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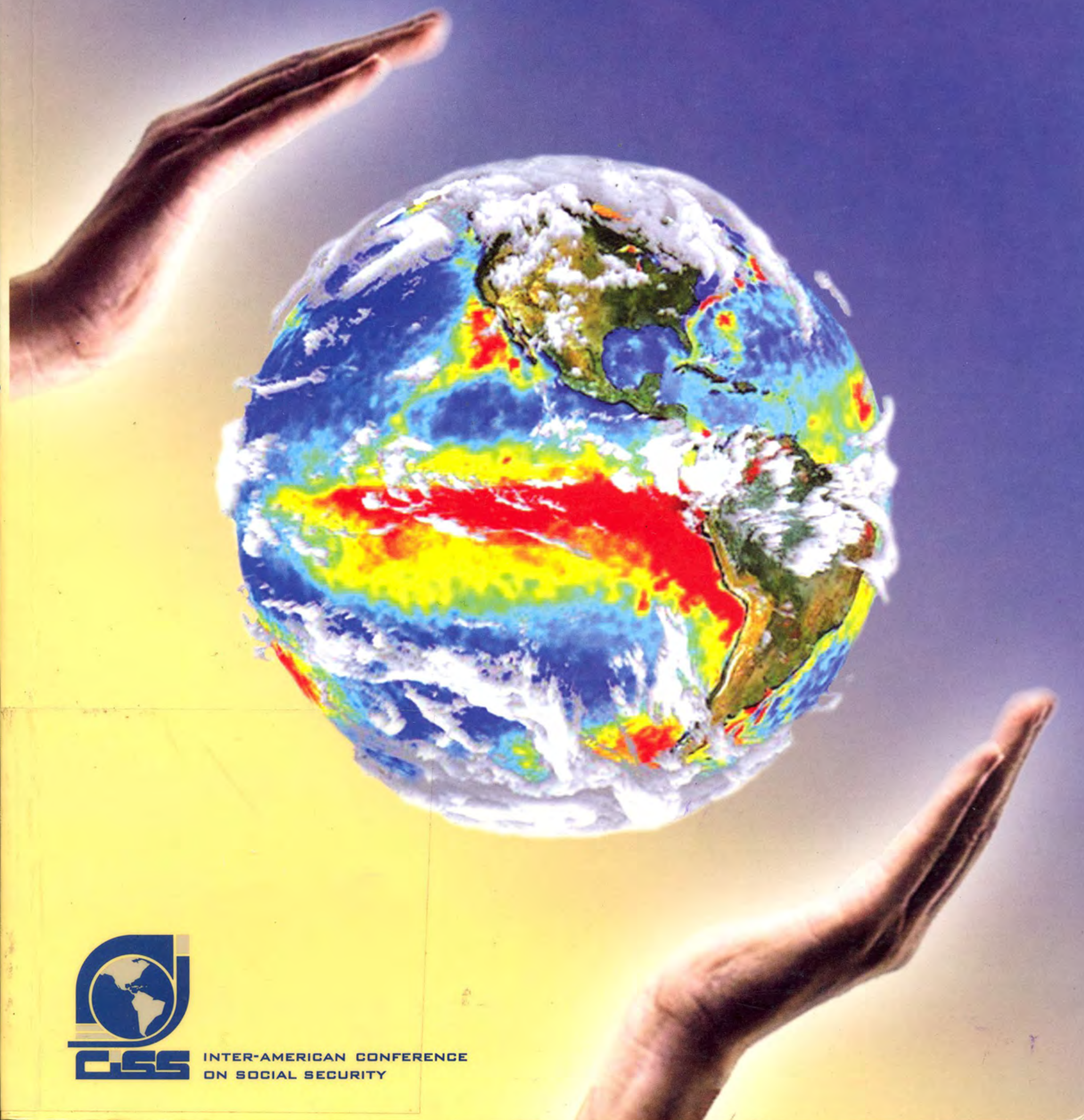
The Americas Social Security Report 2007
Globalization and Social Protection



INTER-AMERICAN CONFERENCE
ON SOCIAL SECURITY

The Americas Social Security Report 2007
Globalization and Social Protection

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Acronyms and Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ATMs	Automated Teller Machines
BPO	Business Process Outsourcing
CAN	Andean Community
CARICOM	Caribbean Community
CASS	CARICOM Agreement on Social Security
CISS	Inter-American Conference on Social Security (Conferencia Interamericana de Seguridad Social)
CPP	Canada's Pension Plan
DB	Defined Benefit
DC	Defined Contribution
DR-CAFTA	Free Trade Agreement between Dominican Republic, Central America and the United States
EC	European Community
ECLAC	Economic Commission for Latin America and the Caribbean
ECT	External Common Tariff
EFTA	European Free Trade Association
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GAVI	Global Alliance for Vaccines and Immunization
GDP	Gross Domestic Production
GFATM	Global Fund to Fight AIDS, TB and Malaria
G7	Group of the Seven Most Industrialized Countries
HDI	Human Development Index
IADB	Inter-American Development Bank
IFOs	International Financial Organizations
IGOs	Intergovernmental Organizations
ILO	International Labour Organization
IMF	International Monetary Fund
INGOs	International No-Governmental Organizations
IOM	International Organization for Migrations
ISSTA	International Social Security Agreement
IT	Information Technology

ITes	Information Technologies Enable Services
KFP	Kearney-Foreign Policy
LAC	Latin America and the Caribbean
LDC	Less Developed Countries
MERCOSUR	South American Common Market (Mercado Común del Sur)
MFN	Most Favored Nation
MNCs	Multi-Nationals Companies
M&As	Mergers and Acquisitions
NAALC	North American Agreement on Labor Cooperation
NAFTA	North American Free Trade Agreement
NGOs	Non-Governmental Organizations
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OECS	Organization of Eastern Caribbean States
OMC	Open Method of Coordination
PC	Principal Component
PPP	Power Purchase Parity
SARS	Severe Acute Respiratory Syndrome
SICA	Central American Integration System (Sistema de integración Centroamericano)
TFP	Total Factor Productivity
UN	United Nations
US	United States
U.S.A.	United States of America
WTO	World Trade Organization

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Foreword

Countries have always faced issues posed by trade and foreign investment. Yet, contemporary times are unique in that nearly all nations participate in a general movement involving not only trade and investment across borders, but also development of a regulatory framework for those two vectors. This movement involves many additional related issues, such as the environment, human rights, migration, and industrial and consumer standards.

The Americas Social Security Report is prepared by the Inter-American Conference on Social Security (CISS) to discuss issues of common interest to social security practitioners and the general population of the Continent. The analysis in this report can be useful for governments, social security authorities, and agencies (such as superintendents, regulatory commissions, national and state social security institutes that manage pensions, health care, child care and other programs, pension funds, and other public agencies). Information herein also pertains to private agents and public-private partnerships that operate or support part of social security programs (such as fund managers, health management organizations, child care centers, insurers, and local governments); and social researchers. This Report provides up-to-date information for the general public on what is perhaps the most highly valued program of benefits demanded by citizens in modern societies.

The topics for this Report were approved by the Permanent Inter-American Committee on Social Security during its 20th General Assembly in Mar del Plata, Argentina: Globalization and Social Security. Part of the material is descriptive, to put the issues in perspective and weigh their importance. That category includes the classifications of countries by their degree of international integration, and descriptions of new forms of work. Yet, the Report conveys substantial messages that affect issues of social protection. Global governance faces a tough challenge, given that international agreements tend to be restricted to trade and investment issues, leaving aside labor and social protection topics. Even at that, multilateral negotiation processes seem to be suffering more than a perturbing ruffle of feathers. This analysis should not lead to despair; countries and their social security agencies can develop solutions to the real problems brought on by globalization. Unemployment insurance can be a useful institutional development for most of the region that, except for North America and part of South America, has not used it as a tool of social and labor policy.

Through this Report, the CISS's goal is to promote an awareness of issues among the Social Security community including governments, agencies, social groups, employers, users, and anyone interested in improving social protection in contemporary society.

Gabriel Martínez
Secretary-General

CHAPTER I
INTRODUCTION

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I.1 Introduction

The subject of social protection remains pending in the world-wide political agenda. Approximately 30 years ago, the subject of globalization did not appear very high in the debate on economic policy of the great majority of countries. In their discussions, very few countries considered the possibility that the phenomenon fundamentally affected their social policy. Towards the end of the '80s it began to be clear that things had changed, with the coming of unforeseen political transformations. Two changes of particular notoriety were advances in free commerce agreements and the demise of the Soviet Union.

The chapters of this Annual Report on Social Security in the Americas weigh the phenomenon of globalization, the main debates around it, the form in which international commerce negotiations have evolved, and the degree to which they affect social protection. The report additionally analyzes the development of unemployment programs as tools of social security to protect the population.

1. What is globalization?

When talking about globalization, economic historians speak of a world-wide movement whose complexity and force exceed the capacity of control by individuals or nations. It is a movement thought to be impelled by technology and social reorganization, and which seeks to elevate the population's level of wealth.

In Chapter II we will see that historians trace the phenomenon's origins to several centuries back. In more modern times, two great globalization movements have occurred since the industrial revolution in the 18th century: The first movement ran from approximately 1820 to the beginning of World War I (WW I), and the second ran from World War II (WW II) until the present time (Williamson 2002). The change in the first period is exemplified in that the world-wide volume of commerce as a percentage of all countries' production grew from less than 5% in 1800 to more than 20% towards the beginning of WW I, to collapse again to less than 5% at the end of WW II. Towards the beginning of the present millennium, the second period had progressed, and commerce levels were the highest in the history of humanity.

Three great differences arise when comparing the first and second stages of globalization:

i) A much greater proportion of commerce is intra-industrial and intra-corporative, and includes a great part of services, to the detriment of the commerce of final goods;

ii) The geographic and social scope is broader, because during the first globalization period the North Atlantic economies were preeminent, including acting as colonizers. The greatest part of the world, in effect, remained at the margin of technological and productive advances; and

iii) The migration of people was largely free during the first episode, and was a driving force for equality across the world. However, in the current period, nations have become increasingly interventionist and even hostile to migration, often because they see it as a threat to their Welfare States.

After WW II, Western countries again tried to construct the world-wide monetary order that had been destroyed with the first world war. They attempted this endeavor in a world that had been divided, and whose center of gravity had evidently moved away from the North Atlantic. Recovering commerce flows was considered essential, but the possibility of allowing the totally free movement of capital again was not so favored. Nevertheless, towards the '70s, developed countries had to accept that it was not sustainable to maintain fixed exchange rates. An era that still persists was inaugurated—one of great unexpected fluctuations in the value of national currencies. The change for developing countries began a little later. It occurred first with investment flows in the form of banking credits. Towards the '90s, these credits had changed to direct foreign investment and stock and bond purchases of national companies by foreigners. As had happened with the richest countries in the '70s, a series of monetary crises in the '80s and '90s forced developing countries to leave their fixed, or approximately fixed, exchange rates. These episodes are of great importance for inhabitants of these countries because they represent extremely painful episodes associated with the globalization movement.

Over the course of years it has been confirmed that the monetary aspect is only one part of the globalization movement. Towards the new millennium, a much greater level of commerce in relation to world-wide production was reached than was observed before WW I, but direct foreign investments and human migratory movements were smaller (Obstfeld and Taylor 2003). In present globalization trends, great importance is also attached to newer elements that were not substantial during the 19th century—elements that were without a doubt present as effects of economic change, and were immensely affected by the process. Among them are the impact of economic growth on the environment, world-wide distribution of income and the problem of poverty, the necessity to preserve local cultures before the influence of world-wide integration, and advances in labor standards and social protection.[1]

Finally, a difference between early and current globalization is that the first movement included an elevated weight of authoritarian regimes. By contrast, during the present movement, the number of these regimes declined from 67 to 26 between 1985 and 2000 (mainly due to the historical evolution of Latin America and nations of the old Soviet Union). In addition, the number of nations that were considered as "very democratic" expanded from 44 to 82 (Program of Development of the United Nations 2002).

These historical events generated elevated expectations for the future of world-wide economic integration. Great strides have been made along these lines, but a skeptical view of the framework of commercial negotiation has been developing.

2. Crisis in the negotiation model

After the growth of democracy and commerce, wider agreements in commercial issues began to proliferate; but it became clear that something was not working. Meetings on commercial negotiations in Seattle (1999), Cancun (2003), and Geneva (2006) represent the difficulties governments face in achieving multilateral

[1] Fischer (2003) lists additional economic factors that are present in the debates: i) Globalization may have made the international financial system more prone to undergo crisis; ii) It may become necessary to prohibit or limit the flow of capital or aid to correct possible inequalities in commercial systems; iii) A need may also arise to limit the power of the International Monetary Fund, World Bank, multinational corporations, and international fiscal competition that could diminish governments' capacities to finance social programs.

agreements. It is necessary to understand what has happened in that "world" of commercial negotiations, as well as the aspects of globalization they fail to reach. In general, globalization is understood as a process that determines the convenience of those adjustments, and not the other way around. That is to say, even if multilateral agents of commerce slip or stall in advancing their intentions, each country will have to face its own globalization phenomena.

Traditional subjects in commercial negotiations have been agricultural liberalization, reduction of tariffs on international trade, and the time necessary to carry out liberalization. However, as indicated by Baldwin and Winters (2004), the class of described episodes has generated a new scenario that the authors summarize in two aspects.

First, developing countries feel that promises to participate in the liberalization movement have not been realized. For example, they think the adjustments on intellectual property and services are onerous in light of the concessions rich countries make in agriculture and textiles; rich countries frequently use protectionistic measures such as antidumping. From this perspective, governments with weaker economies find it less interesting to approach the subjects which interest governments with stronger economies, i.e., competition, environment, labor standards, and procurement by the public sector. More important still is the perception that the internal process of the OMC marginalizes countries of smaller income.

Secondly, movements of non-governmental organizations have made it clear that people harbor a deep dissatisfaction with environmental results, labor and human rights, poverty, and lack of fairness. Initially, still in the '90s, some critics tried to disqualify these subjects, asserting that they motivated marginal and violent groups. With time, the issues have matured. Although radical movements do exist, few people think it is possible to ignore those subjects without risking greater damage to people's well-being.

Six years into the new millennium, investigations of these subjects have deepened. It is generally accepted that most criticisms are credible in some circumstances, and evidence of negative cases is validated in all domains. Nevertheless, the necessity of distinguishing systemic problems from circumstantial ones is commonly recognized. For example, Baldwin and Winters (2005) indicate that opening to commerce generally supports economic growth, does not diminish labor standards, is not based on multinationals' shrinking wages, and does not promote a consistent deterioration of environmental regulations.

At the same time, there is no doubt that systemic problems exist, and that their solution has not proven to be easy. In the words of Peter Sutherland (2006), an executive leader in the subject and former Chief Director General of the GATT and WTO, the round of commercial negotiations in Doha are nearly a fiasco. Sutherland articulates an opinion that seems to be of consensus: The gains of reaching multilateral negotiations are very great, but countries have broad difficulties in combining their short-term political agendas. It seems that each one of the parties looks for a "perfect solution" rather than a "good one." Sutherland indicates that compensating elements must be sought. Also, it should be recognized that in the negotiations, inherent objectives are embedded that cannot be ideal for some countries, but that must be accepted as necessary. For example, in Sutherland's opinion, the large underdeveloped countries entered the negotiations on a platform with a certain flexibility that has not been available for developed countries. Nevertheless, some rich countries now consider that the other group is not doing enough to reach an agreement.

In light of the discussion by Baldwin and Winters, Sutherland's opinion seems to indicate that systemic problems are more difficult to remedy than had been predicted years ago. The political balance in rich countries against giving more access to agricultural products of developed countries seems to be very difficult to alter. The discipline looked for by the OMC to avoid illegal subsidies does not seem to be working, as these have increased, and thus a longer list follows.

The details of the negotiations, as well as a description of how the suspension of negotiations of the Doha Round was reached, are given by Pascal Lamy, presently Director General of the OMC (www.wto.org). His summary deals with the meeting of the so-called Group of the Six (Australia, Brazil, Japan, European Union, India, and the United States) that ended with the suspension of negotiations in July 2006. Lamy emphasizes that in agricultural aspects, one of the three legs of the triangle of critical subjects, access to the market and subsidy advances did not occur. He explains that the Group did not even address the subject of access to non-agricultural product markets.

If the growth of commerce continues, the main losers in the lack of advance in that multilateral forum are the smallest, weakest countries not already associated with the great commercial blocks.

3. Commerce, work, and social protection

Within the complexity of global politics, the subject of social rights has proven to be one of most difficult. Problems facing multilateral negotiations in commerce and investment make it difficult to think about advances in labor issues and social protection.

In accordance with the ILO, four basic labor standards are considered as nonnegotiable in free trade agreements: freedom of association and the rights to organize and negotiate collectively; freedom from forced work; abolition of child work; and freedom from discrimination.

On the other hand, topics of social protection have been considered by treaties originating in the American continent as national decisions that are not subject to the general provisions on trade. Consequently, social security works on a territorial base, with the rights and obligations defined by national governments. Social insurance agencies of one country cannot operate in another country's territory. Although a resident of one country still can be insured in his country of origin if he works temporarily in another (for example, if he is an employee of a company in his country of original residence), the applicable rules are strictly national. Bilateral social security agreements do not have any formal link with commercial ones, not even when the latter agreements have some provisions for the temporary mobility of executives and technicians.

The form in which these rights must be enforced has been a subject for discussion. Some people have argued that a concept of "social dumping" should be applied. They argue that consequently, compensating measures with bases in commercial treaties must be adopted. These measures would punish commerce originating in countries that do not comply with the standards, or that maintain lags in reaching the legislated level of social protection. Nevertheless, this proposal runs the risk of generating undue protection. Additionally, the social and political realities determine that its application would basically go against countries of lower income. In order to diminish the probability of social policies being controlled by protectionist interests in rich countries, some analysts have proposed that the ILO, rather than the WTO, should be in charge of promoting and enforcing labor norms (Elliot and Freeman 2003). Such authors think the pattern of introducing labor standards in bilateral commerce negotiations has met with nominal success, but is of questionable utility.

Some experts have criticized the strategy of core labor rights—referring to the declaration of the ILO in 1998—saying that it narrows objectives to elevate well-being (Allston 2005), while it favors a limited set of procedural rights over substantive rights. Such criticism is probably ingenuous and ignores the truly substantive problems of enforcing rules at the international level, which countries have always considered of territorial application.

If basic rights have been difficult to integrate with commercial negotiations, the problem of social protection is even further removed from finding a solution. Although advances concerning totalization agreements and double taxation have been made, the great majority of international migrants on the American continent are not covered by them. Migration is in itself complex, but it does not have to be confused with social protection. Countries maintain the vision that migration policy is a sovereignty subject. However, this does not contradict the statement that workers, independently of their nationality, must enjoy the benefits of social security in the territory in which they work.

4. Global policy

As indicated by Cohen and Sabel (2006), the proliferation of political environments beyond domestic borders expands the rank of political actors and modifies our understanding of political units and the relations among them. These authors indicate that global policy increasingly involves the elaboration of rules at the global level, especially in the areas of economic regulation, labor security, standards, environment, rights, security in foods, and others. Even though the states remain in charge of issuing the rules, they follow decisions made by global bodies, including private instances. Global rules have widening consequences for the conduct and well-being of individuals, companies, and states. Also, a transnational movement of organizations has arisen, which sees the need to mold the activities of the supranational corps in charge of elaborating rules as a main part of its political activity. These organizations can do so by means of protests, participation as members, and proposing norms, values, and standards of reasonability.

In the global arena, the responsibility cannot be understood to be inherent in the governance structure that applies to sovereign national states. Similarly, it is improbable that the legitimizing power that provides the democratic process in national states will develop in global subjects. The traditional vision in global governance is one of a relatively independent administrative area in national policy and inter-state coordination.

One implication of the lack of advance in multilateral forums is that the space for global governance can end up being occupied by institutions that leave weakest nations at the margin.

5. An agenda of social security before globalization

The difficulties in multilateral negotiations should not cause loss of heart for advancing a social protection agenda at the international level, and particularly at the continental level. On the contrary, the difficulties are a signal to look for greater communication and find solutions to the problems. A recommended list of policies follows:

I. To strengthen research and development in national systems of social protection. This includes evaluating compliance with core labor standards, developing institutions for the certification of that fulfillment by multinational companies, and transparency in applying labor legislation and social security. As is shown in Chapter II of this Report, countries generally have little information on the impact that trade and investment exert on their labor markets and the application of labor legislation. Measurements based on general indices are of little use in understanding what occurs; resources must be dedicated to those issues.

II. To deal with the known effects of globalization that threaten well-being and social agreement. Sufficient evidence already exists on an important series of globalization's effects in the American continent: i) Labor inequality has widened; ii) New forms of work have developed; iii) Adjustment costs concentrate in some regions and social groups; and iv) Twenty previous years of reforms to social security can be useful for other aims, but they do not face the problems derived from globalization. In general, these problems, which are addressed in Chapter III of this Report, can be remedied by national governments. Some issues would benefit from international actions—agreements associated with forms of cross-border work—and it is probably not necessary to wait for multilateral solutions to face them.

III. Contributions are necessary to reconstruct conditions for multilateral advances. Chapter IV presents a general perspective of the form in which commercial agreements have dealt with social protection. Strengthened attention to migration problems is required to: i) obtain social security coverage for all migratory workers; ii) develop multinational coverage of health, disability, and survivor insurance programs, with the purpose of protecting families in their places of origin; iii) face the problem of territoriality in social security and insurance regulation, in general; and iv) adopt effective programs to help the poorest countries reach compliance with core labor standards.

IV. Unemployment insurance is underdeveloped in the LAC zone. The region has generally favored solutions emphasizing employment protection regulations. Unemployment insurance is a collective social solution to the problem of risk. When workers lose long-term prospects of employment and income, quick intervention is necessary to manage retraining and relocation needs. In the absence of unemployment insurance, governments tend to resort to partial solutions, such as temporary employment programs or placing temporary restrictions on commerce, that do not solve the bottom line of the problem. Chapter V of this Report explains how unemployment insurance can work in the context of the region.

V. To recognize the need to improve productivity, raise workers' earnings, and generate stronger options for social protection. The "Aid and Trade" approach, or a simple "Aid" approach, are not expected to do much more than palliate short-term, relatively small problems. This issue is touched on in Chapters III and IV. To the extent that effective social insurance provides national populations with the trust to support further liberalization actions, the potential to interact with productivity-enhancing policies is improved.

CHAPTER II
THE SCENARY OF GLOBALIZATION

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II.1 Introduction

The word "globalization" has been used in several languages by people with different political, ideological, and religious beliefs, even though the word lacks a precise definition. The term has existed for decades, but has been frequently used in recent years as a central point of events, discussions, research, and even social movements. The word represents a complex set of changes that, indeed, transform the life of mankind (Osterhammel and Peterson, 2003).

The term globalization mainly describes economic integration, but also includes cultural, political, and environmental aspects. It can be conceived as a process which embodies a transformation in the spatial organization of social relations and transactions, generating flows and networks of activity and interaction.

Globalization is not a new phenomenon. The process started some centuries ago, and the current situation is explained by long-term historical phenomena. On the other hand, social security and the welfare state in general are viewed as part of national states' basic responses to the vagaries inherent in economic systems. The Great Depression that began in 1929 is often seen as the trigger for the remarkable growth of social security during the rest of the 20th century. Hence, the influence of renewed globalization trends in 21st century social security is inescapable.

People who analyze globalization share the dominant view that it is an inevitable, technologically driven process that increases commercial and political relations between people of different countries. For these analysts, it is a natural phenomenon that is primarily good for the world, even though they recognize that the process produces both "winners" and "losers." The next chapter offers a discussion of this matter in more detail.

The world is experiencing ongoing changes as new technologies develop and existing technologies become accessible to more countries and people. These changes will affect relative prices, jobs, income distributions, tax revenues, government expenditures, regulations, and other areas.

The impact of globalization on the welfare state may come from various channels. It may come from the increased competition that globalization brings about, and thus from the need for more efficiency. It may come from the increased mobility of factors of production (especially financial capital and high-skilled individuals). It may also originate from international pressures to level the regulatory playing field or to introduce uniform standards or codes of conduct. These channels are likely to become more important with the passage of time (Tanzi, 2000). This topic will be deeply explored in the next chapter.

Thus, even though measuring globalization is a difficult task, understanding the process based on facts and findings is indispensable for policymaking and strategic decisions, as well as for economic, social, cultural, and other types of analysis. In this regard, the aim of this chapter is to provide data and analysis on the dimensions of globalization, and to explore how economies in the American continent participate in this world.

Section I.2 elaborates on the meaning of globalization. Section I.3 identifies groups of countries in the continent by their degree of openness as measured by the indexes that have been developed. Section I.4 concludes the discussion.

