries where pension funds have liquefied due to decisions of the governments, and I think that this is unacceptable. I believe that the resources of the workers that belong to the Social Security System are absolutely untouchable.

To this effect, the best safety measures must be adopted at the highest levels to avoid even the hint of temptation on the part of a government to make use of these funds, because this money belongs to the persons who have worked and who have contributed with their work during 40 years and who need it for the 25 or 30 years they still have to live; this money cannot be expropriated by a government, because this would constitute an assault to one of the most fundamental rights of the workers to live a dignified life, whatever their age or condition may be.

ADMINISTRATION

During more than fifty years, social Security Systems knew nothing but the public administration; it is only during the last twenty years that a space has been opened to the idea of admitting private administration and, especially, that that pursues a profit purpose.

Personally, I do not condemn the public sector, but I also find it unacceptable to say that the private sector is unable to administer the system; we believe that both are capable of doing it well, and this

is what is important: to do it well, to be efficient, effective and to do things opportunely, so that the worker will receive his benefit in due time. I believe that nowadays we have sufficient technology and techniques on the matter of administration so as to be able to do this better every day, whether in the public or in the private aspect.

We should remember that in Chile, especially, we have a system that is parallel, because we have public and private systems on the matter of health, pensions, family benefits and work accidents; but it should also be pointed out that with the unemployment insurance an appropriate route has been opened, because this insurance is administered by a private entity (stock company), to which it was awarded through a public national and international bid and that this private entity had to sign a contract with the State for a period of ten years.

We are then before a hybrid system and, consequently, we have entered into a different route, which is graphed when approaching the topic of contributions, because now they are not financed only with the contribution of the worker and of the employer, but also the State contributes with a "Solidarity Fund". For the first time in twenty years, the topic of solidarity has been introduced in Chile on the matter of contributions and is nowadays fully in force in the country.

IV Coverage

Coverage is a phenomenon that affects all countries in Latin America. The CIESS report commented that Chile is within the pioneer group, with a coverage of more than 60% and that there are countries that have only a 14% coverage. I believe that neither Chile nor the country that is at the 14% level are satisfied because our mission, our

objective, is to reach, we hope, 100%. This is probably a utopia, but the idea is to reach this goal or at least to come as close as possible to this level.

We know that this is difficult, because here we have a social responsibility that is not only a function of the State, nor only of the employers, and is neither exclusive of the workers, but it concerns everyone involved, those that must become conscious of the fact that the system has to be financed and that there is no Social Security system that can operate well and develop properly if it does not have an adequate financing, its best controller being the worker himself.

But here we are facing a very complex subject: How can we bring Social Security close to the common worker? What can we do to make him feel close and to grope something that is important to him?

Apparently, this is simpler in the case of topics linked to health or fringe benefits, because these are contingencies of a daily occurrence; this is why the greatest challenge is the long term benefits such as pensions; in fact, if this subject is mentioned to a worker who is 18 or 20 years old and if the matter of his future retirement is projected to him, he perceives it too far away, for 30 or 40 years more, and says that he is not interested, because this is something that he regards very diffusely; then, the great challenge is to raise the interest of the young in this respect.

It is not a matter here to present a formula, but it should be pointed out that in the Chilean case, for instance, this situation has been approached in very different manners. For example, intense educational campaigns have been developed in television, information has been sent to workers, to their own domiciles, every four months, unions have been contacted in order to explain to them what pensions are, and work is being developed in schools to

teach history and civic education teachers what this effort means, so that they may in turn transfer the information to their students, which makes it possible to give an accent to the aspect of credibility. Each country must find its formula, but most important, these matters must be accessible to the individuals.

With respect to formal workers, mainly those who work in large enterprises, they are normally better protected in this aspect, because it is established that it is mandatory to contribute, and the contributions are withheld and integrated; on the other hand, informal workers are a big problem, because the persons who enter and leave the system and who many times work outside the system, are those that are less protected in this ambit. Those who work for their own account are a difficult case to face in an adequate manner, because in many countries, independent or autonomous work is not required to contribute, contributions are on a voluntary, and practical experience shows that this worker customarily does not contribute, remains out; experience also shows that many of these workers who do not contribute, after they have reached old age or are faced with a problem of social health, are helpless and have no one to protect them. But this is a mere appearance, as at the end, the State shelters them and the State is financed with the contributions of all its citizens.