II.2 The Process of Globalization

While awareness of globalization may be relatively novel, the present wave is not new (see Box II.1 for a review of its history). The current situation is explained by long-term historical phenomena. In this context, we can determine that the surge of social protection systems occurred after the second World War (fourth period in the history of global society). During that time, many countries developed systems aimed at protecting citizens against the risks associated with old age, illness, incapacity, unemployment, and poverty. Tanzi and Schuknecht (2000) note that in 1913, for a group of 18 countries that are now considered welfare states, the average social expenditure for health was 3% of the GDP for the whole group, about 4% for pensions, and the corresponding amounts for unemployment compensation and other transfer programs were insignificant. After 1913, public expenditure started to grow due to changing social attitudes.

Elements involved in the process of globalization include free movement of goods and services, flow of capital, movement of labor and transfer of technology. The process of globalization has also meant an increasingly important role of the international organizations - they are these international financial

Box II.1
A Historical View of Globalization[1]

Given the complexity that surrounds the concept of globalization, historians have defined approaches and periods in order to understand the phenomena. Four fields of study have been used: a) the history of world economy, mainly about international trade and financial flows; b) the history of migrations, voluntary and involuntary, and their effects on people and communities; c) the history of international relationships; and d) the history of imperial and colonial worlds. Historians have not reached a consensus on how to order the hypotheses and findings in each of these fields, and there exists no single «great theory» of globalization.

On the other hand, historians have defined different periods to classify the main events in the history of global society:

a) The first period starts with the discovery of America and includes the rise of the Portuguese and Spanish empires and growing European exploration of Africa, Asia, and America;

b) The second period starts with the beginning of industrialization (*circa* 1750), development of new capacities of world integration, and the gradual disappearance of colonial empires;

c) The third period starts approximately in 1850, when national societies made efforts to restrict global economic integration;

d) The fourth period starts with the end of the Second World War, when deliberate movements to establish a new world order resulted in two antagonistic concepts on international cooperation and reached a sort of equilibrium; and

e) The fifth period starts with the disintegration of one of the international blocks formed during the postwar, between 1989 and 1991. Removal of this block allowed large, highly populated areas of the world to become incorporated into the international movement of trade and investment, which grew due to the availability of new information technologies.

[1] Osterhammel, Jürgen and Niels P. Peterson. Globalization. A Short History. Princeton: Princeton University Press, 2003.

institutions or supranational organizations in the institutional agendas of the State-nation: European union (with the European Parliament like supranational instance), International Monetary Fund, World Bank, Inter-American Development Bank, World Trade Organization (WTO) (Filgueira and Filgueira 2002; Glatzer and Rueschemeyer 2005; Huber 2005).

World integration has accelerated dramatically in the last two decades as technological advances made it easier for people to travel, communicate, and conduct business internationally. In particular, telecommunications infrastructure and the rise of the Internet are the two main recent driving forces (see Box II.2). The advances of telecommunications technology make it possible to have universal access to information of any kind (cultural, educational, business, and religious, among others). Individuals are much less confined to the places where they were born and raised, in contrast with some great minds of the modern period who never traveled more than a few miles from their hometowns (such as philosopher Immanuel Kant and musician Johann Sebastian Bach). The decreasing costs of transport and telecommunications minimize the importance of locality, distance, and borders.

Points of consensus exist about the benefits associated with improved communications. The first point is that globalization is a challenge for national States. Secondly, it alters the balance of power among them and the markets, between hierarchies and decentralized organizations. The challenge is expressed in the following aspects: i) The national State is responsible for defining the framework that will facilitate trade and international investment; ii) The national State is responsible for promoting development and regulating the rational use of natural resources, which implies that it may adjust fiscal legislation; iii) Welfare state programs must be transformed as a consequence of changes in the labor market.

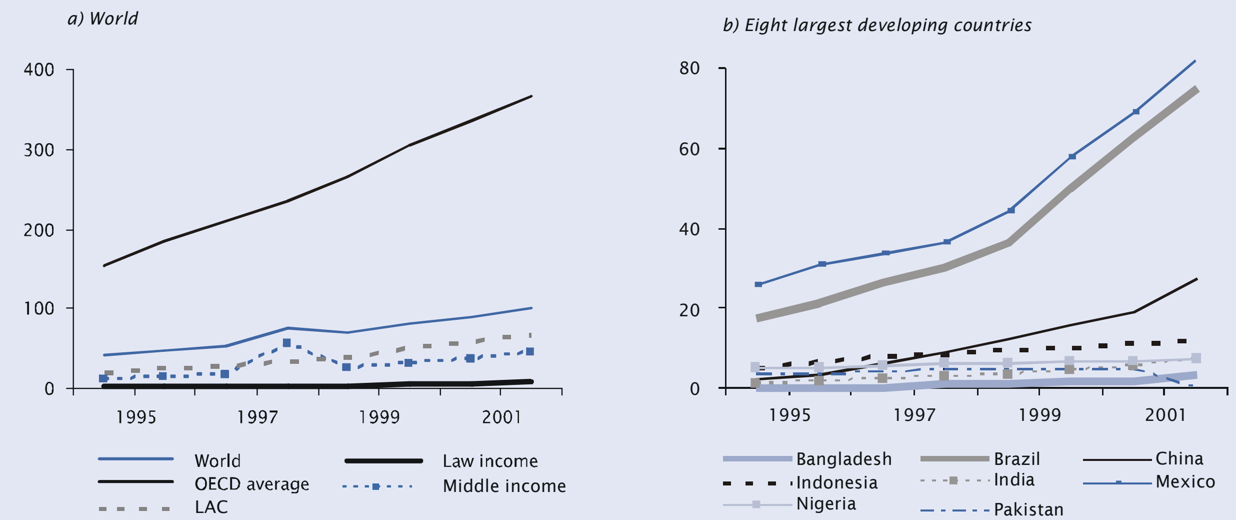
Box II.2

Computer and Internet Use in Developed and Developing Countries

The rise of internet is one of the main drivers of the current phase of globalization, its use as well as of the computers has grown rapidly over the last decade.

The figure below shows that there were only around 50 personal computers per 1000 people in the world in 1995. By 2002, the number of computers per 1000 people had climbed to more than 100.

Computer Penetration Rates, 1995-2002
(per 1,0000 people)



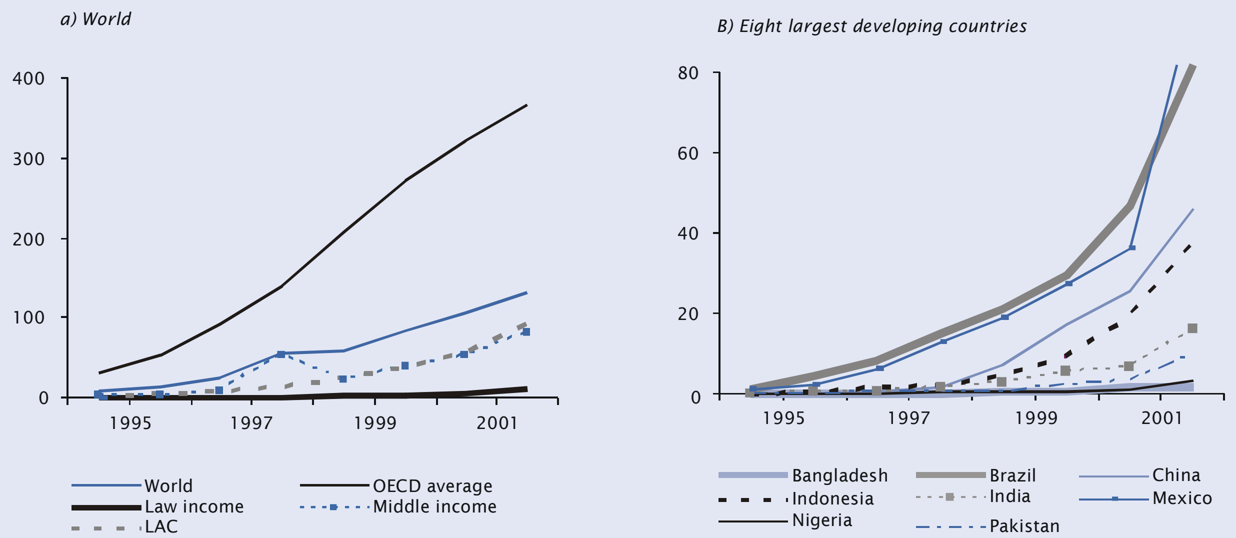
Box II.2 (continued)

The internet use has grown even faster, the figure that presents the internet penetration rates shows that in 1995 less than 1% of the world's population used the Internet and by 2002, this amount increased up to around 13%.

In the past decade, technology use has risen from being concentrated among an extremely small subset of the population in developing countries to a much large share of the population. In 1995, there were less than 10 computers per 1,000 people and around 5 Internet users per 1,000 people in low and middle income countries. The computer/population ratio climbed to 3.7 computers per 1000 people and the percent of the population using the Internet grew to nearly 7% by 2004.

Technology use has increased rapidly among several large developing countries. Figures report computer and Internet penetration rates for the eight largest developing countries, China, India, Indonesia, Brazil, Pakistan, Bangladesh, Nigeria and Mexico. Computer and Internet penetration rates have grown so rapidly in Mexico and Brazil that for both countries rates exceed 8%. China has also increased computer and Internet penetration rates from essentially zero in 1995 to 3.1% and 3.6% in 2004, respectively.

Internet Penetration Rates, 1995-2002
(per 1,0000 people)



Note: categories are not excluding.
Source: Own elaboration using data from World Bank (2004).

Current economies are much more knowledge-based than in the past. The access to information and ability to transfer it instantaneously makes this era distinctive, and opens a variety of both possibilities and difficulties for the future. Some of the ongoing changes will subject such existing institutions as systems of social protection, created under a different environment, to significant pressure. Social security systems will need to adjust to the new world reality.

II.3 Measurement of Globalization

The globalization process has accelerated in the second half of the 20th century and has undergone significant development over the past twenty years.

Keohane and Nye (2000) highlight the following dimensions of the process:

i) Economic Globalization, particularly characterized by intercontinental trade and management relationships organized by multinational corporations.

ii) Political Globalization, characterized by the diffusion of government policies; and

iii) Social Globalization, as the spread of ideas, information, images, and people (i.e., the diffusion of scientific knowledge).

Understanding the process based on facts and findings is indispensable for policymaking and strategic decisions, as well as for economic, social, cultural, and other types of analysis. In this context, the most important question is whether or not adequate tools are available to measure and evaluate the globalization process and thus analyze its impact.

Broadly speaking, the process of globalization has been measured by individual indicators and indexes that aggregate those indicators. This section provides an overview of how countries in the continent, especially those in Latin America and the Caribbean, are integrated. It will focus on two groups of measures of globalization, individual and indexes. The presentation of indexes includes a description of how they are constructed and a discussion of their reliability.

II.3.1 Economic Globalization Indicators

The simplest economic definition of globalization represents it as an increase in trade and capital flows across national boundaries. International integration is the result of both direct and indirect mobility of resources across national borders. This mobility may take a variety of forms including migration of workers, international trade in goods and services, capital flows and international production and investment.

The main aspects of the economic dimension of globalization, according to the OECD (2005a), are:

- Reduction of barriers to trade.
- The high integration of financial markets that increasingly impact the conduct and performance of the industrial sector.
- Crucial role of Foreign Direct Investment (FDI).
- Close linkages between trade and direct investment.
- Evolving multilateral frameworks for trade and investment.
- Internationalization of production: multinational origin of products components, services, and capital, often characterized by cooperation or subcontracting agreements among firms.
- Location strategies for the activities of multinational firms are strongly influenced by the comparative advantages of countries and regions.
- Substantial interdependences of the various dimensions of globalization (trade, direct investment flows, technology transfers, capital movements, etc.). High degree of integration of national economies, but also significant risks of contagion following economic of financial shocks in certain regions, which may spread to other regions not directly involved.
- Multiplication of regional free trade agreements.
- Compression of time and distance in international transactions.
- Global strategies adopted by firms may include a global conception of markets, a multi-regional integration strategy, changes in external organization of multinational firms, changes in internal organization (i.e., outsourcing, smaller average production units, and the need for greater transparency and for corporate governance regulations).

In this section, given the availability of data, priority is given to indicators of international trade, foreign direct investment and migration in order to analyze the trend of the main variables involved in the process of economic integration, chapter 4 presents a description of the development of the free trade agreements in LAC countries.

II.3.1.1 Trade

Trade is the oldest form of internationalization of economic activities. The most frequently used indicator of the importance of international transactions relative to domestic transactions is the total trade to GDP ratio. Globalization tends to raise this proportion and, as a consequence, to expose inefficient sectors or industries to greater foreign competition. Enterprises or workers that have operated behind the protection offered by high tariffs or by other protective policies may find themselves without such cover.

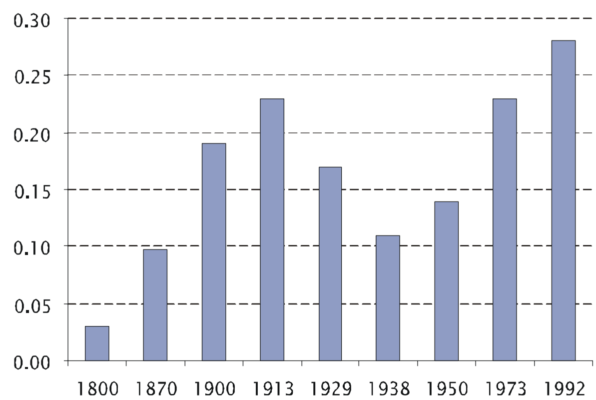
Figure II.1 shows the ratio of world trade to world GDP since 1800 at key benchmark dates and the conclusion is that after a continuous rise during the 19th century, trade peaked in 1913 as a fraction of the world economy activity, slumped during most of the middle 20th century, and has revived recently.

International trade in goods and services reflects the countries integration into the world economy, and tends to be more important for countries of small area or population, surrounded by adjacent countries with open trade regimes, than for large, relatively self-sufficient countries or those that are geographically isolated and thus penalized by high transport costs. Other factors also play a role and help explain differences in total trade to GDP ratios across countries, such as history, culture, trade policy, and structure of the economy.

International trade in goods and services reflects the countries' integration into the world economy. Trade has grown to unprecedented levels, both absolutely and relatively, in relation to national income. As barriers to trade have fallen across the world, global markets have emerged for many goods and increased for services.

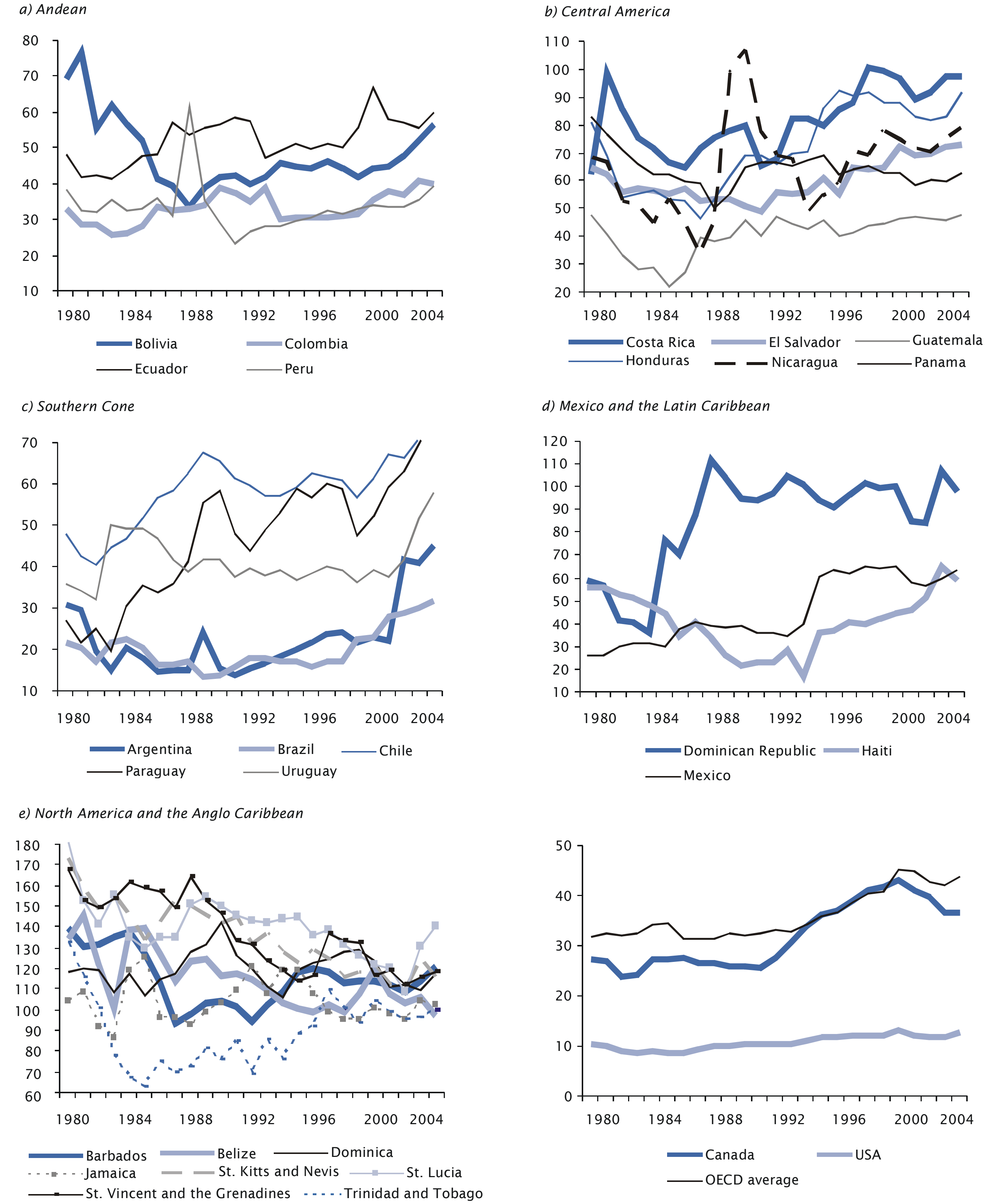
Through the '80s and '90s, LAC countries have become significantly open to trade. The growing extent and intensity of trade has led to the increasing enmeshment of national economies. At the same time, this period was accompanied by structural reforms, which caused significant changes in production and trade incentives. Figure II.2 shows that the trade to GDP ratio, increased from 1980-2004 in most countries of the Americas.

Figure II.1
International Trade, 1800-1992
(percentage of GDP)



Note: Trade refers to the sum of exports plus imports divided by GDP.
Source: Estevadeordal, Frantz and Taylor (2003).

Figure II.2
Trade in Goods and Services, 1980-2004
(percentage of GDP)



Source: Own elaboration using data from IMF (2006), World Bank (2004) and WTO (2006)

Smaller countries tend to be more open to overcome disadvantage of small size, as is the case with Caribbean countries, which show an average trade to GDP ratio of about 118 percent in 2001, down from around 135 percent in 1990. Much of the reason for this decline could be traced to the real appreciation of currencies over the 1990s (World Bank 2000), which leads to lower valuation of imports and exports relative to GDP. Their high degree of openness, coupled with relatively narrow production and export bases, leaves many of the countries vulnerable to external shocks, which may affect Caribbean countries differently. For example the rise in world oil price could improve the export earnings of Trinidad and Tobago, an oil exporting country, but increase import cost for much of the rest of the region.

The trade-to-GDP ratio of all OECD countries in 2004 was about 44%. The ratio exceeded 50% for small countries—Belgium, the Czech Republic, Hungary, Ireland, Luxembourg, the Netherlands, and the Slovak Republic—but was around 15% for Japan and the United States, the two largest OECD countries.

Between 1991 and 2004, trade-to-GDP ratios for the OECD as a whole increased by 11 percentage points. The ratio peaked in 2000 and has declined slightly since then. On the other hand, substantial increases in trade-to-GDP ratios were observed for Poland, Hungary, the Czech Republic, the Slovak Republic and, especially, for Turkey and Mexico (OECD 2005a).

As a share of GDP, trade in services rose faster than trade in goods in several OECD countries in the 1990s. Growth in the trade-to-GDP ratio in services was very high for Greece, Hungary, Ireland, and Turkey. It was negative for the Czech Republic, France, Mexico, Norway, and the Slovak Republic (OECD, 2005a).

The composition of what countries export is also important. The strongest rise by far in most of the LAC countries has been in the export of manufactured goods (See Figure II.3). As a consequence, for this set of nations, agricultural, mining, and other natural resources (including oil) have become a smaller part of trade. The Caribbean countries' merchandise exports consist mainly of agricultural products, mineral fuels, and chemicals. The export of mineral fuels is particularly important for Trinidad and Tobago. Despite this fact, the composition of trade in the Caribbean countries has changed increasingly away from manufacturing and towards tourism and other services in the most recent years. The countries most dependent on tourism include Barbados, Dominica, St. Kitts & Nevis, St. Lucia and St. Vincent and the Grenadines (World Bank 2005). In the Central American and Caribbean regions (including large parts of Mexico), the decline of the sugar industry marks an economic and cultural change.

According to the World Trade Organization (WTO 2005), the exports of manufactured products in 2004 represented more than 40 percent of the total exports in Antigua and Barbuda, Barbados, Brazil, Canada, Costa Rica, and Dominica, and even more than 80 percent in Dominican Republic, El Salvador, Mexico, and St. Kitts and Nevis. For the countries of the Andean region, Jamaica, Trinidad, and Tobago, the WTO reports that in 2004, sector fuels and mining products represented more than 40 percent of total exports of goods. Still, the sector of agricultural products represented more than 45 percent of total exports in 2004 in the following countries: Argentina, Guatemala, Honduras, and St. Lucia, and more than 60 percent in Belize, Nicaragua, Panama, Paraguay, St. Vincent, and Uruguay.

Figure II.3
Exports of Manufactures by CISS Region, 1984-2002
(percentage of total exports)

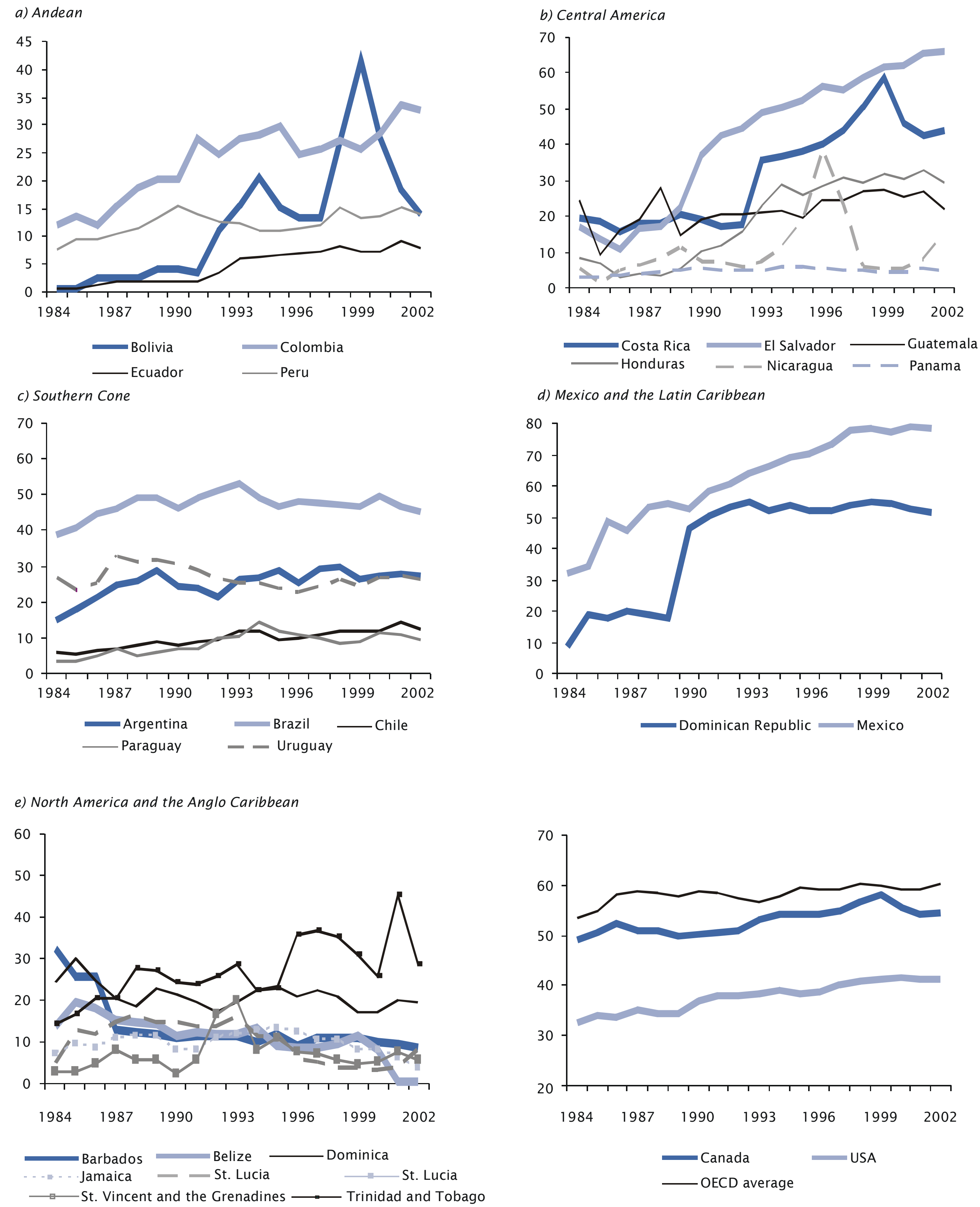
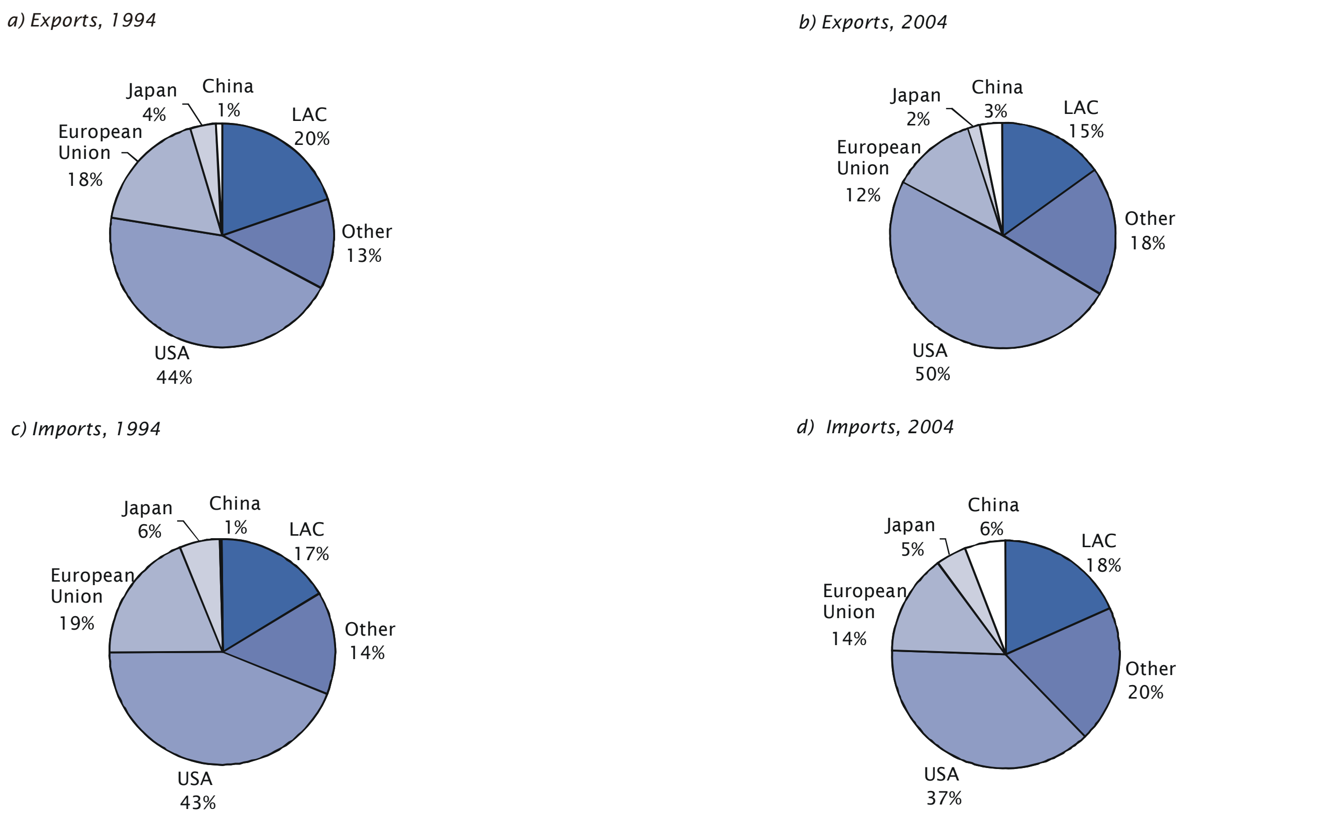


Figure II.4 shows how the participation and allocation of exports and imports of LAC countries have changed in the period from 1994-2004. The USA is the main commercial partner for LAC countries regarding exports, representing the destination of 50 percent of the exports from LAC countries in 2004. Thus, the more developed countries (US, European Union and Japan) absorbed more than 50% of the exports of the region. The imports of LAC countries come mainly from the USA, while the importance of imports from China can be observed easily from the Figure.

A new global division of labor is emerging in the production of goods. Two key phenomena are the growing values of intra-industry trade and soft stuff.

The issue of "trade in soft stuff" has been summarized by Danny Quah (1999) and Diane Coyle (1998) through the term "the weightless economy". The term makes reference to economic activity whose value does not lie in a physical end-product. Examples are intellectual property such as ideas and designs, computer software, entertainment products, telecommunications, and better ways to transmit information. Success in such a weightless economy comes from being able to organize and manipulate information in ways that generate extra value and is closely linked to success in applying information technology. Even as recently as the third quarter of the 20th century, the exchange of goods across nations—at least the exchange paired with money flows—was made up of "hard stuff". Nowadays, ideas and services make up a large and growing part (See Box II.3).

Figure II.4
LAC Composition of Commerce



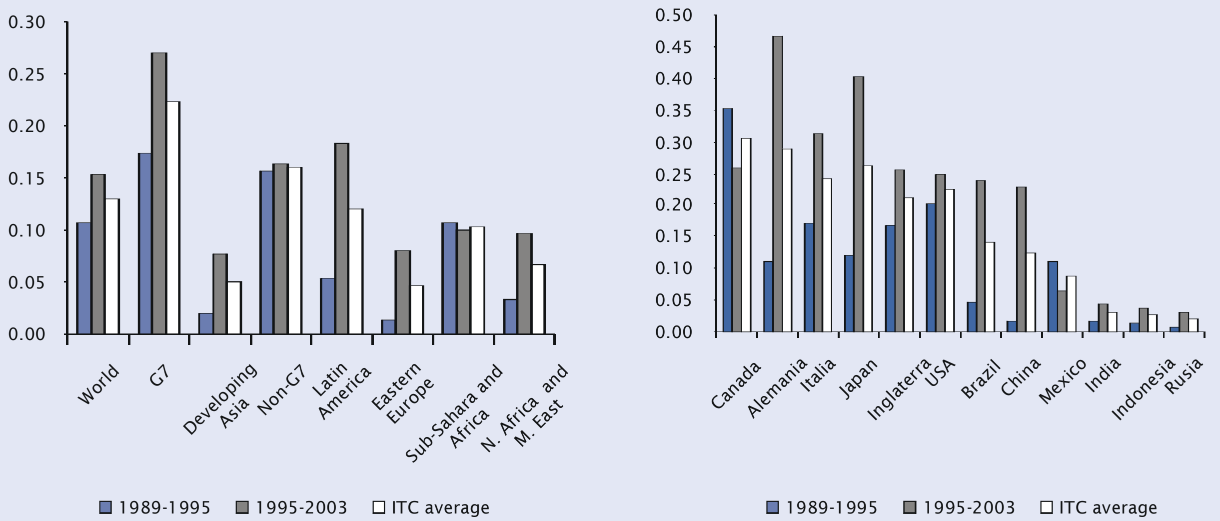
Source: Own elaboration using data from USAID (2005).

Box II.3

Investment in Technology and the Growth of Output[1]

World economic growth, led by the industrialized economies and Developing Asia, experienced a strong resurgence after 1995. According to Jorgenson and Vu (2005), during the second part of the nineties, the growth trends most apparent in the US have counterparts throughout the world. Investment in tangible assets, including IT equipment and software, was the most important source of growth.

IT Capital Contribution to Output Growth, 1989-1995 and 1995-2003
(percentage)



All seven regions of the world economy experienced a surge in investment in IT equipment and software after 1995. The impact of IT investment on economic growth has been most striking in the G7 economies followed by Developing Asia, led by China. The role of IT investment more than doubled after 1995 in Latin America, Eastern Europe and North Africa and the Middle East.

The rush in IT investment was particularly powerful in China, Germany, Japan and Brazil. Mexico's IT investment declined slightly after 1995.

Notes: 1/The measures for groups and the world are averages weighted by GDP (in PPP$) share. 2/ G7: Canada, France, Germany, Italy, Japan, United Kingdom, United States; Developing Asia: Bangladesh, Cambodia, China, Hong Kong, India, Indonesia, Malaysia, Nepal, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand, Vietnam; Latin America: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, Venezuela; Eastern Europe: Albania, Bulgaria, Croatia, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia Federation, Slovakia, Slovenia, Ukraine; Sub-Sahara Africa: Benin, Botswana, Burkina Faso, Cameroon, Central African Republic, Chad, Congo Republic, Cote d'Ivore, Ethiopia, Gabon, Guinea, Kenya, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Senegal, South Africa, Swaiziland, Tanzania, Togo, Uganda, Zambia; N. Afica and M. East: Algeria, Egypt, Iran, Jordan, Lebanon, Mauritania, Morocco, Syrian Arab Republic, Tunisia, Turkey, Yemen Republic.
Source: Own elaboration using data from Jorgenson and Vu (2005).

The stages of the production process are being sliced up and located in different countries, especially in developing and emerging economies. Thus, not only do countries increasingly consume goods from abroad, but their own production processes depend significantly on components produced overseas. Economic activity in any country is strongly affected by economic activity in other countries.

Intra-industry trade, particularly among OECD economies, now forms the majority of trade in manufactures. This trend has intensified competition across national boundaries. Trade competition has also intensified because a greater proportion of domestic output is traded than in the past. Trade activity is now deeply entangled with domestic economic activity. The distributions of gains from trade are uneven. For example, increased trade with developing countries adversely affects low-skilled workers in developed countries, while it increases incomes of high-skilled workers.

Social protection and the welfare state play an important role in ameliorating the impact of structural change arising from trade. However, increased demands on and costs of the welfare state tend to be resisted by employers in tradable industries vulnerable to global competition.

II.3.1.2 The role of Foreign Direct Investment

Another variable that measures an important aspect of the globalization process is Foreign Direct Investment. FDI is only one of the factors influencing international integration of markets and the growth of national economies.

Trade and international investment can be in the form of non-equity transactions (i.e., through the establishment of contractual relations between independent producers for sub-contracting of intermediate products), or equity transactions (in the form of risk capital). FDI essentially belongs to this last category, since the investor is directly involved in management of foreign enterprise. This direct involvement is considered potentially beneficial for the recipient economy, as it assumes that management participation often leads to managerial and technological knowledge transfer, as well as improvements in skills of the local labor force, due to application of more advanced production processes.

Figure II.5 shows the ratio of world stocks of foreign investment to GDP over the period since 1870. A phenomenon similar message to that of trade emerges: After peaking around 1913, the global capital market was almost inactive for the next 60 or 70 years, before renewed activity in the 1980s and 1990s.

Most empirical studies on the location determinants of FDI recognize that these are strongly dependent on:

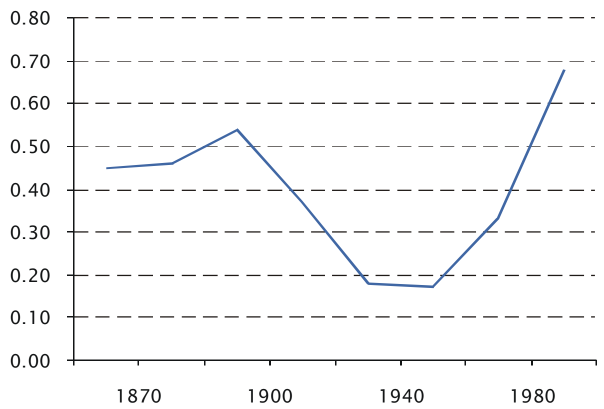
i) The motivation for FDI (natural resource, market- or efficiency-seeking, and asset-expanding objectives).

ii) The economic and business environment of host countries and the FDI-related policies pursued by their governments.

iii) The mode of entry or expansion of FDI (green-field, mergers, and acquisitions).

The distribution of FDI by regions and country of destination is imbalanced. Figure II.6 shows the top five countries in FDI outflows in the world and the participation of LAC countries in this subject for

Figure II.5
International Investment, 1870-2000
(percentage of GDP)



Source: Own elaboration using data from Obstfeld and Taylor (2003).

three periods: 1980-1989, 1990-1999, and 2000-2004. The participation of the USA in FDI outflows of the world is the most important, and has been stable at 20%. Participation of LAC countries in FDI outflows of the world has been around 3%.

Figure II.7 illustrates that the U.S. has the most important participation in FDI inflows in the world, although with a decreasing percentage through the three periods presented. LAC countries represent 10% of FDI inflows of the world for the period from 1980-1999, and 8% for 2000-2004. Argentina, Bermuda, Brazil, Chile, and Mexico are the main countries attracting FDI inflows.

Figure II.6
FDI Outflows Top 5 Countries
(percentage)

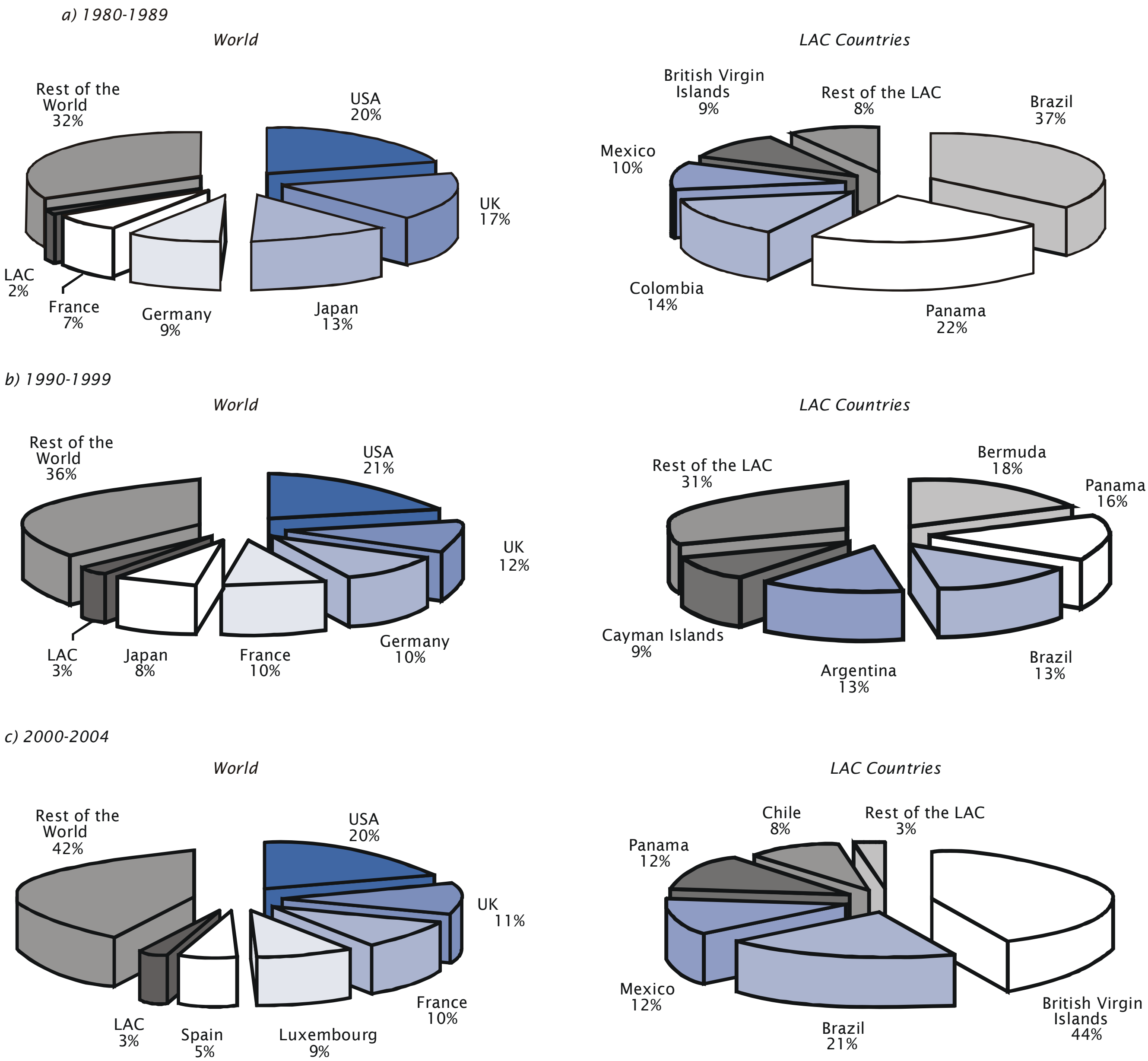
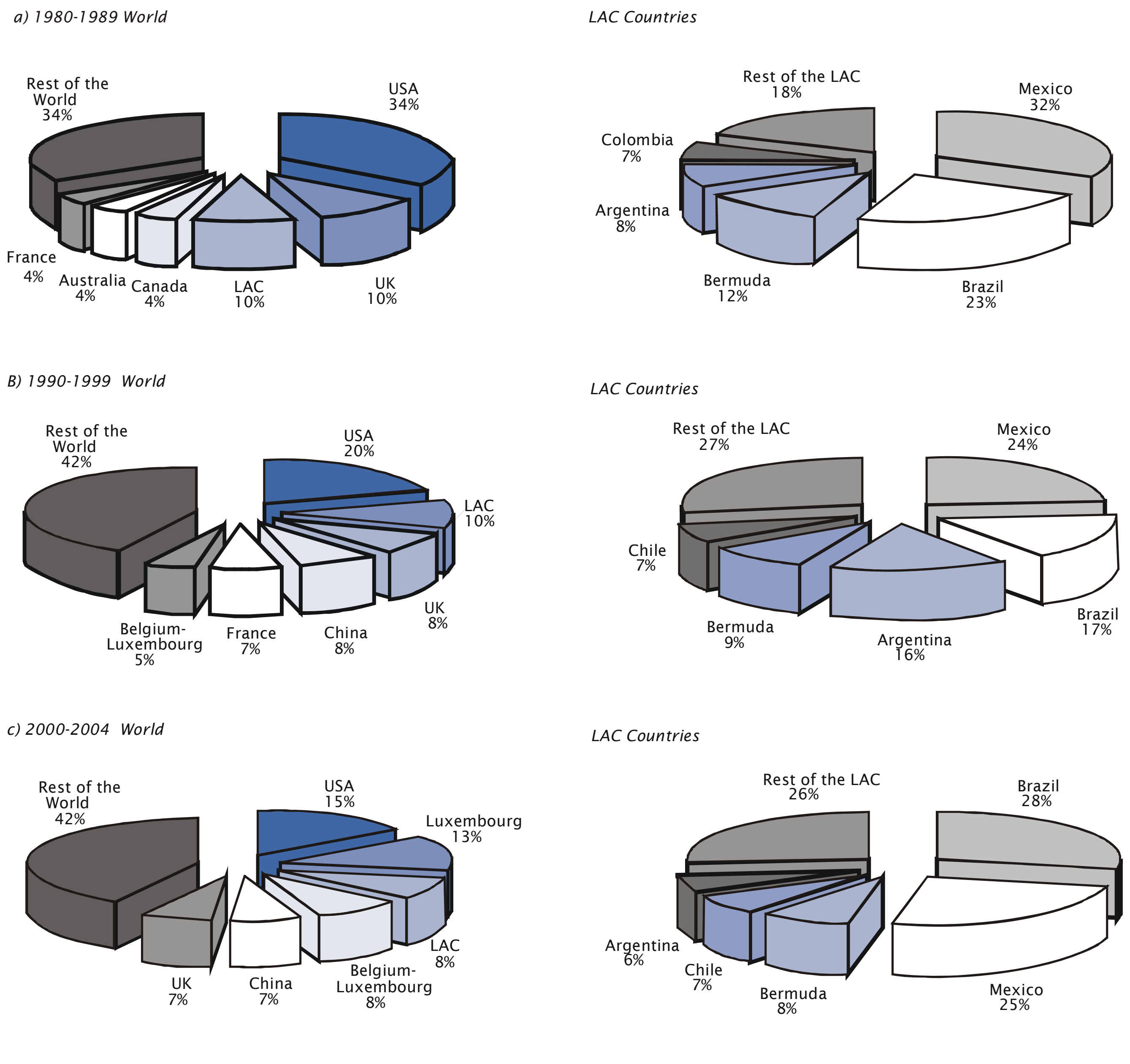


Figure II.7
FDI Inflows, Top 5
(percentage)



Note: LAC includes Anguilla, Antigua & Barbuda, Argentina, Aruba, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, British Virgin Islands, Cayman Islands, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Falkland Islands, French Guiana, Grenada, Guadeloupe, Guatemala, Guyana, Haiti, Honduras, Jamaica, Martinique, Mexico, Montserrat, Netherlands Antilles, Nicaragua, Panama, Paraguay, Peru, Puerto Rico, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, Uruguay and Venezuela.
Source: Own elaboration using data from UN (2006).

From the figures it is observed that the US is not only the main investing country, but also the leading host country for foreign investment.

The FDI boom in the '90s primarily reflects mergers and acquisitions of firms already established, with a lower degree of investment in new assets (green-fields). The growth of M&A in Latin America is related to the privatization of public enterprises. Actually, FDI is concentrated in a small group of economic sectors (e.g., telecommunications, electricity). European FDI, in particular, has been channeled primarily in telecommunications and energy, the banking sector and retail commercial chains. Investment from the US was heavily concentrated in the manufacturing industry and since the second half of the nineties started to diversify into services such as energy and telecommunications.

In Mexico it is also concentrated in the industrial sector as a consequence of vertical efficiency, an effect that has become more important after the enactment of NAFTA. Corporations have redistributed their operations across Canada, the United States, and Mexico to produce intermediate or final products in the cheapest cost location, and Mexico has received substantial investments geared towards assembly processes. For example, with the recent North American automobile industry crisis, plants have relocated to Mexico.

Financial capital and high-skilled or talented individuals become more mobile with globalization because their options expand to other countries. High taxes or constraining regulations create incentives for them to move internationally. In an open world where foreign competitors face lower taxes and fewer constraining regulations, it becomes more difficult and costly for a country to maintain high taxes and regulations.

II.3.1.3 International Migration of People

Financial and trade aspects dominate the discussion of globalization, whereas less attention is paid to the global movement of labor. The forms of labor flows currently taking place include guest workers, illegal immigrants (temporary and permanent), and professionals, who also can move temporarily.

The Social Security Report of 2006 shows a detailed analysis of the migration flows of people of the continent (CISS 2005). Two conclusions pertain to this Report. First, the movement of people has increased in recent years. Second, there are important migration flows from the countries of LAC to the United States, but also, there are other important regional migratory flows. This section extends those conclusions by analyzing the structure of migration by educational attainment, and analyzes the consequences of that type of immigration in the sending and receiving countries.

The analysis of immigration is limited by the lack of reliable data. Nevertheless, important efforts have been made recently to collect data on migration by educational attainment, at least for some countries (see, for example, the work of the OECD). The World Bank, in a comprehensive effort based on legal migration to OECD countries, estimates the immigration rates by educational categories for 192 regions of the world (World Bank, 2002). The analysis shows that:

- Immigration increased significantly during the 1990 decade. The number of working-age individuals (above 25 years old) born in one country and living in another country (only OECD) increased from 42 million in 1990 to 59 million in 2000.
- High-skilled workers (those with tertiary education) migrate more among all educational groups of workers. In 2000, they represented 34.6% of the OECD migration stock, while only 11.3% of the world labor force had tertiary education.
- Over time, high-skilled individuals, and to a lesser extent, individuals with secondary education, have been migrating in higher proportions. In 1990, high-skilled individuals represented 29.8% of all migrants; in 2000 they represented 34.6%. In the same period,

individuals with secondary education increased from 25.3 to 29.0%.

• Low-skill migration has become less important over time, decreasing from 44.9% in 1990 to 36.4% in 2000. Still, the number of low-skilled migrant workers grew in absolute terms during the analyzed period.

• This change in the mix of migration is partially related to changes in the world labor force. The labor force (those aged 25 and over, including retirees) increased from 2.6 billion in 1990 to 3.2 billion in 2000. In this period, the share of highly skilled workers increased by 1.8%, and the share of low-skilled workers decreased by 2.5%.

• From another perspective, the emigration rate of highly skilled individuals is very important for some countries, especially those of Central America, the English- speaking Caribbean, and Haiti (See Figure II.8). However, in the majority of countries the emigration rate is lower in 2000 than in 1990, with the exception of Mexico and a few other countries (See Figure II.9).