Then, the question is: Why do we force the formal worker to contribute, he who has a contract, and not the independent worker? Does the independent worker have a better guaranty? Is he exempt from contributing, even if he may become entitled to a certain base of protection? In Chile this matter is under discussion and a unity of criterion has not yet been reached, but it would seem that the option of the mandatory contribution of independent workers is being imposed; we believe that this is not

a bad formula, because I think that it would comply with a social responsibility that we all have, whether dependent or independent.

After this very brief outline, I feel that we can try to make a diagnosis. The best protection that we have nowadays on the matter of Social Security is, and continues to be, a labor contract; this is unquestionable. But also unquestionable is the circumstance that we have a large number of unemployed, inactive, workers who fluctuate in different jobs. A fact that we ignored until a short time ago can be clearly appreciated; that is, that the largest number of labor contracts formalized in Chile during the last two years are short term contracts, two, three and up to five months, and very few indefinite period contracts are being signed, which clearly demonstrates that we are facing a sequence of high rotation in labor contracts.

The question is: What consequences may this have for the Social Security system? And the answer is that there may be many consequences, because the worker who has less contracts or who has not one single contract the following month, will fall into informality and will be unemployed or jobless, and will lack the necessary continuity to accede to the different short or long term fringe benefits of the System. Consequently, a very strong light of alarm was switched on to give clarity to the fact that there is a high segment of population that is working at present without a labor contract and that is frequently falling into informality.

In addition to the above, the rate of permanence of employments and jobs is dropping radically. And this requires, necessarily, a reflection with respect to Labor Law, which I feel that has very seldom been analyzed with sufficient depth: I refer to the cost of dismissals. In Chile we have a system in which the worker

cannot be dismissed unless he is paid one month per year worked, with a ceiling of 11 months; this, I think, may constitute a high de-motivation for the formal labor contract, because for many employers their first thought at the time of deciding to hire a worker may be: How much will it cost to get rid of this worker tomorrow, if I find it necessary to dismiss him?

In this respect, the idea is sustained that it would be preferable to lower that rate, that burden of one month per year of work, to reduce it and to have, in exchange, a very good Unemployment Insurance. Because what happens in our experience is that, on the one hand, the employer prefers to dismiss the worker before he accumulates a number of years that will become very expensive and, on the other hand, the only wish of the worker is to work 11 years and try to be dismissed, because in this manner he would have the right to be paid for said period.

This creates a perverse effect. In fact, a good worker who resigns after a long time on the job has no merit nor receives any amount of money, but one who is a bad worker, if the employer wants to dismiss him he must pay him or, he will be expecting to be dismissed once he has worked 11 years. That is to say, there is an entire thematic around the month-per-year concept which is ominous, and it would be more convenient to have a good Unemployment Insurance and not to have this high cost on the matter of dismissals.

We must also face the subject of the instability of the participation of women in the labor market, because there are many women who enter the labor system, who then have children and leave the labor market, and then reincorporate; consequently, they do not have a stable sequence in the course of time. Also, it is well known that the feminine labor market, in general, does not have the same participation in remunerations that the

male market, because women receive a lower remuneration, which causes that on the matter of pensions, for example, they normally retire before, and experience has shown that they live longer than men. Therefore, the pertinent question is What is the problem of the working woman? Because she earns less, contributes less and lives longer. Consequently, to approach the topic of women's work and its future projection is critical and constitutes a not unimportant aspect for a modern social Security System.

The rotation of jobs to which we referred, brings about an increase of the speed in the formalization of labor contracts. And consequently, it has a considerable impact on the rate of unemployment; in fact, the length of the unemployment periods is growing because the time that the person remains unemployed has increased. And the rate of unemployment is also high. This does not constitute a good index, especially since, in certain countries, said rate does not decrease, in spite of the good behavior of the economy in general; this is a strange phenomenon which should also move to reflection. In fact, certain economies are growing at rates of 5% or 6%, but this is not reflected in turn in a growth of employment, but otherwise; the argument in this respect is that those that are not transferable are growing with respect to those that are transferable and the like, but in practice the fact is that the economy grows but employment does not. Something is going on.