Figure II.8
Emigration of Tertiary Education Group by Country of Birth and CISS Regions, 2000
(rate)

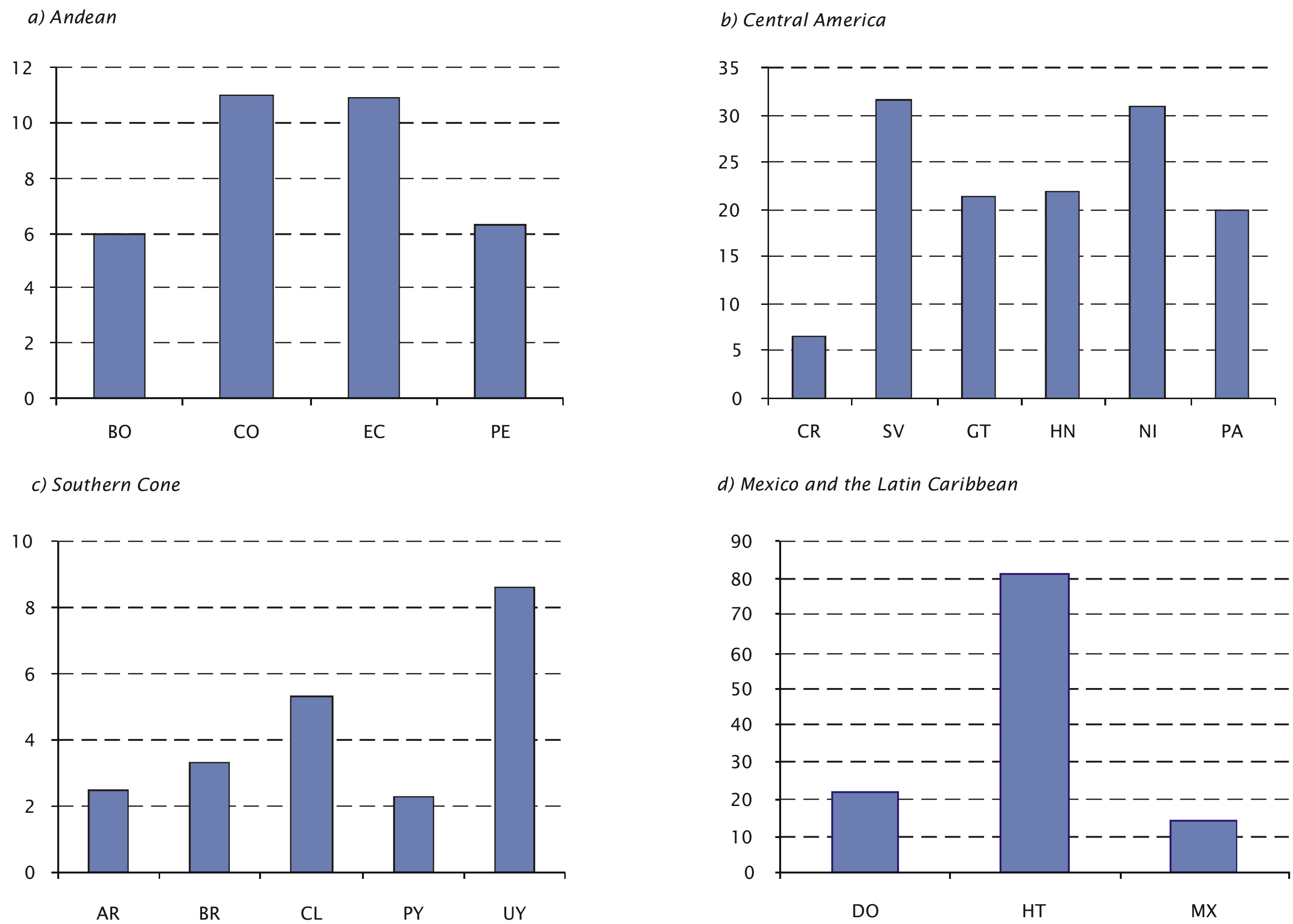
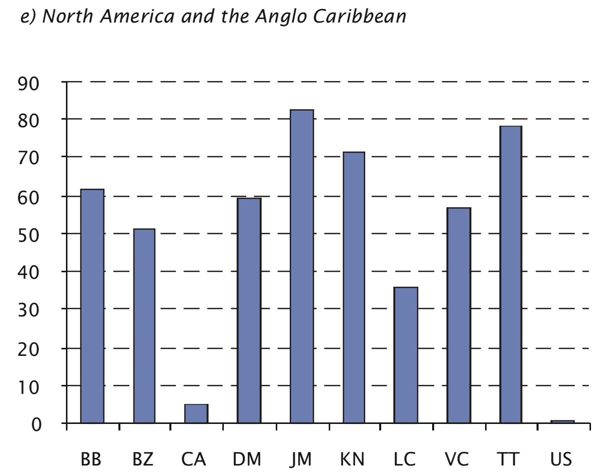


Figure II.8
Emigration of Tertiary Education Group by Country of Birth and CISS Regions, 2000
(rate)



Note: AR: Argentina, BB: Barbados, BZ: Belize, BO: Bolivia, BR: Brazil, CA: Canada, CL: Chile, CO: Colombia, CR: Costa Rica, DM: Dominica, DO: Dominican Republic, EC: Ecuador, SV: El Salvador, GT: Guatemala, HT: Haiti, HN: Honduras, JM: Jamaica, MX: Mexico, NI: Nicaragua, PA: Panama, PY: Paraguay, PE: Peru, KN: St. Kitts and Nevis, LC: St. Lucia VC: St. Vincent and the Grenadines, TT: Trinidad and Tobago, US: United States of America, UY: Uruguay.
Source: Docquier and Marfouk (2004).

Figure II.9
Variation in the Brain Drain by Country of Birth and CISS Regions 1990-2000
(percentage)

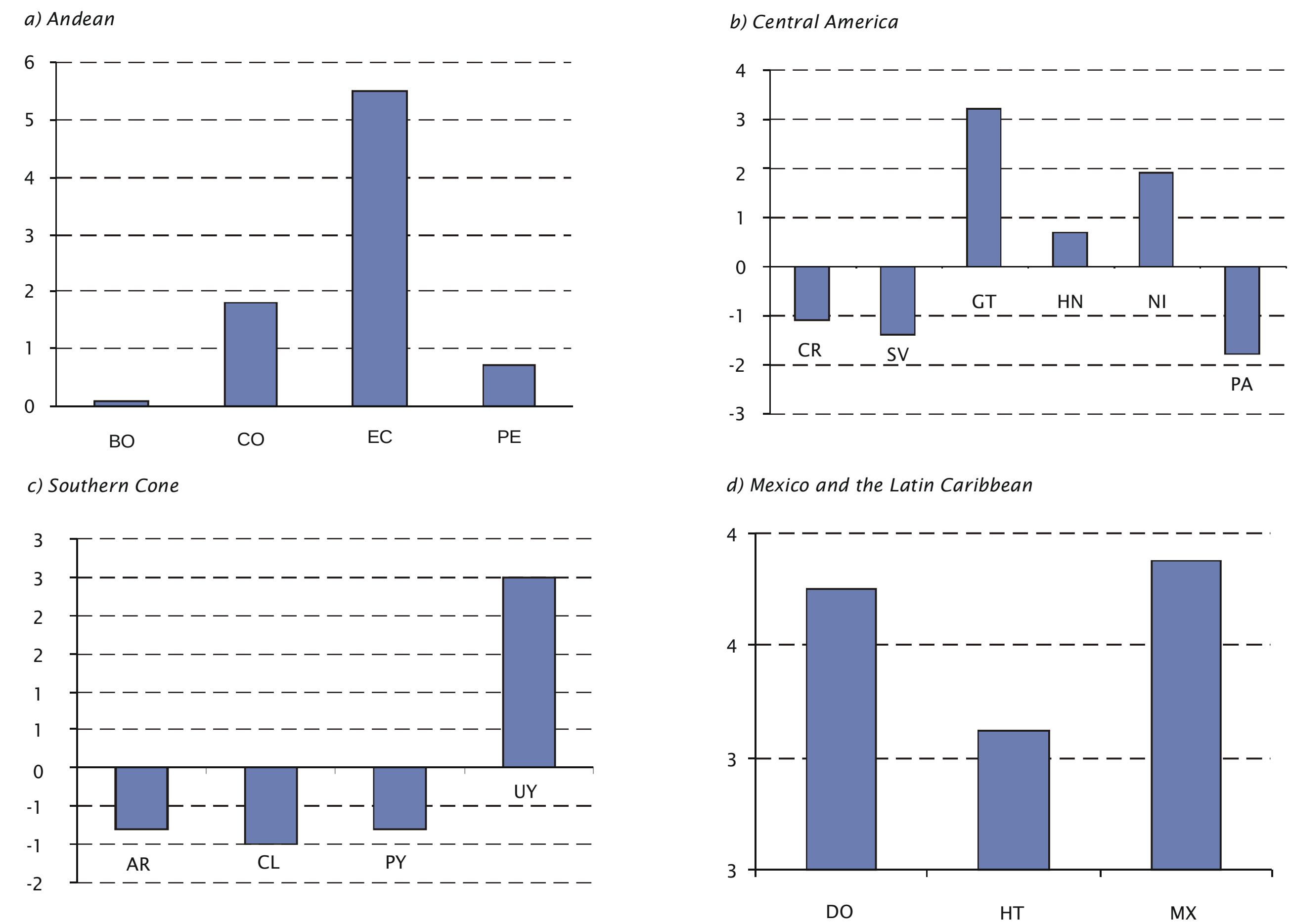
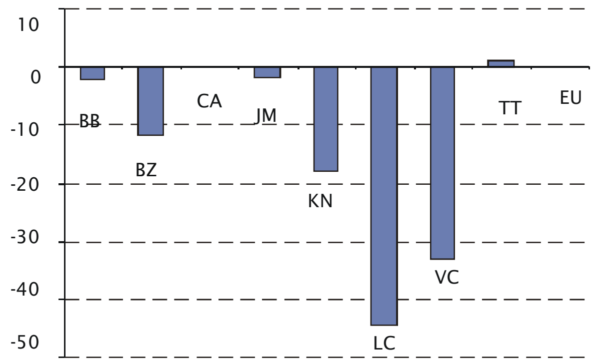


Figure II.9 (continued)
Variation in the Brain Drain by Country of Birth and CISS Regions 1990-2000
(percentage)

e) North America and the Anglo Caribbean



Note: AR: Argentina, BB: Barbados, BZ: Belize, BO: Bolivia, BR: Brazil, CA: Canada, CL: Chile, CO: Colombia, CR: Costa Rica, DM: Dominica, DO: Dominican Republic, EC: Ecuador, SV: El Salvador, GT: Guatemala, HT: Haiti, HN: Honduras, JM: Jamaica, MX: Mexico, NI: Nicaragua, PA: Panama, PY: Paraguay, PE: Peru, KN: St. Kitts and Nevis, LC: St. Lucia VC: St. Vincent and the Grenadines, TT: Trinidad and Tobago, US: United States of America, UY: Uruguay.
Source: Docquier and Marfouk (2004).

One development that can be highlighted is the so-called global labor market. It includes those jobs that can be performed anywhere in the world, wherever a company deems it most attractive. Jobs have become more flexible because the activity is not constrained by the need of physical proximity to customers, dependence on local knowledge, or complex interactions (McKinsey Global Institute, 2005).

Outsourcing acts as a mitigating factor for international migration. Outsourcing may reduce the need for international migration, which can help overcome the battle between labor- exporting and labor-importing countries. Many services, which in the past had to be managed from the host location, can now be spread to and delivered from remote locations, as a result of the evolution of information technology. These types of services include IT enable services (ITeS) and business process outsourcing (BPO), which are, for the most part, facilitated by information technology. Examples of these types of jobs in the service sector are financial, transportation, and professional services; while examples of service functions in the manufacturing sector are product/ process design, inbound-outbound logistics, management information systems, finance, and accounting and marketing, among others.

Some developing countries, especially India, benefited because of competitive advantages in delivering quality business services at lower cost. They flourish by providing services related to software application, management, and the like. In the Americas, the most important applications have been related to multinational corporations which have set up shared-service centers that concentrate continent-wide (or even world-wide) operations of certain business processes. Among the most active sectors in this endeavor are banks and automobile companies, which have applied the model to process payrolls, accounts payable, control of bank cashiers (including ATMs), and treasuries.

Even though some studies argue that the potential demand of this market is huge, ranging around 160,000 million jobs (McKinsey Global Institute, 2005), it is estimated (there are no official statistics) that as of today the market is very limited. For example, it has been calculated that in the United States, 3.3 million jobs will move overseas by 2015. This prediction implies a quarterly job loss rate of 55,000 jobs, well behind the 7 million jobs destroyed on average every quarter (OECD, 2005). From an international perspective, McKinsey Global Institute (2005) has estimated that 4.1 million jobs will actually be outsourced in 2008.

It can be inferred that participation of LAC countries in this market is relatively small. The region is at a disadvantage against other countries such as India, China, Russia, and other Eastern European countries, a condition mainly explained by cost disadvantages and the lack of a pool of talent. This lack is reflected in the fact that LAC participates with 2.3 billion dollars in the off-shoring services market of Business Process Outsourcing (BPO) and Information Technology (IT), while India and China participate with 12.3 and 3.4 billion dollars (McKinsey Global Institute, 2005).

Are these findings positive or negative? The answer is ambiguous. On one hand, the global labor market represents the opportunity for increased employment for the population of LAC countries. On the other hand, some analysts argue that given the rent-seeking view of Multi-National Companies (MNCs), the employment provided is highly cyclical because firms constantly seek new opportunities to reduce their cost.

Today no government can directly deny the opportunities of technology and economic transformation that globalization offers, which leads to the process of transformation. At the same time, government should not undermine the social security of its citizens.

II.3.2 The role of Politics

Two transformations that have affected the shape and form of modern politics are the development of

Box II.4
Global Labor Market

Off-shoring is a recent phenomenon in the long-term, ongoing history of globalization. As services become increasingly tradable, FDI has greatly increased. This circumstance has set the stage for MNCs to hire labor services abroad on a massive scale to perform intermediate tasks. Competition has created a self-reinforcing dynamic. Once one or two firms shifted to lower-cost locations and moved the cost/quality frontier, others had to follow. How long the dynamic will be maintained depends on the availability of skills, relative wages, and other costs. Among the tasks that have moved to the global labor market are the operation of call-centers and help-desks, accounting, transcriptions, drawings, and writing software.

Typically, firms decide to *disaggregate* some of the processes to take advantage of opportunities made available by the progress of information technology and the emerging global work force. These new advantages allow them to face increasing global competition with improved cost/performance ratios (Quinn, 1992). A firm decides to off-shore some of its processes for reasons other than labor costs. Some of these reasons are access to a large pool of skilled professionals, faster cycle time for design and development, and access to a large and growing market (Apte and Mason, 1995).

A theoretical estimation says that without «any constraint,» by 2008 approximately 160,000 million service jobs could be carried out remotely (McKinsey Global Institute, 2005). This calculation does not imply that all these jobs will be off-shored. Indeed, the same study estimated that only 4.1 million of those jobs will be actually off-shored. Reasons for this mismatch lie in the supply, demand, and to a lesser extent, regulatory factors. Among demand factors, the authors explain that company-specific factors, such as having processes unsuited for off-shoring, attitude toward off-shoring, or insufficient scale are the main reasons for this mismatch.

Supply factors are related to the quantity of talent suited to work in the global labor market. The study concludes that even though a big and growing pool of talent exists in the professions related to the off-shoring activities in developing economies, other factors diminish the potential supply to around 3.9 million. The factors identified are: i) limited suitability, explained by the lack of language skills, low quality, difficulties of adapting to a foreign culture (team work and flexible work hours); ii) geographical dispersion of the labor force and low willingness to relocate, and iii) domestic competition for talent.

The study concludes that regulatory barriers such as labor market regulations in the home country, as reflected by high severance payments; product market regulations; and insufficient legal protection of property rights in offshore locations are not the main deterrents of off-shoring.

territorially based political communities and the emergence of multifaceted regional and global governance (Held, 1999).

The first transformation was marked by the growing centralization of political power within Europe; sedimentation of political rule into State structures; territorialization of politics; spread of interstate order; development of forms of accountability within certain states and, at the same time, the denial of such accountability to others through colonial expansion; the creation of empires; and war.

The second transformation by no means replaced the first in all respects, although it was correlated with the final demise of empires. It has involved the spread of layers of governance both within and across political boundaries. It has been marked by the internationalization and transnationalization of politics; deterritorialization of aspects of political decision-making; development of regional and global organizations and institutions; emergence of regional and global law; and a multilayered system of global governance, formal and informal.

This second transformation can be illustrated by a number of developments, including the rapid emergence of international agencies and organizations. New forms of multilateral and global politics have been established involving governments, intergovernmental organizations (IGOs), and a wide variety of transnational pressure groups and international non-governmental organizations (INGOs). In 1909 there were 37 IGOs and 176 INGOs, while in 1996 there were nearly 260 IGOs and nearly 5,500 INGOs. In addition, there has been an explosive development in the number of international treaties in force (Hirst, 1999).

To this pattern of extensive political interconnectedness can be added the dense net of activity of key international policy-making fore. These include the UN, G7, IMF, WTO, EU, APEC, ARF, and MERCOUSUR summits, as well as many other official and unofficial meetings. In the middle of the 19th century, two or three interstate conferences or congresses were held per annum; today the number totals over 4,000 annually. National government is increasingly locked into an array of global, regional, and multilayered systems.

The substantial growth of major global and regional institutions should be highlighted. In the context of state history, the latter are remarkable political innovations. While the UN remains a creature of the interstate system, it has, despite all its limitations, developed an innovative system of global governance. This system delivers significant international public goods, from air traffic control and the management of telecommunications to the control of contagious diseases, humanitarian relief for refugees, and some protection of the environmental commons (Held, 1999).

The EU represents a highly innovative form of governance that creates a framework of collaboration for addressing trans-border issues. Regional relations beyond Europe have also accelerated in the Americas, Asia-Pacific and, to a lesser degree, Africa. While the form taken by this type of regionalism is very different from the model of the EU, it has nonetheless had significant consequences for political power, particularly in the Asia-Pacific (ASEAN, APEC, PBEC, and many other groups). This issue will be broadly addressed in Chapter 4.

Furthermore, interregional diplomacy has grown, as old and new regional groupings seek to consolidate their relationships with each other. In this respect, regionalism has not been a barrier to changing forms of political globalization—involving the shifting reach of political power, authority, and forms of rule—but, on the contrary, has been compatible with them.

Moreover, an important change has taken place in the scope and content of international law. Forms of international relations in the 20th century have created the basis of an emerging framework of 'cosmopolitan law,' a variety of law which circumscribes and delimits the political power of individual states. In principle, states are no longer able to treat their citizens as they see fit. Although, in practice, many states still violate these standards, nearly all now accept the general duties of protection, provision, and restraint in their own practices and procedures.

Global politics today is anchored not only in traditional geopolitical concerns, but also in a large diversity of economic, social, cultural, and even ecological questions. In the following section, this variable will be incorporated into the construction of a comprehensive index of globalization.

II.3.3 Indexes of Globalization

As mentioned previously, globalization is a process that involves economic, cultural, political, and even environmental aspects of countries. The aim of this section is to present the indexes that have recently been developed to obtain a comprehensive measurement of the process.

II.3.3.1 The Kearney-Foreign Policy (KFP) Index

The KFP index has been the first attempt to construct a database and compute a composite globalization index. It was designed jointly by A.T. Kearney, Inc., Global Policy Group, and Foreign Policy Magazine, and has been published since 1995 by the cited magazine.

The index is a simple combination of forces driving the integration of ideas, people, and economies worldwide. It is composed of four major components: economic integration, personal contact, technology, and political engagement. Each component is generated from a number of relevant variables. The total number of variables used in computation of the globalization index is 11 (See Table II.1 for a description of these variables).

The index quantifies economic integration by combining data on four key variables: trade, foreign direct investment, portfolio capital flows, and income payments and receipts. It measures technological connection by accounting for Internet users, Internet hosts, and secure servers. The index assesses political engagement by taking stock of the number of international organizations and UN Security Council missions in which each country participates, and the number of foreign embassies that each country hosts. Personal contact is charted by looking at international travel and tourism, international telephone traffic, and across-borders money transfers. The KFP globalization index is based on normalization of individual variables and subsequent aggregation using an ad hoc weighting system. The construction of the index is similar to the commonly used Human Development Index (HDI).

For most variables, each year's inward and outward flows are added, and the sum is divided by the country's nominal economic output (GDP) or its population. Two of the political engagement indicators remain as absolute numbers: memberships in international organizations, and number of treaties ratified. A country's contributions to U.N. peacekeeping missions are measured as a weighted average of financial contribution divided by the country's GDP, and the country's personnel contribution divided by the country's population. Hence, the indicator counts a country's contributions relative to its capacity to contribute, rather than the absolute size of contribution. This overall process produces data for each year that enable comparisons between countries of all sizes.

The resulting data for each given variable are then "normalized" through a process that assigns values to data points for each year, relative to the highest data point that year. The highest data point is valued at 1, and all other data points are valued as fractions of 1.

The range of normalized scores for each variable of each year is then multiplied by a "scale factor." For simplicity, the base year is assigned a value of 100. The given variable's scale factor for each subsequent year is the percentage growth or decline in the GDP— or population-weighted score of the highest data point, relative to 100. With the scale factor, comparisons between countries in the same year are preserved, and comparisons between changes in individual variables over time are possible. Country index scores are then summed, with double weighting on FDI and trade, due to those factors' particular importance in the ebb and flow of globalization. Technological variables and political variables are each collapsed into single indicators, with equal weightings for the component variables. Globalization Index scores for every country and year are derived by summing all the indicator scores.

Table II.2 shows the top ten countries and the ranking of Latin American countries included in the database according to the average KFP index for the 1995-2001 period. The top ten positions are mainly for European countries, with Ireland (8.8) leading the group. Singapore is the second highest globalized country with an index value of 8.3, followed by Switzerland (8.2), Sweden (8.1), Canada (7.1), UK (7.1), Netherlands (7.0), Finland (6.9), Denmark (6.9) and US (6.8). The three non-European countries qualified in the group are Singapore, Canada and US. For Ireland and Singapore the economic and political component dominates this measurement of the globalization process. In Switzerland personal components influenced more than other factors. In Sweden, both economic and political components, have more influence. Argentina, Chile and Panama are among the average globalized countries. Colombia and Peru are among the least globalized countries of the 62 considered by this index. The low ranking is mainly due to low technological and economic components. With the exception of Panama the political component is the most important for LAC countries.

Table II.1
KFP Index Components

Category	Variable Name	Variable Definition	Weight
Globalization in goods and services	Trade	Imports plus exports as percentage of GDP	1
	Convergence	The ratio of nominal to PPP GDP	1
Financial Globalization	Income	Credits plus debits as percentage of GDP	1
	FDI	Inward plus outward FDI as percentage of GDP	2
	Portfolio	Inward plus outward portfolio investment as percentage of GDP	2
Globalization in personal contact	Tourism	Inward plus outwad tourists as % of population	1
	Telephone	Minutes of inward plus outward international telephone traffic per head	2
	Transfer payments	Credits and debits as percentage of GDP	1
Internet Connectivity	Internet Users	Internet users as % of the population	2/3
	Internet hosts	Internet hosts per million inhabitants	2/3
	Secure servers	Secure servers per million inhabitants	2/3

Source: Foreign Policy (2004).

Table II.2
KFP Index 1995-2001

Rank	Country	Economic	Personal	Thecnology	Political	Kearney
1	Irland	2.456	2.024	0.577	1.524	8.829
2	Singapore	2.503	1.597	0.974	0.765	8.321
3	Switzerland	1.450	1.975	1.015	1.717	8.238
4	Sweden	1.430	0.970	1.372	2.244	8.125
5	Canada	0.779	0.892	1.502	2.448	7.175
6	UK	1.397	0.937	0.912	2.240	7.064
7	Netherlands	1.742	1.019	0.840	1.570	7.032
8	Finland	0.909	0.804	1.756	1.831	6.919
9	Denmark	1.262	1.072	0.982	1.963	6.860
10	USA	0.439	0.345	2.323	2.571	6.844
24	Panama	1.777	0.328	0.055	0.641	3.481
28	Argentina	0.412	0.103	0.078	1.999	2.974
33	Chile	0.674	0.199	0.152	1.130	2.768
43	Mexico	0.433	0.250	0.048	1.140	2.189
46	Venezuela	0.398	0.103	0.050	1.316	2.138
54	Brazil	0.250	0.050	0.068	1.438	2.043
60	Peru	0.312	0.165	0.091	0.934	1.790
61	Colombia	0.315	0.169	0.036	0.970	1.759

Source: Foreign Policy (2004).

II.3.2.2 Indexes based on Principal Component Analysis

This section presents another globalization index that summarizes several quantitative variables (Heshmati, 2003).[1] The globalization index measures the three main dimensions of globalization: economic, social, and political. In addition to three index measuring these dimensions, an overall index of globalization is calculated. Sub-indices refer to actual economic flows, economic restrictions, and data on personal contact, information flows, and cultural proximity. The index is constructed for 123 countries using 23 individual variables, which are shown in detail in Table II.3, as well as their weights used in the calculation.

To measure the degree of economic globalization, two indexes are constructed. One index measures actual flows: trade, foreign direct investment, and portfolio investment, all of them measured in percent of GDP. Income payments to foreign nationals and capital employed are included to proxy for the extent to which a country employs foreign people and capital in its production processes. The second index measures restrictions on trade and capital using hidden imports barriers, mean tariff rates, taxes on international trade (as a share of current revenue), and an index of capital controls.

To proxy the degree of political globalization, the number of embassies in a country, the number of international organizations to which the country is a member, and the number of UN peace missions a country participated are considered, just as in the KFP index. The flow of information and ideas is grouped as follows: data on personal contacts, data on information flows and data on cultural proximity. [2]

Table II.4 shows the top 10 countries in the world according to this index for year 2000, we also include the positions and results for LAC countries. The results show that the world's most globalized country is the US with a score of 6.48, which is driven by high social and political integration with the rest of the world. According to the index, France has the highest political integration with the rest of the world, followed by the US, Sweden and Canada. Other countries ranking high on the overall index include countries like Sweden and Luxembourg.

[1] The AT Kearney index is non-parametric, while the calculations in this section use principal component analysis.
[2] The weights for the sub-indexes are calculated using principal components analysis. The weights are then determined in a way that maximizes the variation of the resulting principal component. Therefore, the index captures the variation as fully as possible. The same procedure is used for the overall index.

Table II.3
Dreher Globalization Index

	Variables	Weights
Economic Globalization		**34%**
	i) Actual Flows	*50%*
	Trade (percent of GDP)	21%
	Foreign Direct Investment (% of GDP)	26%
	Portfolio Investment (% of GDP)	27%
	Income Payments to Foreign Nationals (% of GDP)	26%
	ii) Restrictions	*50%*
	Hidden Import Barriers	24%
	Mean Tariff Rate	27%
	Taxes on International Trade (% of current revenue)	24%
	Capital Account Restrictions	25%
Social Globalization		**37%**
	i) Data on Personal Contact	*26%*
	Outgoing Telephone Traffic	28%
	Transfers (% of GDP)	13%
	International Tourism	21%
	Telephone Average Cost of Call to US	11%
	Foreign Population (% of total population)	27%
	ii) Data on Information Flows	*37%*
	Telephone Mainlines (per 1000 people)	18%
	Internet Hosts (per capita)	17%
	Internet Users (share of population)	18%
	Cable Television (per 1000 people)	15%
	Daily Newspapers (per 1000 people)	16%
	Radios (per 1000 people)	17%
	iii) Data on Cultural Proximity	*36%*
	Number of McDonald's Restaurants (per 100,000 people)	100%
Political Globalization		**28%**
	Embassies in Country	36%
	Membership in International Organizations	36%
	Participation in U.N. Security Council Missions	29%

Source: Own elaboration using Dreher (2006)

Table II.4
PC Dreher Globalization Index 2000

World Rank	Country	Globalization Index	LAC Rank (GI)	Economic Integration	LAC Rank (EI)	Social Globalization	LAC Rank (SG)	Political Engagement	LAC Rank (PI)
1	USA	6.48	1	4.92	2	6.9	1	7.88	1
2	Canada	6.37	2	5.17	1	6.56	2	7.61	2
3	Sweden	6.24		5.62		5.63		7.85	
4	Denmark	5.75		5.63		4.76		7.26	
5	Finland	5.73		5.67		5.00		6.79	
6	Luxembourg	5.71		8.84		5.37		2.21	
7	United Kingdom	5.62		6.01		4.21		7.04	
8	Switzerland	5.57		5.96		5.16		5.63	
9	France	5.48		5.19		3.47		8.58	
10	Belgium	5.47		6.18		3.44		7.33	
26	Argentina	3.84	3	4.17	13	1.98	3	5.96	3
32	Uruguay	3.65	4	4.43	8	2.66	**5**	3.99	**5**
41	Chile	3.25	5	4.45	7	1.84	6	3.66	6
43	Venezuela	3.18	6	4.1	14	1.73	**5**	3.99	**5**
44	Brazil	3.17	7	3.5	20	1.54	4	4.95	4
47	Panama	3.13	8	4.9	3	2.09	13	2.31	13
49	Costa Rica	3.09	9	4.74	4	2.06	12	2.39	12
56	Mexico	2.91	10	4.03	15	1.47	7	3.44	7
57	Trinidad and Tobago	2.86	11	4.57	6	1.94	16	1.92	17
60	Jamaica	2.78	12	4.21	12	2.11	18	1.88	18
64	Bolivia	2.72	13	4.32	10	1.1	9	2.88	9
65	Peru	2.68	14	4.22	11	1.11	10	2.87	10
66	Nicaragua	2.67	15	4.66	5	1.18	14	2.17	14
68	El Salvador	2.63	16	4.39	9	1.57	**19**	1.84	**19**
70	Colombia	2.62	17	3.61	19	1.39	8	3.03	8
78	Guatemala	2.47	18	3.89	16	1.45	15	2.06	15
80	Ecuador	2.44	19	3.65	18	1.19	11	2.6	11
86	Honduras	2.3	20	3.85	17	1.2	**19**	1.84	**19**
90	Dominican Republic	2.17	21	3.04	22	1.51	17	1.95	16
99	Paraguay	1.94	22	3.45	21	0.63	20	1.83	20
103	Barbados	1.8	23	2.24	23	1.84	23	1.17	23
111	Belize	1.54	24	1.53	24	1.8	22	1.18	22
122	Haití	0.94	25	0.34	25	1.07	21	1.53	21

Source: Own elaboration using Dreher (2006)

According to the Dreher index, as it is possible to observe from Figure II.10, in Latin America, Argentina has maintained considerable lead over the other countries, with the highest social and political globalization scores of the region and an overall index of 3.84, ranking 3 in the region and 26 in the world. Uruguay is a country not considered in the Kearney database and follows Argentina in the ranking of LAC countries with a globalization index of 3.65. Panama, according to this index, is the country with the highest score of economic globalization index of the region (after US and Canada).

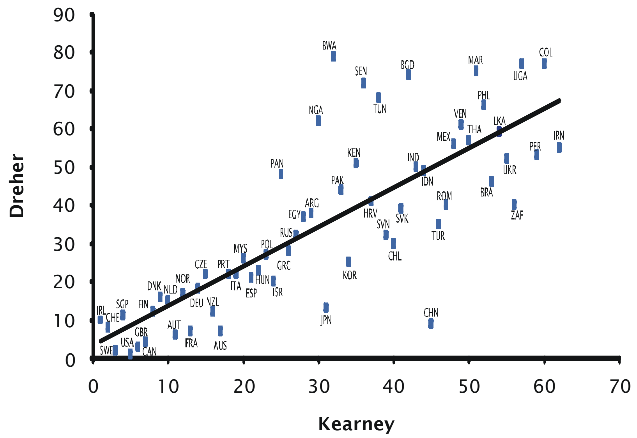
Brazil, the tenth largest economy in the world ranked 7th in the region and 44th in the world. Costa

Rica is another country not included in the Kearney database, its globalization index is 3.09 and is ranked 9 in the region and 49 in the world, and it follows Panama in the economic globalization score of the region.

It is also possible to observe from Figure II.10 that even though the size of the sample is not the same, the ranking of the countries according to Kearney and Dreher indexes fairly maintains for the first 30 positions, after that the differences are mainly because of the incorporation of more countries in the Dreher database. Figure II.11 shows the relationship between the two indexes, and the conclusion here is that there is a positive relationship between them.[3]

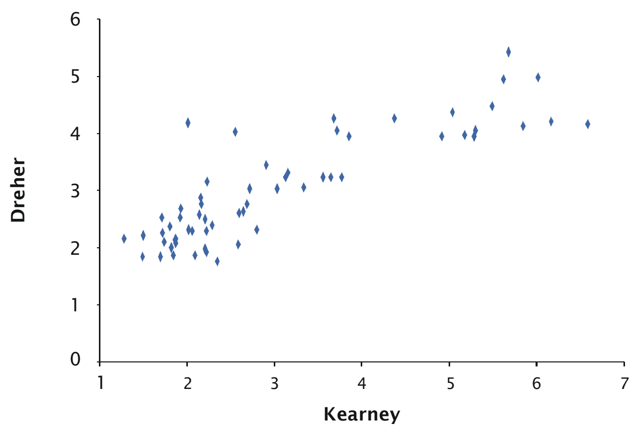
Figure II.12 shows the Dreher index of globalization for the CISS Subregions for the years 1975, 1990, and 2000. It is possible to observe that experience with globalization varies. Heterogeneity exists in the degree of globalization over time and across countries, as well as between regions within countries. Most countries show an increase in the degree of globalization measured by the index in 2000, in relation to 1990 and 1970.

Figure II.10
Ranking Countries According to Globalization Indexes
(ranking)



Source: Own elaboration using data from Dreher (2006).

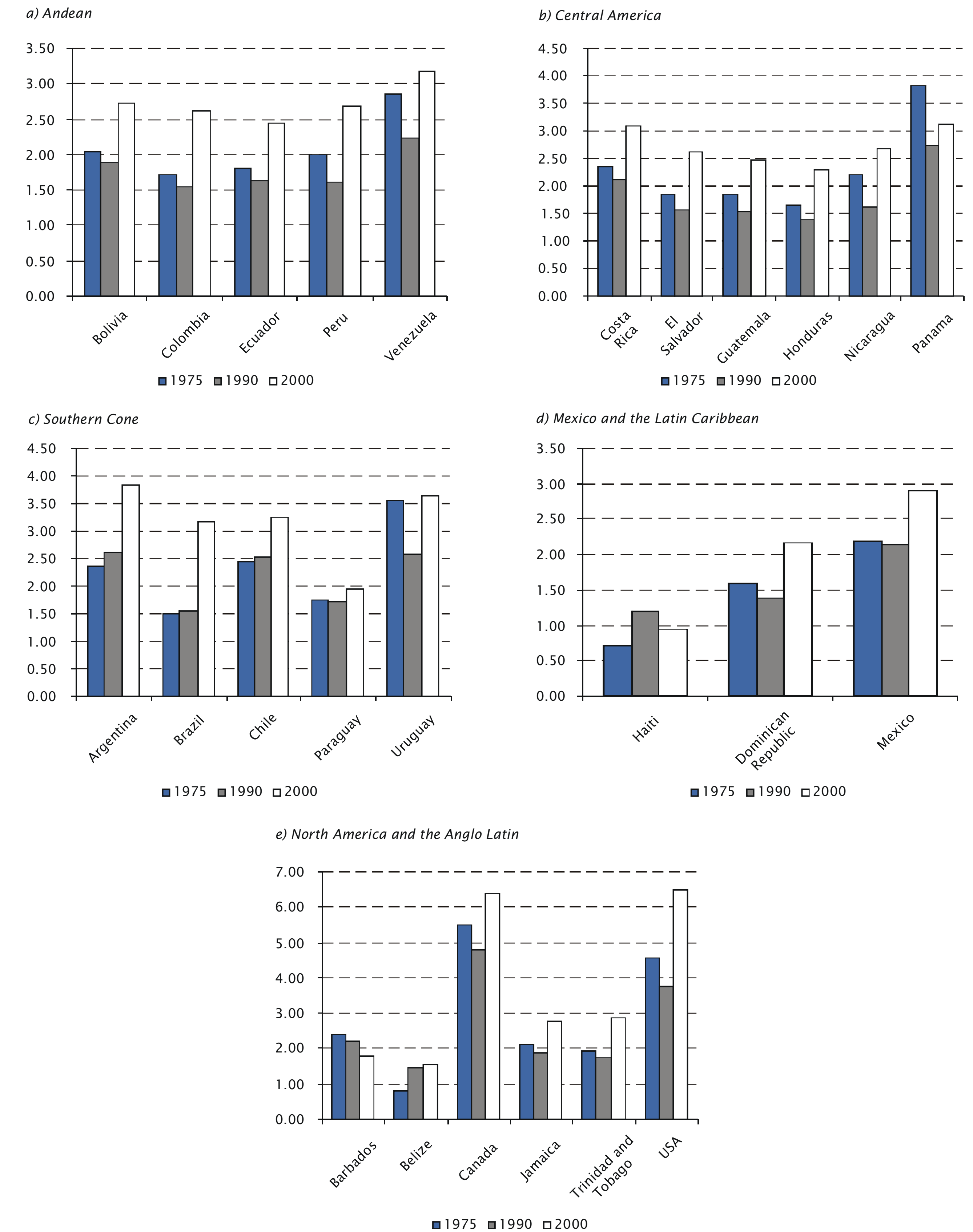
Figure II.11
Relationship between the Indexes Kearney and Dreher



Source: Own elaboration using data from Dreher (2006).

[3] Spearman correlation .86, significant at the 5%.

Figure II.12
Dreher Index of Globalization for LAC countries 1975-2000



Source: Own elaboration using data from Dreher (2006).

II.4. Conclusions

People around the world have established progressively closer contacts over many centuries, but recently the speed has accelerated. Air travel, telephone service, email, computers, huge oceangoing vessels, and instant capital flows have all made the world more interdependent than ever. Multinational corporations manufacture products in many countries and sell to consumers around the world. Money, technology, and raw materials move ever more swiftly across national borders. Along with products and finances, ideas and cultures circulate more freely. As a result, laws, economies, and social movements form at the international level.

Even though it is difficult to measure a nebulous concept like globalization precisely, understanding the process based on facts and findings is indispensable for policymaking and strategic decisions, as well as for economic, social, cultural, and other types of analysis. The economic aspect of globalization has been observed through individual variables, while social and cultural aspects of the process are not easy to identify.

Pertaining to economic globalization, it is observed that through the 1980s and 1990s, LAC countries became significantly more open to trade. The growing extent and intensity of trade has led to increasing enmeshment of national economies. The FDI also had a boom in the '90s, primarily due to mergers and acquisitions.

It is not easy to construct a precise tool to measure a process as complex as globalization. Nevertheless, two recently developed indexes have been increasingly used to analyze the effects of globalization on different aspects of interest such as inequality, development, and growth.

A first attempt to construct a composite measure of globalization is the KFP index, designed jointly by A.T. Kearney, Inc., Global Policy Group, and *Foreign Policy Magazine*. The Globalization Index brings globalization into sharper focus by assessing changes in its most important components, such as engagement in international relations and policymaking, trade and financial flows, or the movement of people, ideas, and information across borders. The index tracks these changes across 62 advanced economies and key emerging markets to draw a picture of globalization across all the world's regions. According to this index, the top ten globalized countries are mainly from Europe, with exception of Canada, the USA, and Singapore.

Another effort to offer a complete picture of the process of globalization is the index constructed with the methodology of PC analysis proposed by Dreher (2006). The index measures the three main dimensions of globalization: economic, social, and political. It is constructed for 132 countries, using 23 variables. From here we can also see that, even though the USA and Canada are the two most globalized countries, the remaining top positions are primarily for European countries.

A country's low-ranking position is often associated with weak economic and technological factors that developing countries are unable to address. Personnel and technology factors play an important role in determining a region's ranking position. Breaking down the index into major components offers the possibility of identifying sources of globalization and linking them to economic policy measures, which can help bring about desirable changes in national and international policies.

It is interesting to note that during the current phase of globalization least globalized countries emerge as best performer. Right now both China and India are the fastest growing economy but they are way behind in the globalization rankings. This holds a lesson for many others developing countries. This is unlikely to be seen as a surprise for the experts on growth. According to Robert Lucas, a less developed economy shall grow as fast as wealthy economies in as much as technology flows across national economies. Under an environment conducive to rapid transfer of technologies, the less developed countries are expected to grow more than the nations that create the bulk of the new technologies, the reason is that the transfer process can be faster than the creation process. If the globalization indexes are a reasonable good measure of the ability of a national economy to carry on those transfers, then they are useful for understanding the capacities for growth. They are integrating their economy at a faster pace, clearly holds a lesson for many other developing countries. In India high population growth coupled with complex cultural geography and continuing geopolitical tension jeopardize the equitable development of globalization.

From this perspective, the issue for national governments is not so much to understand the impact of globalization on Social security programs as it is to take the opposite view of causality, given that globalization brings about increasing competition. Tanzi (2000) notes that these channels are likely to become more important with the passage of time: the need for more efficiency, increasing mobility of factors of production, and international pressures to level the regulatory playing field or introduce uniform standards or codes of conduct.

Therefore, what can be done to prepare the local population to better adapt to rapid technological change? The uncertainty the population faces in terms of employment and wages can become a hurdle to change. Sometimes the process is perceived as unfair. Some governments have been seen as reckless due to recent histories of devaluation and recession, coupled with privatization movements that led to monopolization. In addition, strengthening social security was not a frequent preventive measure adopted to face more turbulent times. A national government has two choices: i) It can wait passively and respond to the social pressure that mounts against economic processes so perceived, or ii) It can be proactive and think about social insurance programs to generate the population's support for reform programs that can, in turn, accelerate economic growth.

CHAPTER III
CURRENT DEBATES ON GLOBALIZATION

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I. Introduction

Chapter 2 describes the increasing magnitude of globalization in the last decades. Most LAC countries engaged in this pattern with expectations of welfare gains. While governments are aware of the potential mid-term adjustments needed to liberalize their national economies in trade, investment, and regulation regime, they also believe that gains in economic growth and improvement for their citizens justify the move. Countries can benefit from lower prices and a larger variety of products. They also stand to benefit from long-term higher growth, fueled by higher productivity, which implies more employment and better wages. These conditions would lead to improved welfare and less poverty. Moreover, an increasing demand is expected from LDCs for their abundance of low-skilled workers, which may also induce less inequality. In spite of these expectations, long-term benefits will not usually come without short-term costs, called structural adjustments. Appropriate social protection policies are necessary, or at least suitable, to support those who will bear the costs.

This Chapter analyzes the evidence evaluating whether these predictions have been met. Literature on the topic is overwhelming; the task of surveying all of it would be unachievable. The approaches are quite varied and range from highly technocratic to philosophical. For this report, the most interesting tack relates to the economic topics of labor markets, policies, and social risk. Within this literature, the survey contemplates the latest evidence-based studies. We believe, though, that despite an important effort to gather all the prominent literature on the topic, some people will maintain that certain topics or evidence have not been treated with enough thoroughness; after all, globalization is a debated topic. Notwithstanding this, we are confident that the conclusions we have reached after reviewing all the literature will be less disputed.

The conclusions state that countries of the world have a long agenda, in terms of public policies, to make the full promises of globalization a reality. In particular, social security institutions have a prominent role in the actions that need to be taken. We hope this Chapter provides information useful to the design of social security policies and programs.

The Chapter is organized as follows. Section 2 describes the economic impacts of globalization in labor markets and social risk. Section 3 reviews the literature on the link between globalization and social protection programs. Section 4 briefly summarizes the opinions of international organizations on the current debate. Section 5 highlights the main findings of these reviews, and Section 6 concludes.

III.2 Impacts of Globalization on the Variables that Determine the Well-being of the Families

III.2.1 Short Term Impacts on Labor Market Outcomes and Poverty

III.2.1.1 Impacts on Wages and Inequality

We are interested in understanding the relationship between wages or labor income and globalization. This relationship is a key link to thinking through the evolution of national social protection systems in this age. The behavior of wages is fundamental, since it impacts pensions in old age, in either a defined benefit scheme or, more directly, a defined contribution plan. Lower wages imply lower expected pensions, or increase the probability that affiliates end up earning the minimum pension usually offered by national systems. Moreover, if we understand the way national wage distributions are changing, we can evaluate the impact of globalization on inequality. To the extent that social security, by way of its solidarity components, can help reduce inequality, the understanding of wage behavior can help shape new policy improvements in social security schemes.

Probably the most important change observed in wages in relationship to globalization is the impact on the distribution of wages (or labor income). Basically, a widening of observed "return to skills" has been noted since the 90s, especially between tertiary education and secondary and primary education. That is, differences in wages (wage premiums) between people with tertiary education and those with secondary and primary education have been growing since the beginning of the 90s. Table III.1 shows the average wage premium for every year of additional study in countries of the American Continent, and the annual growth rate of such premiums after taking labor experience and other characteristics of individuals into account.

Researchers have tried to understand i) how much of the increasing return to skills can be attributed to exposure to globalization, especially trade, and ii) what the mechanisms are through which globalization affects the skill premium. In general, it can be concluded that the widening in wage distribution across skill levels can be explained to some extent by openness, that the size of the impact varies across countries, and that the channels may be diverse. Broadly speaking, the arguments that have dominated the academic discussion are:

Skill-biased technological change. A technological change is skill-biased if it induces employers to demand more educated and trained workers than unskilled labor, at a given level of wages. The consequence of a relative increase in demand of skilled labor is that wages of the more educated will increase relative to wages of less skilled workers. This type of technological change is not necessarily a result of international trade, especially in developed countries, where technological change is generally produced. Rather, it is certainly associated with openness in less developed countries, since technological change comes from wealthier nations that are trying to save on their relatively expensive labor cost. For the LDCs, if all sectors in the economy have equal access to technology from abroad, then we can expect to see a fairly uniform widening of the wage gap between high-skilled and low-skilled workers across sectors of the economy.

Robbins (1996), in one of the first studies of this topic, concludes that rising relative demand and wages for high-skilled workers in Argentina, Chile, Costa Rica, Colombia, Mexico, and Uruguay are associated with the adoption of skill-intensive technology via capital goods imports. Attanasio, et al (2003) found that some of the increasing inequality in wages across educational levels in Colombia can be explained, among other factors, by skill-biased technological change, and that the change is greater in industries with larger reductions in tariffs. This finding suggests that the speedy adoption of skill-biased technologies was a response to increasing competition. Mazumdar and Quispe-Agnoli (2002) argue that evidence for Peru supports the hypothesis that wage inequality may be explained, at least partially, by skill-biased technological change, and that this technological change is embodied in imported machinery.

Import competition in low-skill intensive industries. This argument states that competition from low-wage countries reduces the relative demand for labor of unskilled workers in wealthier countries, causing their wages to fall relatively to skilled workers' wages. It is not easy to predict the way in which more trade affects the relative wage of high- and low-skilled workers in a country. For the typical LAC country, more trade has meant a higher level of exchange with the high-skilled economies of North America and Western Europe. However, it has also meant competition from countries with even more abundant low-skilled factors, like China and India. Galiani and Sanguinetti (2003) show that in Argentina a positive and significant association exists between trade, measured as import penetration ratios, and college wage premiums. Hanson and Harrison (1999), among others, have also shown that a reduction in tariff protection in Mexico negatively affected low-skilled workers.

Researchers have found other mechanisms that affect the distribution of wages across skill levels. Some of them are as follows:

Capital inflows from North to South and foreign ownership. Feenstra and Hanson (1995) proposed that capital inflows, measured as FDI, shift production in Mexico towards relative skill-intensive goods, and thereby increase the relative demand for skilled labor. They hold that this effect explains an important portion

Table III.1
Wage Differentials by Education Level, 1990-2001
(percentage change per additional year of schooling)

Country	Number of observations	Schooling secondary/primary		Schooling tertiary/ secondary	
		Mean	Annual change	Mean	Annual change
Latin American	81	9.85	-0.19	17.26	0.40
Argentina	10	9.15	-0.01	15.86	0.39
Bolivia	6	5.57	-0.05	14.15	1.99
Brazil	12	15.99	-0.36	23.29	0.40
Chile	5	14.15	0.15	21.27	0.40
Colombia	7	8.47	-0.03	20.38	0.18
Costa Rica	6	9.68	-0.14	16.40	0.06
Ecuador (1998)		12.46		6.99	
El Salvador (1999)		8.56		21.56	
Guatemala (1998)		10.74		14.59	
Honduras	5	5.46	-2.11	13.14	-0.88
Mexico	10	8.47	0.09	16.66	0.32
Nicaragua (2001)		10.31		18.46	
Panama	6	9.77	-0.30	16.36	0.10
Paraguay (1999)		8.12		0.00	
Peru	4	8.12	-0.23	15.60	0.72
Uruguay	5	8.29	0.11	12.20	0.46
Venezuela	5	8.37	-0.05	15.99	0.50
United States (1996)		9.18		13.48	

Source: Taken from BID (2004).

of the observed wage inequality in the period ending in 1988. Aitken, Harrison, and Lipsey (1996) found that foreign-owned plants in Mexico pay higher skill premiums than domestic plants. Hanson and Harrison (1995) show that this is also the case with Mexican exporters. The authors argue that their findings are consistent with several interpretations: i) Workers may be more productive in multinational firms, ii) Multinationals may attract more able workers, or iii) Multinationals may earn more rent and share this rent with their workers.