And, on the other hand, if the labor market is losing efficiency, we try to counteract this with the increase in the minimum salary, but not much can be done with this line of action, because if the minimum salary is raised too high, it will surely affect employment also, which comes to constitute a value added to the subject of the cost of dismissals that we have recently commented.

Final comments

There are social Security instruments that can alleviate the matter of the sudden loss of income on the part of workers; this is the case of pillar number one, because there great possibilities exist to act vis-à-vis this matter. In fact, the social protection of informal workers must be emphasized, and there is no doubt of this, because the formal worker is already sufficiently protected.

On the other hand there seems also that it is necessary to study the matter of the barriers to the formalization of work; these are formal demands that attempt against an increased formalization of employment and this undoubtedly affects the coverage of Social Security for those workers that do not have a contract. Following the traditional doctrine, the matter of the incorporation to the labor market via a labor contract is very rigorous; there are many formalities to fulfill and there are strong sanctions for employers, but there is no central motivation to formalize said links instead of remaining informal.

In like manner, it would seem that the social expense could be focused in a better manner, and the programs that can be materialized by the Governments may have a significant importance in the distribution of income. Comments are widely spread nowadays to the effect that we are facing the most serious problem: the growing inequity with respect to the distribution of income, which is increasing progressively; this implies asserting that we are centralizing or focusing high income in a small sector and that, in turn, the mass of workers with a low income is strongly increasing.

The first pillar, as we said before, must be modified in order to be able to face the workers that were not covered by the second pillar and in this manner furnish an additional aid to the deprived. What road should we follow? It seems that we

will have to encourage strongly the topic of contributions and, to this effect, the first person to be convinced must be the worker, he has to watch over this aspect; in addition to the above, it is possible to attain a better efficiency and effectiveness in the design of the second pillar, because it is more directly linked to the labor market; and also, these improvements must reach the so called mandatory insurance.

In fact, as we commented before, we can present the subject of the gradualness of the minimum pension, and this same premise can be applied to other fringe benefits of the Social Security Systems, because we cannot pretend that all persons may be protected in the same manner, but is definitely preferable to have workers with a low income or informal workers protected at least with a minimum floor, and not as nowadays workers who are in the most absolute indigence or do not know how or where to survive.

We can also motivate contributive regimes of informal workers from the point of view of subsidies; it would seem that it is also possible to encourage somewhere a mandatory system for the most defenseless groups, those that do not have a clear solution.

And there are two accelerators to achieve these objectives: an increasing economic development and a promotion of formal work; it is the duty of the respective Governments and of Parliaments to be proactive on this matter and put the accent where it belongs. In our case, it seems to be inadmissible that in Chile we have a draft of a bill in Parliament since four years ago, in which we pretend to regulate temporary work and that, according to available statistics, we have more than 50 thousand workers in that position, that is, in a grey zone that no one wishes to control too much, but whose workers have no protection whatsoever. It seems that the

tendency of the ostrich to hide the head is not a good formula for the country to furnish an adequate solution to a problem generated by the special characteristics of the labor markets of our days, especially if a change in these conditions is not foreseen in a near future.

CHALLENGES

Consequently, the challenge that we pretend to point out is related to a new Social Contract that will join together what is permanent, and adapt to the natural evolution of the world, seeking to balance two constant factors: adaptation to change and the security of what is possible. We cannot close our eyes to the reality that we are facing a different economic phenomenon, and therefore we have the obligation to make sure that our co-citizens have the greatest possible security that it would be feasible to grant them; we cannot leave them today abandoned in an unsafe world, because this undoubtedly constitutes a very serious aggression against social peace.

At the entrance of this room we can read, written on bronze letters, a phrase that says that "there can be no social peace without social justice, and social justice cannot exist without Social Security", a magnificent phrase the scope of which we fully share. But we would add a new scope: a thought that the recently deceased Pope expressed in Chile: "**The poor cannot wait...**"

I believe also, that if we remain inactive, as we are today, we would be condemning to failure this System in which everyone believes; the men and women devoted to Social Security are not there to fail, they are there for the future, and this Center in particular has stood out—and I hope that it will continue to do so—for its eagerness and perseverance to study the solutions

that can be generated. I consider this a beautiful challenge to overcome in this, its 42nd anniversary; I can only wish the best and greatest of success in that beautiful and fundamental mission.