Skill-biased migration. In a recent study, Mishra (2006) found that emigration had a positive effect on Mexican wages and is associated with increasing wage inequalities across skills groups. In the same line, Chiquiar and Hanson (2002) found that Mexican migrants to the United States, while much less educated than United States natives, are on average more educated than residents in Mexico. Thus, were Mexican immigrants in the United States to be paid according to wage determination patterns in Mexico, they would tend to fall within the upper half of Mexico's wage distribution. These results run counter to the folk wisdom on international migration, which sometimes says that migrants are very poor in their country of origin. Contrarily, migrants belong to the middle social strata in their communities of origin. This allows the authors to conclude that migration may raise wage inequality because the least skilled workers and better educated people stay at home, while much of the middle class leaves the country. Given the size of the migratory flows, this is an issue to consider, at least in Central America, Mexico, and all of the Caribbean.

Other market oriented reforms. In a recent article, Behrman, et al (2003) use a new database of 18 countries of LA for the period 1977-1998 with the objective of assessing the effect of six market oriented policies —trade and financial sector liberalization, privatization, the opening of capital markets, the reduction of high-income tax rates in favor of broad-based taxes on consumption, and the deregulation of labor markets— on the wage inequality.

The authors conclude that in general the market oriented reforms expands the wage gap significantly in the short run but that the effect fade away over time –although for some individual policies the effect may be persistent. These outcomes are explained by the strong impact of the domestic financial market reform, capital account liberalization and the tax reform. Moreover, the authors find that there is some evidence, but less solid, that labor market reform also contributed to widening the wage inequality, that the privatization contributed to narrowing the wage gap, and contrary to what was described in previous paragraphs, that trade openness has no effects on the wage distribution. As it will be explained in more detail in the following paragraphs, findings from across country studies, as this one, are subject to criticisms that alert on the reliability of the results.

It is worth commenting that the patterns described above do not hold for Brazil. Gonzaga, et al (2005) document that the decreasing wage differential observed for Brazil between secondary and primary education (see Table III.1 above) is associated with trade liberalization, and that employment shifted from skilled to unskilled intensive sectors. The contrast between Mexico and Brazil certainly raises the question of differential impacts of distance to the United States, and the roles of NAFTA and MERCOSUR as alternative national strategies to face globalization. Mexico and Brazil may have different results due to a variety of causes: i) The large border and flow of individuals make the flow of goods and technology more difficult to control for Mexico than for Brazil; and ii) NAFTA has strengthened the natural bonds and barriers created by distance. We do not have a full diagnostic of what the long-term impacts of NAFTA and MERCOSUR will be on Mexican and Brazilian wage levels and wage distribution, or even on the current conditions. However, there is no doubt that this issue is of interest for all countries in the Continent and deserves further research.

The increase in skill premium is not the only change observed in wage distribution. Wage distribution also changed regionally and across sectors or industries as a consequence of globalization. For example, in a series of works on Colombia, it was found that the larger the tariff reduction in a particular sector or industry, the larger the decline in this sector's or industry's wages relative to the economy-wide average (Goldberg and Pavcnik 2001and Attanasio, et al 2003). Feliciano (2001) finds that between 1986 and 1990, wage dispersion in Mexico rose more in tradable sectors than in non-tradable sectors. He also found that industry wage premiums fell in industries with larger reductions in import-license requirements, but not in industries with larger reductions in tariffs. On the other hand, in a series of papers, Gordon H. Hanson found that regional wage structure in Mexico has been affected by globalization. In general, it can be said that wages in border states increased, relative to non-border state wages, during the period of larger trade exposure (see, for example, Hanson 2003).

All factors that influence wages occur at the same time and have impact on different dimensions across skills, industries, and regions. In this sense, one group of people enjoys greater benefits from globalization—namely, high-skilled workers in general (with Brazil being a possible exception). Conversely, other groups bear more of the adjustment cost. These people are generally the low-skilled individuals working in industries that have been opened aggressively and, in Mexico, those working in states far from the United States border. The regional dimension may be the key to understanding support for liberalization in several countries. As it becomes clear that some territories are winners, while others may face long-term adjustment to liberalization measures, the politics surrounding globalization topics have also become regionalized in several nations.

III.2.1.2 Impact on Employment and Informality

The effect of globalization on employment follows the same argument as the effect of globalization on wages. After all, the changes in either wages or employment reflect the increasing relative demand for some type of workers. The relative demand will impact wages and employment, depending on market labor conditions, particularly the capacity of workers to move across sectors. On the other hand, some critics of globalization have argued that openness would lead to a higher degree of competition across markets. Those critics contend that this competition could induce firms to outsource activities to small firms or entrepreneurs that do not comply with fiscal or labor regulation, thus belonging to the informal sector.

The evidence of impacts of globalization on employment, unemployment, and informality is quite small, especially when compared to literature on the impact of globalization on wages. The puzzling conclusion is that, in general, a small impact of trade reform on employment is present in LDC (Harrison and Hanson 1999). A series of studies for Colombia does not find a strong relationship between tariff reductions and other measures of trade exposure, and unemployment and/or labor re-allocations across different sectors (Attanasio, et al 2003 and Golberg and Pavnick 2005). Revenga (1997) finds a moderate reduction in firm level employment in Mexico in the 1980s, following reductions in tariff levels and quota coverage. Hanson and Harrison (1999) found little change in the relative employment for skilled labor in Mexico. There are documented exceptions to these findings. For example, Mazumdar and Quispe-Agnoli (2002), as cited above, show that imported machinery led to relative increases in employment of skilled labor in Peru. Rama (1994) finds that trade reforms in Uruguay in 1979 and 1985 had a significant impact on the level of employment across manufacturing sectors, but almost no impact on real wages. As mentioned earlier, Gonzaga, et al (2005) document employment shifts from skilled to unskilled labor in Brazil. Finally, several authors suggest that increasing unemployment in the 90s in Argentina was due to trade liberalization (see, for example, Palomino 2003).

In studies of a different type, the McKinsey Global Institute (2003)[1] found mixed results for the effect of FDI on employment: In two-thirds of the sector/country cases studied, no negative effect on employment was noted because of the entry of multinationals. Studies of Brazil and Mexico document that both countries experienced labor productivity gains in the auto sector with the entry of multinational companies. However, only in Mexico was a positive effect on employment observed. In the consumer electronics sector, both countries experienced positive effects on labor productivity and employment. The study stresses that much of the effect can be explained by local regulatory conditions. For example, the entry of large retailers in food was associated in Mexico with higher labor productivity and formal employment. In Brazil, by contrast, the tax system provided strong protection for underproductive operations, and thus reduced the transition to higher productivity formats (from small supermarkets to hypermarkets). The telecommunications regulatory reform implemented in India has been a key for the development of the Information Technology sector in that country, generating large gains for native workers as corporations move their software development, help desks, call centers, and other Information Technology operations.

Additionally, evidence has been found on the way trade reforms contributed to increases in the probability of working in the informal sector. Even so, the effect is concentrated in the years prior to labor market reforms that increased flexibility in the Colombian labor market (Attanasio, et al 2003; Golberg and Pavnick 2003; and Golberg and Pavnick 2005). The lack of relationship between openness and informality was also found for Brazil (Golberg and Pavnick 2003).

What are the reasons for the generally puzzling small effect on employment from trade exposure and lower tariffs, at least in Mexico and Colombia? Harrison and Hanson (1999) show that in Mexico, the small employment responses to either large changes in trade policies or trade flows are explained because much of the adjustment occurred through the impact on wages. Another explanation is that firms adjust their processes in other ways when facing competition, such as by reducing excess profits and raising productivity, as will be described in following sections. However, this does not mean that many people did not lose their jobs. What probably occurred was that people lost their jobs and found other ones with lower wages, as the work of Kaplan, Martinez, and Robertson (2005) suggests.

III.2.1.3 Impact on Poverty

Probably no other topic has been studied more than globalization and poverty, summarized by the measurement of the number of people under poverty lines. Several studies have analyzed whether globalization is associated with more poverty within countries or globally. In this section we will review studies that analyze the within-country poverty for Latin America. Box III.1 summarizes the paper of Aisbett (2004) that surveys the recent evidence on global poverty and explains the reasons behind the heated debate and lack of consensus on the topic.

When we talk about globalization and poverty, we can analyze: i) the impact of globalization on labor income; and ii) the impact of globalization on poverty through channels of income and by consumption. After all, globalization has affected incomes of individuals, as was widely summarized in previous paragraphs, but it also has implied lower prices, higher quality, and a greater variety of goods. Regarding globalization's impact on labor income, Golberg and Pavnick (2005) have found that poverty in Colombia is highly associated with low wages, unemployment, informality, and non-compliance with minimum wage legislation. From what we have documented previously, it should be of no surprise that these researchers did not find a link between trade reforms

[1] McKinsey Global Institute performed in-depth case studies of FDI in five sectors (automotive, consumer electronics, retail banking, food retailing, and the off-shoring of information technology and business processes) in four major developing countries: Brazil, China, India, and Mexico.

and poverty. On the contrary, Hanson (2005) has found that in Mexico, exposure to trade and other measures such as FDI is associated with lower incidence of wage poverty. Hanson also found that trade allowed people working in high-exposure states to better face the financial crises of 1994-1995.

Moving to the effect on the consumption side, Hausman and Leibtag (2005) evaluated the degree to which consumers can benefit from greater competition and diversity of foods. Their paper showed that consumers benefit markedly from these conditions. In North America during the last 15 years, large-format food stores, known as supercenters or hypermarkets, have been established. This trend applies to many other areas of consumption, although the study is focused on food retail. Hausman and Leibtag estimated that on average, consumers have received benefits of up to 25% in their food spending, thanks to commercial innovations. This benefit comes from more variety, enhanced access, and lower prices. For the population under their study, which spent on average 151 dollars a month, this benefit represents approximately 38 dollars a month. The authors also concluded that lower income consumers benefit the most, since their benefit is approximately 10 percentage points higher than for high-income consumers.

In several countries of the American Continent, such as Mexico and El Salvador, where multinational franchises were prohibited at the beginning of the 90s, several regulatory reforms took place. These reforms have allowed important growth, especially in food retailing but also in other areas, that alongside reforms to commercial regulation have allowed the development of large commercial centers (malls). The malls provide lower prices for food and many other items. Welfare gains for the population of these countries are probably larger than welfare gains observed for consumers in the study by Hausman and Leibtag, since consumers faced lower variety and had to buy in markets with less competition. This argument reinforces the need to think about the hurdles that regulation and interest groups impinge on the development of modern systems of commercialization: not only employment and productivity are negatively affected but they impede important welfare gains driven by consumption.

Besides commercial reforms, Nicita (2004) finds that trade liberalization in Mexico has reduced the domestic prices of a number of agricultural and manufacturing products. While the wage gap increased across skill levels and regions, poverty was reduced by 3% by trade liberalization between 1989 and 2000, when income and consumption were considered. McMillan, Zwane, and Ashraf (2005) conclude that the increase of corn imports lowered the price of Mexican corn. Only the poorest Mexican corn producers benefited, since they are net consumers of the cereal, while middle-income corn producers now receive lower incomes, since they are net sellers of the cereal. The authors note that the decline in income of these farmers was attenuated by two income support social programs, *Procampo* and *Progresa* (now *Oportunidades*).

Box III.1
Impact on World Poverty and Inequality

One of the most controversial issues regarding globalization is its impact on world poverty and inequality, where the word *world* means a "no borders" approach. That is, poverty is calculated as the total number of poor persons or the incidence of poor people in the world, where the measure of inequality is either the inequality across countries or where every person in the world is a member of a single global income distribution. Advocates of anti-globalization usually conclude that globalization has increased poverty and worsened global inequality. Proponents of economic globalization, including the most important International Financial Organizations (IFOs), conclude exactly the opposite. Aisbett (2004) more deeply analyzes the reasons why critics are so convinced that globalization is bad for the poor. The author

Box III.1 (continued)

concludes that the answer to her question has two dimensions. "First, neither the theory nor the empirical evidence on globalization and poverty is unarguably positive. Second, and more importantly, people's interpretations of the available evidence are strongly influenced by their values and beliefs about the process of globalization" (p. 2). Regarding the first dimension, the author explains that each of the studies has apparently minor methodological differences, but that these differences lead to different conclusions about the impact of globalization on poverty and inequality. Such methodological differences can be grouped by i) definition of a measure of poverty and inequality; ii) statistical issues, such as finding an appropriate conversion rate; iii) the selection of the sample of countries to be analyzed; and iv) the use of different data bases to calculate the indicators, specifically between household surveys and national accounts. To illustrate the point, Tables 1 and 2 replicate the comparative data collected by the author. A detailed explanation of the differences can be read in the author's paper. Here we only highlight that Xavier Sala-i-Martin, who has found decreasing income inequalities, explains that most global disparities can be accounted for by across-country, not within-country, inequalities. Within-country disparities have increased slightly during the sample period, but not nearly enough to offset the substantial reduction in across-country inequalities. However, the reduction observed in across-country inequalities is mainly, but not fully, explained by the high growth rates observed for China.

Comparison of Recent World Inequality Estimates

1998 Headcount (billions)	1998 Incidence (%)	Average annual change 1987-1998 (millions)	Poverty line ($/day)	Source of mean[1/]	Currency conversion[2/]	Source
1.20	24.0	+1.4	1.08	NHS	WBPPP93	Chen and Ravallion (2000), Table 2
2.80	56.0	+22.9	2.15	NHS	WBPPP93	Chen and Ravallion (2000), Table 3
0.35	6.7	-3.3	1.08	NAcc	WBPPP93	Sala-i-Martin (2002a), Table 1
0.97	18.6	-20.0	2.15	NAcc	WBPPP93	Sala-i-Martin (2002a), Table 1
0.46	9.2	-30.8	1.08	NAcc	WBPPP93	Bhalla (2003), Table 1
0.37	7.4	-22.6	1.15	NAcc	WBPPP96	Bhalla (2003), Table 1

Notes: 1/ NHS means national household survey data, NAcc means national accounts data, 2/ World Bank Purchasing Power Parity conversion using base year 1993. Uses Elteto, Koves and Szulc method.
Source: Taken from Aisbett (2004).

The author emphasizes that the technical issues summarized in the previous paragraphs are only part of the story. She argues that some technical issues may not be resolvable, but even if they were, differences will not disappear. The reason is that critics and proponents of globalization have subtle differences in values, which act as filters through which information is interpreted. They also have different opinions about the fundamental process underlying globalization. In regard to the first argument, poverty critics focus mainly on headcount of poor, even though they may recognize that the incidence is lower – i.e., saying that even if the percentage of poor people is lower, there are more poor people in the world– while proponents of incidence say the percentage of poor people has decreased. Poverty critics focus more on the adverse effect of the short run, while proponents focus on the long-term benefits. Finally, critics of globalization tend to think of poverty as a multidimensional concept, rather than something that can be fully captured by measures of income or expenditure, or even with measures that incorporate health and educational outcomes. Discrepancies also apply for inequality, even though inequality is a concern for both groups. Critics focus on absolute terms, and as such, on the polarization between the top and bottom of the distribution. They are concerned about the distributions of gains from globalization, while the proponents focus on relative measures, such as the Gini coefficient. For example, critics will argue that globalization worsens inequality because the upper end of the distribution

Box III.1 (continued)

Comparison of Recent World Poverty Estimates

Gini (start year)	Gini (end year)	Rate of change[1/]	No. of Countries	Source of mean[2/]	Income conversion[3/]	Source
78.2 (1988)	80.5 (1993)	0.46	91	NHS	XR	Milanovic (2002), Table 16
62.8 (1988)	66.0 (1993)	0.64	91	NHS	EKSPPP	Milanovic (2002), Table 16
62.8 (1988)	64.5 (1998)	0.19	91	NHS	EKSPPP	Milanovic (2005)
62.7 (1988)	61.5 (1993)	-0.24	125	NAcc	GKPPP	Sala-i-Martin (2002b),Table 1
62.7 (1988)	60.9 (1998)	-0.18	125	NAcc	GKPPP	Sala-i-Martin (2002b), Table 1
64.2 (1978)	60.9 (1998)	-0.17	125	NAcc	GKPPP	Sala-i-Martin (2002b), Table 1
63.8 (1980)	61.5 (1993)	-0.18	125	NAcc	GKPPP	Sala-i-Martin (2002b), Table 1
65.9 (1980)	63.6 (1993)	-0.18	46	NAcc	GKPPP	Dowrick y Akmal (2001), Table 5
77.9 (1980)	82.4 (1993)	0.37	46	NAcc	XR	Dowrick y Akmal (2001), Table 5
69.8 (1980)	71.1 (1993)	0.15	46	NAcc	Afriat	Dowrick y Akmal (2001), Table 5

Notes: 1/ Total change in the Gini from start year to end year divided by the numbers of years between. 2/ NHS means national household survey data, NAcc means national accounts data, 3/ PPP means purchasing power parity, Sala-i-Martin and Dowrick and Akmal use Penn World Tables PPP data, based on the Geary-Khamis method. Milanovic uses the Elteto, Koves and Szulc method to calculate PPP. XR means exchange rate. Afriat is an alternative PPP conversion designed to eliminate the biases typically present in GKPPP. See Dowrick and Akmal (2001) for details.
Source: Taken from Aisbett (2004).

gets more in absolute terms, even though in relative terms the distribution may not have changed. Critics will argue that globalization is bad because multinational corporations get a higher share of the benefits, even if they pay higher wages and offer lower prices.

Finally, the author suggests that the conclusions generated from conflicting information are determined by people's prior beliefs. Perhaps critics of globalization have negative prior beliefs built around the fundamental process underlying globalization. According to the author, the critics believe that the global elite, comprised mainly of executives of multinational corporations, but also including technocrats, bureaucrats, and politicians, who rule the globalization pattern will make decisions that are good for the elite; and that what is good for the elite is almost invariably bad for the poor. Proponents of globalization have a more optimistic view of globalization because they do not agree that the economic and political power of multinational corporations is decisive.

The value of this discussion and the analysis performed by Aisbett (2004) is that personal opinions must be balanced. After all, unambiguous conclusions have not been reached. A more balanced opinion would allow people, especially policymakers, to take more specific actions to improve the welfare of individuals, instead of deciding between two divergent paths, with potentially catastrophic results.

II.2.2 Impact on Health

To understand the impact of globalization on health, we must analyze the relationship between health outcomes, usually measured by infant mortality, and their determinants. In fact, very few studies that address globalization and health focus on the indirect effects, called determinants. Analysts advance two distinct arguments. First, health, especially in poor countries, is basically determined by income (see, for example, the famous work of Pritchett and Summers 1996). The second argument, supported by the World Health Organization, downplays the role of income and argues that public policies of health can have significant effects on improving health conditions of the population, especially in poor countries (see CISS 2006, for a review of determinants of health outcomes).

With this in mind, if income is the main determinant of health, then the effect of globalization on health depends on its interplay with income and poverty. Nonetheless, the relationship of income, and health has been challenged lately (see, for example, the work of Deaton, 2003 and 2004). If the relationship is debated, what is left is that public health policies are efficient at improving some health outcomes, but general results depend more heavily on other factors. In this sense, Deaton (2004) argues that the transmission of health-related knowledge and health technology is more important than income to improve health outcomes. He also suggests that social forces, including not only income, but also education and politics, are central because they govern the way in which new knowledge is transformed into population health. As an example, the author mentions that the lower cost of trade accelerates the introduction of proven therapies and technologies in one country, as has been the case with neonatal intensive care units. Another example is that cheaper and more rapid transmission of information through television or the Internet will help disseminate health-related information, such as the benefits of exercise or the use of aspirin or beta blockers in the treatment of heart attacks. Deaton emphasizes that inequalities in health observed across countries, as in the number of deaths from preventable diseases, for example, call for a new way of globalization in which economic, educational, and political conditions are aligned to allow a more rapid diffusion of technology.

Box III.2

Brief Review of the Impact on Labor Market Outcomes in Canada and United States

The impact of globalization on developed countries must be analyzed under a different perspective, particularly in regard to technology. Since technology is created in DC, its implementation is less related to openness. This should be borne in mind because two alternative theories have been suggested as determinants in recent labor market and economy outcomes in Canada and the United States.

In Canada, Trefler's (2001) research concludes that the free trade agreement between Canada and the United States led to reduced employment. The author found that the agreement appears to have modestly raised earnings, an effect fully driven by production, less educated workers. The increase led to less inequality in wages, measured as the ratio of non-productive worker earnings to production worker earnings. Finally, Trefler found that productivity increased significantly, especially labor productivity, driven by entry and exit of plants, together with rising technical efficiency within plants. The impact of trade on wages does not seem to be large enough to change the increasing wage gap in the country, at least not for young workers. Aydemir and Borjas (2005) have documented that the relative wage gap of young, highly educated workers rose after the 80s but fell for older workers. Moreover, the authors suggest that migration lowered inequality in Canada.

In the United States, no consensus exists on the impact of globalization on labor market outcomes. As in the case of LDC, gaps in the United States between skilled and unskilled workers in wages and/or unemployment rates have widened in the last decades. Also, two main hypotheses have been tested in several empirical studies: i) the globalization view, and ii) the technological view. The first states that the increasing relative demand for skilled workers is explained by globalization, mainly trade from LDC, as predicted by the standard theory of trade. The second hypothesis attributes the increasing demand for skilled workers to skill-biased technological change. Proponents of the first view include Borjas, et al (1991) and Wood (1995), among others, who find impacts on both wages and employment. Leamer (2001) summarized the experience of wages and employment as follows: In the decade of the 60s, capital-intensive sectors experienced rapid technological improvement, but also relative price reductions.

Box III.2 (continued)

These offsetting effects left both labor and capital with improving conditions. In the 1970s, wage levels were under downward pressure, entirely because of product changes that strongly worked against labor. Finally, in the decade of the 80s, technological change worked against labor, as the trend towards a larger wage gap across skill levels began to be cemented.

For the United States, as well as for Canada, new ways in which globalization affects labor markets have been studied recently. In a series of papers, George Borjas and coauthors have stated that immigration has adverse effects on the wage structure of natives, contributing to the decline in the relative wage of low-skilled workers (see, for example, Borjas, et al 1996, and Borjas 2003). This view is not shared with other researchers. For example, Card (2005), and Card and Lewis (2005) find scant evidence to support the view that immigrants have led to relative wage adjustments that harm the opportunities of less educated natives. Card (1997) finds that most of the adjustment takes place through the employment rates of natives and earlier immigrants, with only relatively small effects on the relative wage structure.

III.2.3 Impact on Efficiency Gains and Long-Run Growth and Welfare

As has been previously stated, few people will argue that globalization cannot be a vehicle to improve welfare. There will be short-run adjustment costs, as seen in the previous section, but the argument goes that efficiency gains will lead to long-run welfare improvement. There exists a large amount of evidence on openness and growth based on comparisons across countries. Unfortunately, this literature also faces very well-known technical problems, and results are not trusted by many. On one hand, some people say that evidence should be treated with caution but not dismissed altogether (Lindert and Williamson 2001). On the other hand, Hallak and Lavinshon (2004), among others, have alerted that conclusions from this type of research should be taken with reservation. They point out that establishing the link between openness and growth in a rigorous manner is difficult, and policy questions cannot be addressed, given the shortcomings of this knowledge. As an alternative to cross-country comparisons, other researchers have suggested the use of country-specific cases to analyze the impact of openness on productivity. Their logic holds that efficiency gains, i.e., higher productivity, are eventually translated into long-run welfare and growth, and consequently, less poverty.

One of the main arguments relating globalization and productivity in this literature is the so-called "import discipline hypothesis" which establishes that foreign competition improves productivity. This can occur by either, forcing firms to eliminate waste and accelerate innovation rates, possibly by access to superior inputs at lower prices and/or new technology, which leads to intra-plant productivity; or by market share reallocations, including entry and exit of firms (which lead to industry productivity).

There have been some studies that analyze openness and productivity in plants and industries in the manufacturing sector in LAC countries. Table III.2 shows the main findings of these studies. Column 2 shows the performance measure utilized by the authors; column 3 presents the variable used as performance determinant; column 4 presents the estimates of intra-plant productivity gains; column 5 presents the productivity gains accrued to entry, exit, and market share reallocations; and column 6 shows the impact on mark-ups. Taken together, these results can be used to conclude that manufacturing sectors in LAC and developing countries, in general, have become more productive after trade liberalization processes. Some of these gains come from intra-plant productivity improvements, and some come from market share reallocations. Both effects —each plant doing things better, and better plants gaining participation in total production— have been found to be quite significant. Moreover, given that these efficiency gains were accompanied by reductions in mark-ups —the difference between final prices and production costs— it is suggested that they were induced by heightened competitive pressure.

Using a different methodological approach, the above-mentioned work of McKinsey Global Institute provides evidence that, in general, FDI is related to higher productivity, derived from the application of capital, technology, and a wide range of skills that big firms implement in recipient countries. However, the study mentions that such effects can be reduced, eliminated or, worst, changed in a negative way due to the lack of macroeconomic stability, low competitive environment, inadequate regulation and legal infrastructure, anthe to the excesives taxes.

Table III.2
Studies Regarding the Effect of Trade Liberalization on Firm-Productivity

Country and liberalization period	Performance measure	Performance determinant	Intra-plant productivity growth	Entry, exit and market share reallocation	Markup effects
Chile, 1973-79					
• DeMelo and Urata (1986)	Price-cost margin	Import penetration rate			Post reform penetration of imports reduced markups most in highly concentrated sectors
• Tybout, et al (1991)	Econometrically estimated TFP residuals	Effective protection rates	Sectors undergoing large reductions in protection exhibit the largest gains		
• Tybout (1996)	Price-cost margin	Import penetration rate			Margins are negatively affected by import penetration, especially among large plants
• Liu (1993)	Econometrically estimated TFP residuals			Entry and exit a significant determinant of productivity growth	
• Pavcnik (2002)	Olley-Pakes (1996) estimates of TFP residuals	Tariff rates	Productivity grew faster in import-competing sectors with trade liberalization	Most of post-liberalization productivity gains came from market share reallocations and entry and exit	

Table III.2 (continued)

Country and liberalization period	Performance measure	Performance determinant	Intra-plant productivity growth	Entry, exit and market share reallocation	Markup effects
Brazil, 1991-94					
• Muendler (2002)	Olley-Pakes (1996) estimates of TFP residuals	Tariff rates, market penetration rates	Import competition substantially increases productivity	Exit significantly contributed to efficiency gains: other forms of market share reallocation not studied	
• Hay (2001)	Econometrically estimated TFP residuals; operating profits	Tariff rates, effective rates of protection, exchange rate	Import competition increases productivity		Operating profits are positively associated with nominal protection rates
Mexico, 1984-89					
• Tybout and Westbrook (1995)	Production function-based TFP residuals	Effective protection, import penetration, license coverage rates	Sectors with most exposure to import competition showed the most gain		
• Grether (1996)	Price-cost margin	Effective protection rates, official protection rates, license coverage rates			Big firms undergoing the most reduction in protection show the biggest reduction in margins

Source: Taken from Erdem and Tybout (2004).

The validity of these empirical results is not undisputed;[2] see, for example, the work of Erdem and Tybout (2004) and the comments on this work by Pinelopi K. Golberg and Marc Melitz in the same issue. Now, basically all researchers agree that even if these results are true, i.e., foreign competition and/or FDI leads to higher productivity, it is unknown whether these short-run effects are translated into long-run welfare.

Besides the effects of trade exposure on productivity, the literature has also analyzed the effect of capital flows on growth through their indirect effects: augmentation of domestic savings, reduction in the cost of capital, and stimulation of the domestic financial sector. The literature on this topic, which suffers from the same criticism as literature of globalization and growth, suggests that it is difficult to establish a robust causal relationship between the

[2] The criticism is for the papers summarized in the Table III.2, but it equally applies to those of McKinsey Global Institute, since they focus in the way productivity and price cost margins are calculated, similar in both types of works.

degree of financial integration and output growth performance. The literature also suggests that financial globalization is associated with higher consumption and output volatility in low-income countries, contrary to what was expected. Indeed, even if collapses were less common in the 90s than in the 80s in Latin America (Fraga 2004), several countries experienced episodic collapses in growth rates and significant financial crises that have taken serious tolls in terms of macroeconomic and social cost, especially for the poor (Harrison 2006 and Prasad, et al 2005).

III.2.4 Globalization and Labor Standards

Labor standards gained great significance in the public agenda since the late 18th century, when activists sued for labor protection against workplace abuse, caused by the success of the industrial revolution (Brown 2001). In the next decades, European countries and the United States introduced labor regulations on working conditions and worker's rights, but it was not until the foundation of the International Labor Organization (ILO) in 1919 that promotion of labor standards and human rights reached worldwide recognition. At the beginning, the ILO's efforts were aimed at eradicating slavery and forced labor (Brown 2001), but through the years, as a result of the conventions held by the organization, minimum labor standards recommendations were set. These recommendations were: i) freedom of association, ii) right to engage in collective bargaining, iii) equal remuneration, iv) abolition of forced labor, v) prohibition of discrimination, vi) full employment policy, and vii) minimum age, among others.

The new global economy has brought about a continuing discussion on labor standards. The argument states that competitive pressure to reduce costs imposed by international competition, alongside new organizational forms of corporations allowed by the telecommunication technologies, lower labor standards. This is the so-called "race to the bottom": Local firms facing import competition, or exporters and multinationals engaged in global competition, cut costs by paying lower wages, hiring child labor, and imposing unsanitary working conditions on their workers. One form of "race to the bottom" is when local firms or multinationals *outsource* activities to third parties (arm's length) that have lower labor standards. Another form is when an employee performs his activities, permanently or partially, in a remote location. An example would be an employee working from his/her home, taking advantage of new telecommunication technologies like the Internet—a practice known as *tele-work.* Tele-work (regulated in Canada and France, for example, but not in LAC countries) can have several advantages for the employee, such as allowing him/her to combine work and family responsibilities, allowing disabled workers to work in more suitable conditions, etc.; and can also benefit the employer, mainly because of lower cost. However, tele-work may be associated with lower labor standards, because measures of safety and sanitary working conditions are usually difficult to monitor, the contracted persons can subcontract others that do not comply with the regulation, such as children, for example; and the conditions for unionization of workers are hindered, among other reasons (Kurczyn 1999). Finally, for multinationals, this "race to the bottom" is associated with *off-shoring* operations in countries where labor standards are lower; a condition not addressed, because labor standards are not usually negotiated when countries sign trade agreements (see Chapter IV of this Report).

Different forms of organization can also be combined. For example, a multinational company can *off-shore* its activities to an arm's length, which implies *outsourcing*; or a company can contract workers in another country that perform all their jobs via Internet (even form his/her home) —this is what usually comprises the "global labor market" (McKinsey Global Institute 2005), and occurs typically in service industries, like call centers, accounting, payroll management, etc.—or a company in another country may even hire another company whose workers perform all their jobs from their homes, which involves off-shoring, outsourcing, and tele-work.

How common are these practices of outsourcing, off-shoring, and tele-work? Additionally, how commonly are these practices associated with lower labor standards or how common the firms facing global competition do not comply with labor standards? Besides the famous cases of some multinationals that off-shored their activities to poor countries and were accused of not complying with ILO labor standards (see, for example, the cases mentioned in Elliot and Freeman 2003), the few studies on these topics suggest that as of today, the size of these practices are quite small. That does not mean they cannot become more important in the future. Golberg and Pavnick (2005) have found no evidence of association in Colombia between compliance with minimum wage standards, trade tariffs, and other measures of trade exposure. Autor (2001) mentions that 10% of the labor force in the United States was engaged in some form of tele-work in 1997, but that this penetration is growing 15% annually. McKinsey Global Institute (2005) estimated that the global labor market is still very limited (See Box I.4).

Independent of how prevalent violations of labor standards are, public voices and multilateral organizations, including, of course, the ILO, push for compliance with labor standards. Globalization supporters argue that raising labor standards would diminish the comparative advantage of developing countries.

As of today, two approaches and one proposal are aimed at improving labor standards. The first approach has been to attempt to build global versions of national institutions by establishing universal minimum standards of work, and international inspectorates and courts to monitor and enforce them. Alternatively, some Multinational Corporations (MNCs) and Non-governmental Organizations (NGOs) have, with success, voluntarily agreed to adopt various codes of conduct, and have allowed outsiders to verify compliance with these codes. They cooperate, in part, because consumers appreciate this behavior and are even willing to pay an "overprice" for a good produced under improved labor conditions (see the examples in Elliot and Freeman 2003). Unfortunately, for the first case, the machinery to compel global producers to adopt those standards does not exist and will be quite difficult to build; and the piecemeal character of the second approach highlights the difficulties of generalizing independent monitoring into an encompassing labor regulation regime. In this context, Sabel, O'Rourke, and Fung (2000) propose an intermediate approach. They believe that systematized public information about a firm's treatment of its workers, consumer tastes, and public pressure (in the first stage, and national governments and international organizations in future stages) will induce competition among firms to improve their labor standards.

Three issues are missing in the arguments described above: i) Workers with higher human capital and income will better know their rights and will demand improved labor standards as an income effect; ii) The discipline power of consumer taste and public pressure is limited. The demand for labor standards has negative slope; most consumers are willing to pay modestly higher prices for higher standards (Elliot and Freeman 2003); and iii) Local administrators in less developed countries face important deficiencies in enforcing labor standards and may not accept external monitoring organizations. The reality is that developed countries and international organizations want less developed countries to establish improved labor standards. However, even if they comply, labor standards may not improve. Three reasons account for this condition. Many people of very low income are currently willing to accept very risky work conditions in order to get a job; authorities do not have the administrative capabilities to enforce the law; and governments do not have the incentives to enforce policies that can damage employment, even if this employment is not under the best labor conditions. It is expected, then, that we will continue to observe "voluntary" adherence to labor standards by firms in the near future, limited by consumer willingness to pay for goods.

III.3 Globalization and Social Protection Programs in LAC

So far we have analyzed the ways globalization affects risks faced by the population in terms of employment and income, poverty, and health. These economic changes need not have an adverse impact on the well-being of people providing an effective system of social protection. In this section, changes in the social protection system of the Continent and its relation to globalization are analyzed. A brief diagnosis follows on how risk to the population is covered, based on changes in the labor market and characteristics of social protection policies. Additionally, a broad agenda is presented for future reforms based on this information. The Welfare State is defined as the set of labor, social security, and welfare policies derived from institutional, political, and social arrangements among different actors, aimed at redistributing resources and revenues. Welfare States encompass a set of social policies of many types, such as income transfers, i.e., pensions; social services, i.e., health and education; and subsidies, i.e., those to the acquisition of housing or items in the basic food basket. This section of the Report will focus, however, on social protection policies.

III.3.1 Current Debates on Globalization and the Welfare State

The question here is how the globalization process affects the Welfare State and social policies of countries. The question inquires about the potential benefits and costs of economic openness for the construction of welfare institutions. To rephrase the question: Does globalization increase national opportunities to construct wider and improved universal social protection systems, or on the contrary, does it lower the degree of freedom in national states and shrink the welfare structures? This question has led to two alternative views, the "efficiency hypothesis" and the "compensation hypothesis" by Glatzer and Rueschmeyer (2005) and by Garret and Nickerson (2005).

The efficiency hypothesis argues that on one hand, open markets promote efficient reallocation of resources. On the other hand, they generate demands in favor of more transparency, and against distortions and privileges. In terms of impact, the hypothesis states that since globalization gives a more important role to markets and individual improvement views, it decreases the capacity of government intervention, which is translated into lower social expenditure. In particular, it is said that high salaries and generous public expenditures reduce the competitiveness of the national producers that compete in international markets. Moreover, since higher social expenditures should be financed with taxes, larger distortions are generated by the most progressive systems. In sum, the efficiency hypothesis states that public expenditure in social services was reduced as a result of globalization. The limits to public expenditure affect all countries, including the richest ones.

Against the efficiency hypothesis, other authors have argued that instead of focusing the analysis on the impact in wages –or social wages— productivity should be taken into account: what matters is not the wage cost per hour but its relative weight in the cost per unit of production. It is argued, then, that productivity is the reason behind the viability of social expenditures and wages in the globalized world, in Sweden and France (Glatzer and Rueschemeyer 2005).

The "compensation hypothesis" argues that the expansion of the markets generate a respond of social protection that makes possible economic openness and generous Welfare States, as has been proved by the protection system of Sweden. Since globalization is associated with short-term labor insecurity and inequality, it is expected to have a higher demand for compensatory social policies. Glatzer and Rueschemeyer (2005) and Esping-Andersen (1990) assert that this hypothesis has been used by other researchers to explain the successful incorporation of small European countries in liberalization periods into global markets with social protection (Katzenstein 1985), or to understand the solid social performance of the majority of European countries during the postwar period. This hypothesis has been supported by analyses that isolate the relationship between economic integration and public expenditure in middle-income countries with more than 1,000,000 people (Garrett and Nickerson 2005).

The phenomena of efficiency —"economics"— and compensation —"politics"— are not the only ones that help explain the construction, adjustment, or reduction of welfare structures. Academic research makes it clear that the exogenous impact over Welfare States varies with a set of socioeconomic and political factors filtering the relationship between Welfare States and globalization. The economic factors identified are: place, the production and services structure, the scheme used to participate in the international economy (Esping-Andersen 1996), the degree of exposure to "international influence" (Stallings 1992), and the legacy of prior models of socio-economic development (Kaufman 2003). Among the political factors identified are the relationship among markets, society, and State; features of the socioeconomic alliances that sustain the Welfare State; correlation of power of the different interest groups; importance of the opinion of groups of beneficiaries of the social programs; degree of centralization and decentralization of the political system; and degree of development of the social security and welfare system (See for example Box III.3).

Box III.3

Does Globalization Diminish the Welfare State in Developed Countries? A Political Economy Hypothesis

One hypothesis influencing the discussions of public policy in developed countries is that the coalition of pro-Welfare States will be strengthened as the proportion of the elderly and the share of low-skilled workers increases. Both groups tend to be net beneficiaries of the Welfare State towards the future; i.e., both groups receive more benefits on average than the value of their contributions. Moreover, under the same assumptions, it is thought that aging makes it easier to tax capital to finance the Welfare State.

Razin, Sadka, and Nam (2005) state an alternative hypothesis: Aging, immigration of low-skilled workers, and international capital mobility generate an indirect political process that, indeed, entrenches the Welfare State instead of expanding it; and fiscal competition among nations imposed by globalization makes it difficult to tax capital. In relation to the second point, the authors mention that international fiscal competition is manifested in three channels: i) Firms have more freedom to chose where to set their activities, and thus it is not easy to tax them with higher rates than those imposed on their competitors in another place; ii) Globalization makes it more difficult to decide where a firm shall pay taxes, since firms can transfer costs and profits among countries in order to pay less; and iii) Executives, professionals, artists, and other high-income individuals have great mobility and can choose to manage their operations in places with lower taxes. For example, within the European Union, while some of the older members have an income tax rate around 40% (like Germany), the new members have generally lower rates (e.g., Estonia has a zero tax rate).

For most of the countries of Europe and North America, the analysis of the problems of aging, people with different skills, and the Welfare State are given within the framework of political preferences: Does the majority of the population prefer higher pensions, even if this implies higher taxes? Does the majority vote for more health benefits without considering the liabilities imposed on future generations? The answer to these questions may, indeed, depend on old people’s share in the population, the share of low-skilled workers, and the degree to which active workers bear the tax burden without expecting higher benefits.

The rising immigration of workers is a topic that has generated important debates around the Welfare State in developed countries. One argument that seems to dominate in countries that are recipients of workers is that Welfare States make migration more attractive to low-skilled workers, who end up receiving more benefits than the value of their contributions. This is true in the model of Razin, Sadka, and Nam, when immigration consists solely of low-skilled workers. The reason is that immigrants end up receiving transfers from social programs but pay few taxes, given their low skills and income.

Box III.3 (continued)

The prediction of Razin, Sadka, and Nam is that this condition induces voters to favor programs with lower taxes and benefits. A mechanism in the opposite direction may be at work when immigration is dominated by high-skilled workers. This is a paradox. If one country decides to attract high-income workers and strengthens its Welfare State programs in order to do so, it may, in fact, attract low-skilled workers who find it more attractive to migrate to countries with larger Welfare State programs.

III.3.2 Globalization and Social Protection Programs in LAC Countries

Table III.3 shows expenditures over several years in social protection programs for various countries of the Continent. It can be seen from the table that in the 80s, significant reductions in social spending were observed for most countries. Indeed, with the exception of Brazil, in which social expenditures grew, and Argentina, which suffered a moderate drop, the largest countries of LAC suffered significant reductions. These reductions are mainly explained by the implementation of austerity and structural adjustment programs aimed at reaching financial equilibrium. The story of the 90s is quite different, since most Latin American economies resumed growth, with a significant increase in social spending. Social spending rose as a percentage of the GDP and in per capita terms. For Uruguay, Argentina, and Chile, it grew more than 50% annually in real per capita terms.

Table III.3
Table of Social Security and Welfare, Health, and Education Expenditure
(per capita in 1995 PPP USD Dollars)

	Level				Average annual change		
	1973	1982	1990	1997	1973-1982	1982-1990	1990-1997
Argentina	775	563	552	1,080	-24.6	-1.4	75.5
Bahamas	1,195	1,332			15.2		
Barbados	919	895	1,343		-2.6	64.0	
Belize		281	300	438		2.4	19.7
Bolivia	77	113	133	247	4.5	2.2	16.3
Brazil	398	652	834	935	28.2	22.8	14.3
Chile	564	960	680	1,099	44.1	-35.1	59.9
Colombia			307	369			8.9
Costa Rica		771	950	989	-2.3	22.4	5.7
Dominican Republic	155	179	129	237	2.6	-6.3	15.5
Ecuador	186	325	148		15.4	-22.1	
El Salvador	217	180	103	171	-4.1	-9.7	9.7
Guatemala	104	58	139		-5.2	11.6	
Mexico	333	592	391	526	28.7	-25.1	19.2
Panama	542	606	642	810	7.1	4.6	23.9
Paraguay	109	252	122		15.8	-16.2	
Peru	234	200			-3.7		
St. Vincent		276	436	534		20.0	14.0
Uruguay	779	1,331	1,042	1,906	61.3	-36.0	123.4
Venezuela	535	564			3.3		
Mean	445	533	485	718	10.9	-0.1	31.2

Source: Taken from Huber (2005).

The question here is how globalization, integration of market of goods, services, capital, and ideas have shaped recent social policy decisions in LAC countries. In other words, do governments of LAC countries respond more to the "efficiency" or the "compensation" hypothesis? Several researchers of multiple disciplines have tried to answer this question. Broadly speaking, the academic debate regarding globalization and social protection programs for LAC countries can be summarized as follows:

Aggregate results support the "efficiency" hypothesis, because openness, especially in trade, is associated with a reduction of the total expenditure in social programs. However, openness also compels governments to shift resources among programs, from social security to health, education, and more drastically, to other welfare programs, to "compensate" the most adversely affected. These findings are supported by cross-country studies such as the one by Avelino, et al (2001), and Kaufman and Segura (2001). Their studies look at the relationship between trade openness, financial liberalization, and social expenditure for LAC countries. Both studies find that as trade openness increases, public social expenditure decreases significantly. When analyzing different types of spending, it is concluded that education and health are generally maintained or slightly increase while other social programs increase dramatically at the cost of social security.[3] These programs are approximately equal to 10% of the social expenditure, which includes housing, sanitation, and poverty alleviation initiatives such as *Oportunidades* in Mexico or *Foncodes* in Peru. The effect of financial liberalization is less straightforward. In regard to aggregate and social security spending, it compounds the effect of trade and has a positive effect on health and education (Kaufman and Segura 2001).

Structural reforms changed the way risks are distributed among different participants in social programs, and the scope of the programs taking place in the 80s and 90s, were more important than the change in levels of social spending, since they were much greater and longer lasting (Huber 2005). Several countries underwent important reforms in their social protection programs in the last decades. Although not all were in the same direction and had the same intensity (Brazil and Costa Rica being important exceptions), the structural reforms changed the way risks were covered in two forms: i) individualizing risk, less collective management of risk, and a higher degree of responsibility of beneficiaries; and ii) extension or implementation of new programs targeted especially at poor populations. The reforms in pensions, health, and poverty reduction programs illustrate this idea.

Several countries of the American Continent underwent reforms in their pension systems. Some countries have made only parametric reforms, like Brazil, while other countries have made structural reforms, from a defined benefit (DB) scheme to a defined contribution (DC) system, alongside with changes in parameters, such as contributions rates and minimum retirement age. In Mesa-Lago's (2001) terminology, five of these countries followed the substitution model in which the DC system replaces the DB system (Chile, 1981; Bolivia and México, 1997; El Salvador, 1998; and Dominican Republic, 2003-2005)[4]. Two countries followed the parallel model in which the DB and the DC scheme compete (Peru, 1993; and Colombia, 1994). Five countries have adopted the mixed system, with a basic DB pension and a pension based on individual accounts (Argentina, 1994; Uruguay, 1995; Costa Rica, 2001; Ecuador, 2004; and recently, Panama, 2006). As is well known, in the DC system a closer link exists between contributions and benefits. Even though the new schemes usually include a solidarity component in the form of minimum pension or government subsidy (called social quota

[3] The study of Kaufman and Segura (2001) only analyzed social security, education, and health spending. In this sense, the conclusions on the effects of "other programs" are based on the study of Avelino, et al (2001).
[4] The reform of Nicaragua 2004 has not been implemented.

in Mexico), it is often thought that workers bear most of the risk, and compensations reflect inequalities in labor markets (Mesa-Lago 2005).

Several countries of the region also underwent important reforms in health. Reforms across countries did not follow the same model or have the same scope; in fact, some reforms were partial, while in other cases they were complete. However, the motivations behind all reforms were to extend coverage and access, and hence equity; as well as to redefine the financial structure and improve efficiency in providing services (Medici 2006). Two features of the reforms exemplify changes in the way risks are borne by different populations. First, co-responsibility of the population is assumed when subsidies to the supply are replaced by subsidies to the demand (occurring in most of the reforms); and when premiums to get insurance and co-payments are implemented (occurring in some reforms). While these instruments have positive effects because they empower the population, some people argue that the instruments, on the other hand, impinge co-responsibility on the patients in order to rationalize the demand. Secondly, although all reforms are aimed at reaching universality in the long run, the extension of coverage was prioritized to specific populations. For example, some countries, like Mexico and Colombia, prioritize poor populations; Bolivia and Argentina prioritize other vulnerable populations, such as mothers and children. These populations receive limited benefits; in most cases with reforms, the insured were entitled to a well-defined and limited catalogue of benefits.

If structural change in pension systems was the strategy to reshape classic social policies under the social insurance approach, in which the beneficiaries are protected workers of the middle and upper-middle class, the targeted programs were the strategy from which new social policies to reduce poverty in LAC countries were erected. For some authors, implementation of targeted social policies in Latin America is the cornerstone of a new era in social policies, where social policies should be consistent with fiscal equilibrium (Birdsall and Székely 2003). The objective is to reach segments of the population traditionally ignored by social security policies, with maximum results and minimum cost. The demand-driven social investment funds implemented since the 80s were one example of the targeting programs. Currently, the most notorious examples are the poverty reduction programs *Pronasol*, later *Progresa*, and today, *Oportunidades* in Mexico; and the *Bolsa Scola* in Brazil. Besides their targeting feature, the programs are based on the assumption that they should compensate for current deficiencies, but that human capital is what will drive individuals out of poverty. In this sense, these programs impinge a co-responsibility on individuals and families to leave poverty.

The changes in social protection policies in LAC countries resulted from the financial and ideological influence of international financial organizations. Several authors from different ideological fronts have argued that the international financial organizations (IFOs) had significant financial and ideological influence on changes in economies and social protection programs in LAC countries. After the debt crises, LAC countries had to accept austerity programs imposed by the International Monetary Fund (IMF). Moreover, the austerity programs were followed by structural adjustment programs aimed at reducing the State's participation in the economy and liberalizing the goods and capital markets. These programs began to be a condition to contract loans from the IFOs. The World Bank, on the other hand, had already changed its form of intervention during the 80s, when it gave credits to apply towards promoting structural reforms (Bouzas and French-Davis 2005).

Several authors have explicitly stated that structural reforms were highly influenced, if not imposed, by IFOs. The 1993 World Bank's *World Development Report: Investing in Health* (World Bank 1993), and the 1994 World Bank report *Averting the Old-Age Crisis: Policies to Protect the Old and Promote Growth* (World Bank 1994), are often cited as the ideological "pillars" that spurred health and pension reforms in LAC countries.

III.3.3 Thoughts on the Globalization and Social Protection Policies in LAC Countries

Probably no other region of the world suffered the changes in social protection programs that were implemented in LAC countries during the last two decades. But arguments that establish causality between globalization and changes in social protection policies in LAC countries raise some doubts. First, as in the case of other across-country studies that associate a measure of globalization with other variables such as growth, several authors have concerns about reliability of the results. They argue that other processes took place simultaneously and could have affected the outcomes, such as demographic and labor market changes (Pierson 2001).

Second, even if the new pension schemes contain a closer link between contributions and benefits, it is unclear that they have adversely affected the population. First, the history of social security in the LAC region is strongly affected by inflation and discretionary management of programs, as well as other policies that added uncertainty and allowed the political use of the programs. Second, enough evidence does not yet exist to evaluate the effect of reforms on individuals and indeed, some recent studies show that low-income workers have benefited from reforms in Mexico (Aguila 2006), and that in relation to men, women also gained from reforms in Mexico, Chile, and Argentina (James, et al 2005).

Third while even the own institutions insist on its ideological influence —see, for example the 2004 World Bank publication *Keeping the Promise of Social Security in Latin America* (Gill, et al 2004)—, the role institutions have played in shaping social protection policies has most likely been overstated. While this influence was evident in many cases, the movement for reform began long before IFOs showed significant concern for the topic —as exemplified by reforms in Chile in 1981— and several important cases evidently do not follow the designs of the World Bank.

Beyond the relationship between globalization and changes in social protection policies, it is more important to understand the way the observed effects on labor markets and alterations to social protection policies are now aligned to cover risks faced by the population. We must also observe how these recent changes lean in the direction of building a Welfare State, in which all risks faced by the population are covered in equal terms for all citizens.

The changes in risks and the instruments to cover these risks represent a restructuring of the Welfare State. Some population groups who were usually excluded from social security institutions, but were beneficiaries of subsidies and enjoyed price controls on basic goods, currently often do not enjoy subsidies and price controls, but are new beneficiaries of the Welfare State; not as citizens with complete statutes of rights, but recipients of means-tested programs. On the other hand, individuals in means-tested programs and in social security programs are more responsible for their own welfare in a more adverse labor environment for low-skilled workers. The recent reforms did little to universalize the Welfare State in LAC countries. The systems are still dual, in which welfare programs co-exist with social security-type programs. The Welfare State is still fragmented to different degrees in every country, with uneven benefits for various population groups. The systems are still incomplete, leaving some groups of the population without coverage, e.g., employees who lose their jobs —as will be seen in Chapter V— or the population with no access to education. In addition, the system still discriminates against women (CISS 2004).

In this context, in the following years we will probably observe more changes in social protection policies of the American Continent. In particular, in light of the information on labor markets, the following issues define priorities: The extension of coverage to groups of the population unprotected and in line with risks that have not been properly covered; the enhancement in equity across different populations (insured in different schemes, insured and uninsured, women and men); and the redefinition of reformed schemes in pensions and health. The reforms should not mean the return to old formulas that have been financially unsustainable; and most likely, the paradigm on which social protection programs in the Continent have been built—the social security-payroll taxes funding model—will change.

III.4 Views of International Organizations on the Current Debate

International organizations have devoted a lot of time to analyzing the effects of globalization, reasons for these effects, and the changes needed for a better globalization process. This section analyzes the points of view of four major public voices regarding globalization in the hemisphere and labor markets: the World Bank, the International Monetary Fund, ECLAC, and the World Commission on the Social Dimension of Globalization, established by the ILO. As we will see, there exist coincidences and divergences in points of view on globalization with regard to satisfaction with current outcomes, reasons for these outcomes, and the path that should be followed to extend the benefits of globalization to all countries and groups of people.

III.4.1 The World Bank

The World Bank, in recent extensive reports (World Bank 2002 and Goldin and Reinert 2006[5]) argues that it is true that some countries and groups of the population have not benefited from globalization. However, countries that have benefited the most and exhibit faster growth and reduced poverty are those that have been able to integrate into the global economy. Opening markets and integration into the global economy, the argument goes, have contributed to enormous economic progress for many LDC countries, particularly in the last 20 years. Within countries they bring higher productivity, growth, less poverty, and on average have not affected inequality, although with variation (for example, within countries that succeeded in breaking into global manufacturing markets, integration has not typically led to worse income distribution. In contrast, in Latin American countries, more trade has been accompanied by wage inequalities). Indeed, outward-oriented policies brought dynamism and greater prosperity to much of East Asia, transforming it from one of the poorest areas of the world 40 years ago. Moreover, between-countries globalization is now reducing inequality.

The Bank stresses the idea that globalization produces winners and losers, both between countries and within them. Within countries, globalization is associated with turnover of firms, in which the less productive close and the most productive grow; in turn affecting employment, salaries, and inequality. The World Bank emphasizes that a good investment climate is necessary for firms to grow, and that in order to cope with adjustment costs in unemployment and salaries, social protection policies should be implemented. These two recommendations are complemented by additional steps to build a more inclusive world: A "developing round" of trade negotiation that should focus first and foremost on market access; i.e., focused on reduction of protection by developed countries in the areas in which LDC have comparative advantages. The implementation of policies that assure the good delivery of education and health to all population groups. These policies will allow people to take advantage of higher returns for education and will enhance long run-productivity. Greater volume of foreign aid to help countries in their transition, and debt relief programs for highly indebted countries. This will be the factors allowing these countries to participate more strongly in globalization.

III.4.2 The IMF

The IMF, as explained in several publications, coincides with the World Bank in the sense that globalization brings growth and less poverty. It believes that if tightly and properly budgeted pro-poor policies are pursued—including health, education, and

[5] This is issued under the name of individual researchers and are not presented as official statements by the agency.

development of strong social safety nets—then there is a better chance that growth will be amplified into more rapid poverty reduction. The IMF, as does the World Bank, constantly highlights the importance of physical and human capital and technology for long-term growth. Based on the experience of many countries, the IMF suggests a package of policies that, alongside financial transfers, technical assistance, and debt relief, if necessary, help these processes: Macroeconomic stability to create the right conditions for investment and saving; outward-oriented policies to promote efficiency through increased trade and investment; policies to improve the investment climate, including a sound financial system, reforms to strengthen property rights, reforms of the judiciary and speedy enforcement of contractual obligations, greater transparency and stability; laws and regulations governing private investment; education, training, and research and development to promote productivity; and external debt management to ensure adequate resources for sustainable development. As does the World Bank, the IMF mentions the importance for low-income countries of new access to markets and more FDI.

The opportunities of globalization do not come without financial risk arising from volatile capital movements, the IMF alerts. It states that even though the crises of Mexico, Thailand, Indonesia, Korea, Russia, Brazil, and Argentina in the 90s resulted from an interaction of shortcomings in national policy and the international financial system, they may not have developed as they did without exposure to global capital markets. This is not a reason to reverse direction, the organization argues. These countries could not have achieved their growth records without those financial flows. Instead, new policies should be embraced, such as those mentioned in previous paragraphs, to build strong economies and a stronger world financial system that will produce more rapid growth and ensure that poverty is reduced (See for example Köhler 2003[6]).

III.4.3 The ECLAC

The ECLAC, in its *Globalization and Development* report issued in 2002, gives its view of the globalization process. From a historical perspective, the report explains the details of the globalization process in terms of economic and non-economic variables. It provides policy recommendations based on this evidence. Here we only highlight the topics related to economic variables, and in particular, to labor markets. Basically, ECLAC's view concurs with globalization as an opportunity for growth, but stresses that globalization has led to important inequalities, across and within countries. The organization clearly supports the view that across-countries inequalities and lack of development are the consequences of national factors and international order. The organization believes that within-countries inequalities are consequences of the lack of equalities in opportunities, rather than responses to different individual efforts.

The organization recognizes that national factors such as institutional development, social cohesion, accumulation of human capital, and technological capacities (which are the base for growth and development) arise under stable conditions. These developments form a positive cycle. In this sense, ECLAC has always supported policies aimed at warranting a stable macroeconomic environment, dynamic productive development, higher levels of equity, environmental sustainability, and the whole society's active participation in constructing the public interest. Notwithstanding, the current international structure determines the opportunities and risks faced by countries. It also determines the efficiency of national efforts aimed at maximizing benefits from globalization, the organization argues. The State needs to play an active role in redistributing to equalize opportunities. In addition, national efforts will be more effective if they are complemented by equitable and stable rules and by international cooperation.

[6] In this case the opinions appear as those of Horst Köhler, managing director of the IMF.

International cooperation should be focused on ending three asymmetries that characterize the global order: high concentration of technological progress in DC, higher macroeconomic vulnerability of LDC, and the contrast between the high mobility of capital and restrictions for mobility of labor, especially low-skilled.

In ECLAC's view, a new global order is needed. Four principles should be the foundation of this new order: common objectives; global norms and institutions that respect diversity; complementarity between national, regional and global institutions; and equitable participation according to the appropriate rules for governance. The global agenda should focus on provision of global public goods, measures to correct the three asymmetries mentioned in the previous paragraph, and consolidation of the international social agenda based on rights. Regional entities of the world have a specific role in this new order, since regional areas with participants in equal development stages can gain from trade. In this new global order, countries should implement national strategies to face globalization, such as: i) long-term macroeconomic stability in a broad sense (fiscal balance and low levels of inflation rate, balance of payments viability, strength of the financial system, and stability in growth rates and employment) aimed at reducing vulnerability and fostering productive investment; ii) measures to develop systemic competitiveness (which envisage the highly important participation of the State in developing innovative systems to accelerate accumulation of technological capacities, provide support to transform the productive structure, create productive chains, and provide infrastructure); iii) recognition of the environmental agenda, with by virtue of its features is global; and iv) active social policies in education, employment, and social protection. In relation to employment, in particular, ECLAC emphasizes the importance of avoiding deteriorating wages and working conditions. It states that all countries should adhere to the fundamental principles of the ILO and implement strategies to increase productivity (such as investment in human capital). Additionally, ECLAC says governments must avoid increasing productivity by reducing labor costs and increasing salaries only in dynamic and well-organized sectors. States should invest in workers' capacities to allow them to move across sectors, and give support to micro and medium enterprises.

In terms of social protection, policies should follow principles of universality, solidarity, efficiency, and integrality. For emergency conditions, governments need to develop special programs for employment and poverty in vulnerable sectors. Universality requires a new financing scheme in terms of citizenship rather than employment status. For general and social security reforms, mixed mechanisms and complementary insurance programs should be implemented. The mechanisms and insurance must be consistent with different forms of labor, to favor worker mobility and put workers in a better position to face adverse external conditions.

III.4.4 The World Commission on the Social Dimension of Globalization (ILO)

The World Commission on the Social Dimension of Globalization (Commission), established by the ILO, produced an extensive report named *A Fair Globalization. Creating Opportunities for All* (World Commission on the Social Dimension of Globalization 2004). The report states that the globalization process, as it is designed, is making that the world stays far from realizing the immense potential of the global market economy. Instead, the current process of globalization generates unbalance outcomes that are morally unacceptable and politically unsustainable, both between and within countries. The aspirations of many people for decent jobs—encompassing full employment, social protection, fundamental rights at work, and social dialogue—and a better future for their children has not been met. The Commission recognizes that the problems they have identified are not due to globalization, as such, but to deficiencies in its governance: lack of development and social institutions needed to smooth and guarantee an equitable functioning of markets; unfair rules of trade and finance, and failure of current international policies to respond adequately to the challenges of globalization, including the scarcity of Official Development Assistance (ODA). The Commission makes it clear that these rules and policies are the outcome of a system of global governance largely shaped by powerful countries and players; a process in which the workers and the poor have little or no voice.

In the Commission's view, these outcomes suggest a change in the current path of globalization. The social dimension, based on universally shared values, respect for human rights, and individual dignity, is a strong piece of the process. In sum, a globalization process that provides opportunities and benefits for all is called for, with the following qualities: focus on people, with special emphasis on gender equality; democratic and effective States committed to sustainable development; productive and equitable markets; fair rules, characterized by solidarity; greater accountability to people; deeper social partnerships; and an effective United Nations.

The Commission supports a series of coordinated changes across a broad front, ranging from reforming parts of the global economic system to strengthening governance at the local level. At the global level, the Commission provides several specific recommendations. In terms of labor markets, economic, and social protection, the following can be highlighted: Fair rules for the cross-border movement of people, that complement fair rules for trade and capital flows; strengthened respect for core labor standards defined by the ILO in all countries and in Export-Oriented Zones; larger access for goods in which LDC have comparative advantages; an acceptance of a minimum level of social protection for individuals and families, including adjustment assistance to displaced workers; enhanced coordination of macroeconomic policies to achieve sustainable global growth and full employment; implementation of coherent policies within the multilateral system to achieve the goal of decent work for all; a gradual and cautious approach to capital account liberalization by LDC and more socially-sensitive sequencing of adjustment measures in response to crises; and more ODA. In response to asymmetries in the composition of governing bodies, the Organization calls for changes in the most important multilateral organizations. These changes include increased representation by LDC in the decision-making process of the Breton Woods Institutions, and full and effective participation in negotiation of the WTO. It also highlights the importance of regional and sub-regional cooperation as a major instrument for development and a stronger voice in the governance of globalization.

In terms of the local agenda, the report provides a broad set of goals and principles that can guide policy to deal more effectively with the social dimension of globalization. These goals are: good political governance based on a democratic political system; respect for human rights; the rule of law, and social equity; an effective State that ensures high and stable economic growth (including employment targets), provides public goods and social protection, raises the capabilities of people through universal access to education and other social services, and promotes gender equity; a vibrant civil society, empowered by freedom of association and expression that reflects and voices the full diversity of views and interests. Also, it is needed to have organizations that represent the poor and other disadvantaged groups; and, finally, strong representative organizations of workers and employers that are essential to fruitful social dialogue. It is stressed that the highest priority should be given to policies aimed at meeting the needs of women and men for decent jobs; to raise the productivity of the informal sector and integrate it into the economic mainstream; and to enhance the competitiveness of enterprises and economies. The report is full of specific recommendations within these rules and principles, and we invite the reader to access the Commission report. Only those goals specific to social protection are mentioned here. The Commission states that a system of social protection that can stabilize incomes, distribute some of the gains of globalization to groups that would otherwise be excluded, and support the development of new capabilities is needed. In particular, unemployment insurance, income support, pensions, and health systems should be extended to reach informal, rural economies, women, and other excluded groups.

III.4.5 Thoughts on the Views of International Organizations

Broadly speaking, all organizations agree that globalization is a good model for growth. However, some countries and people have not benefited, but suffered instead, as a consequence of globalization. In view of these outcomes, the organizations agree to support policies aimed at macroeconomic stability and fostering a good environment for investment. Closest to our sphere, they also agree on the need for more efforts to support the groups that face adjustment costs. Another common aim is to combat poverty across countries and within countries, at the local and regional level, e.g., with social protection policies; and in the global arena, e.g., with international aid and provision of public goods. It is also true that the organizations diverge in their views on the advantages of intense State participation in the economy to equalize outcomes, and on the changes needed in globalization governance bodies.

Regarding the international aid, all four bodies basically support the idea of increasing international aid to poor countries. Nobody can oppose this idea, but the conclusions of recent evaluation reports on the outcomes of financial aid should be taken into account to improve their impact, as noted by Easterly (2006).

Financial aid is usually seen as a key element for countries to break out of poverty and begin to grow on their own. This aid is set alongside a list of other interventions, as mentioned above, under the reasoning that it will close the "financial gap" between what a country needs and what it can afford on its own. The aid will allow countries to break the poverty trap that exists because poor people cannot save enough money, have many children that outpace saving, and the condition of increasing returns to capital at low levels of capital (Easterly, citing Sachs 2005).

Easterly raises some doubts as to this reasoning. First, the author mentions that surveys analyzing the evidence point out the difficulty of drawing unambiguous conclusions about the existence of poverty traps. Second, the author has doubts about the effect aid has on the growth of poor countries. Easterly argues that no positive correlation exists between aid and growth across countries and over time. He adds that bad institutions and policies, and incentives going in divergent directions, have determined the poor impact of aid, such as corruption and antidemocratic regimes. To get the best impact from aid, Easterly argues, instead of significantly increasing foreign aid and holding onto utopian ideas of reducing poverty in the short run, a "piecemeal" approach has proven successful and should be followed: "Foreign aid could just concentrate on finding particular interventions that work, and keep those interventions going" (p. 103). Examples of piecemeal programs include the *Oportunidades* program in Mexico, as mentioned above, and vaccination programs (see Banerjee and Ruimin He 2004, for a list of piecemeal interventions that work). The author concludes by stressing that a piecemeal approach also requires improving incentives for aid agencies. He recommends putting much more emphasis on independent evaluation of aid projects, on devising means to get feedback from the intended beneficiaries and by holding aid agencies accountable when the feedback is negative.

Another interesting point to emphasize is that sometimes international organizations and researchers see in globalization an "elective" phenomenon, something that can be decided, or at least influenced. In reality, the label globalization encompasses a set of historical events that are not controlled by anyone. Technological change, trade growth, government, and corporate decisions all take place in a decentralized way. Thus, it is difficult to think that "global solutions" can be reached for problems of global governance in a comprehensive sense.

Two examples illustrate this situation. The first example is the increasing role of global aid programs, which now represent one third of the ODA. These programs are financed by bilateral and multilateral donors, private foundations, and civil society organizations that form partnerships, or new formal and informal organizations, to pursue shared global goals. Examples of these new organizations are the Global Fund to Fight AIDS, TB, and Malaria, knows as the GFATM; and the Global Alliances for Vaccines and Immunization, known as GAVI. Global funds, as opposed to country-focused programs or assistance, are created at first: i) on the need to promote global public goods, such as peace and security, fair international trade rules, control of communicable disease, financial stability, prevention of climate change, and information and knowledge, which are crucial to reduce poverty; and ii) because global collective action is needed to provide global public goods, since the world lacks a system of global governance with the authority to tax and mobilize resources to produce them (Lele, et al 2006)[7]. The second example is the fact that MNCs improve labor conditions of workers "voluntarily" and/or as a response to consumer taste and public pressure, as previously explained.

As is true in the case of global public goods, other areas lack a system of global governance. Thus, it is possible that a legislative international framework for commercial practices, controversy solutions, and labor issues may develop in parallel with global organizations.

III.5 Summary of Impacts and Policies Needed to Improve the Sharing of Benefits

Globalization is a phenomenon with different dimensions. Each dimension affects economies and labor market outcomes in different ways. Even though as of today several outcomes are still under debate in the academic agenda, lessons can be learned from the globalization processes countries of the Continent have undergone. In this section, we summarize the main findings from a review of the literature on globalization presented is previous paragraphs. These findings affect the well-being of individuals and are pertinent to the design of social protection policies.

1. Adjustment costs apply in terms of wages, and to a lesser extent, in employment in LDC; these costs can be very high in some countries. In general, with exceptions, the adjustment cost is borne by low-skilled workers and those employed in industries facing new import competition from countries with even lower wages. Also, workers formerly employed by industries that enjoyed high rents before trade reform are affected. High-skilled workers and those employed in export-competing sectors benefit from trade exposure. The evidence is mixed on FDI's effect on wages and employment. An association between trade exposure and informality has not been found.

2. Findings on the labor market suggest that labor is not perfectly mobile across sectors, from contracting sectors to expanding ones. This fact implies limits of achieving gains from comparative advantage.

[7] Other second-degree reasons why global funds are proliferating include: i) the growing awareness of global public diseases as HIV/AIDS and SARS (Severe Acute Respiratory Syndrome); ii) the belief that specialized global programs can harness the benefits of globalization and reduce poverty faster by using more information technology; iii) because civil society is interested in assuring that less developed countries adhere to standards of labor and environmental regulation, social protection, and human rights, iv) because some constituencies believe that more benefits can be reached with entrepreneurial skills, private capital, modern management principles, and by inducing incentives in the right direction, which traditional government-to-government aid usually fails to accomplish; v) because private philanthropic foundations can take tax advantage of the new wealth generated in a wide range of industries; and vi) people are disappointed with traditional aid organizations (Lele, et al 2006).

3. It has been found that public policies affect the outcome of globalization in labor markets and on the poor. This holds true for policies that allow people or firms to take advantage of globalization (for example, access to credits and technical assistance to farmers), or policies to attenuate the adverse effects faced by some groups (for example, poverty reduction programs).

4. Three main findings address poverty: i) Within a country, globalization generally lowers poverty and helps some groups of the population to better face financial crises; ii) Globalization creates losers in particular sectors, especially for individuals of low qualifications, but the negative effect on the income side may be attenuated, and may even be reversed, when lower prices, higher quality, and more variety of products associated with openness are taken into account in the well being of the individuals; and iii) No consensus has been reached on the association between globalization and world poverty (and inequality).

5. The impact of globalization on health takes place through two channels: an indirect channel, via its impact on income and poverty; and a direct channel, via the transmission of health-related knowledge and technology. Evidence exists that this last channel has helped reduce infant mortality rates and improve life expectancy, for example.

6. Globalization has been associated with lower labor standards, specifically via outsourcing and off-shoring to countries with lower labor standards, and because of the more common tele-work. It is unclear how important in size these new corporate practices are, but labor, international agreements, and social security regulations have not been adapted to improve labor standards for this new reality. Finally, it should be recognized that despite implementation of global policies, labor standards will increase when workers demand them, when corporations adapt them voluntary and in response to consumers and public opinion; and when governments decide to enforce them and improve their administrative capabilities.

7. Financial crises, even though less common now, are very costly, especially to the poor, who have lower skills and no insurance.

8. Some evidence suggests that globalization is associated with productivity, but as of today it is not clear whether these productivity gains are translated into economic growth and welfare. Gains from globalization can be greater with macroeconomic stability, competitive environment, sound regulation, taxes, and legal infrastructure.

9. Recent reforms in social security programs in LAC have had a goal of financial strengthening, but generally did not address the challenges of a dynamic labor market. When the impact of relatively sudden movements of trade or investment generates the risk of large losses for specific regions and social groups, the social protection system should react accordingly to avoid long-term adverse impacts on workers and social decay of cities and regions.

10. All international organizations claim credit for some changes in the globalization process. These changes are aimed at supporting poorer countries and people who have not benefited from globalization, or who bear the adjustment costs. In particular, developing countries need policies in the arena of social protection.

III.6 Conclusions

Active participation in globalization can be an important mechanism to improve the well-being of families through its impact on production, employment, and on the consumption side. If, in fact, this is a historical movement that cannot be evaded by individual nations, the best strategy would be to understand it and take a stance for the better. Unfortunately, outcomes in the LDC of the American Continent reveal that this mechanism is not as straightforward as was thought when countries first began to participate in a more global world. The need to change the current path, either at local, regional or global level, has now been widely recognized. The changes have to become manifest in a higher capacity for the LDC to compete in more equal terms in the globalized world. Extended social protection systems to protect the most vulnerable groups are among the most important complementary policies that need to be addressed immediately. These improvements will be translated into growth and greater well-being for families.

Social protection in the new path includes: extending programs to reach all, especially in pensions and health; new programs covering more frequent risks (for example, unemployment insurance and poverty reduction programs); redefining programs for adaptation into the new labor market reality (for example, to reform pension schemes in order to incorporate specific components against the vagaries of international trade while maintaining their financial viability); and redefining current operating schemes to avoid leaks in current social protection regulation (for example, recognize corporate practices like off-shoring, outsourcing and tele-work).

The system of social protection for the new world represents an important agenda for social security institutions. Social security institutions around the American Continent should start working on these four fronts (some have already started). While each country will find its own way to cope with these challenges, we believe that two principles should be followed. First, the decision makers in social security institutions should be open to new operating forms, from new financing mechanisms to new ways of delivering services. Second, decisions should be based on technical and well-documented arguments. The first principle requires a change of the organizational culture, which should be solved internally within each particular institution and country. The second principle requires social security institutions to rely on outside expertise and experience. Chapter V of this report tackles the issue of unemployment and associated protection policies in an effort to help social security institutions as they consider implementing or redefining programs of this type.

CHAPTER IV
SOCIAL DIMENSION IN TRADE NEGOTIATIONS

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IV.1 Introduction

National governments' concerns about employment and wages are unavoidably linked with keeping and increasing social protection levels. At the same time, two dilemmas are commonly perceived with regard to the need to improve competitiveness between domestic producers of goods and services. The first problem addresses the possibility that more competition will be attained through a reduction of social protection. In that case, the gains of some participants are actually the losses of others, with no clear social benefit. The second dilemma refers to other countries, particularly those that are direct competitors. The question that emerges is whether foreign nations can end up winning in the international market if they have social protection deficits.

This Chapter studies social protection policies that have been adopted by the most important trade blocs. These polices are described at the level of blocs (EU, NAFTA, ASEAN, MERCOSUR, CAN and SICA), as well as at the country level. The attempt is to understand why policies at the bloc level have been adopted in some cases, while in others, polices are enforced at the level of national territory. As a result, policies in countries and regions that interact in important ways with countries in the Americas have been identified.

In public debates, countries share a common concern about acquiring the capacity to face international competition without losing jobs and social protection. The best answers to these concerns will come from understanding the way in which social protection works in those regions, by learning about the most successful solutions, and comprehensively presenting national positions in international trade forums that regulate commerce.

Two features that define countries' views in the current globalization episode follow. First, in contrast with past globalization stages, present countries have significantly restricted migration. In this way, the main mechanism to equalize wages across countries has been eliminated. Some developed countries have gone further in recent years, searching to attract high-skill workers and restrict the immigration of those with lower skill levels. Second, labor and social protection issues are not incorporated in trade negotiations, with the main exception of the European Union, and are focused as issues of trade in services.

This Chapter is organized as follows. Section IV.2 defines the four integration modalities where countries that have carried out an integration process are located. The Section also describes the social security instruments signed under these integration agreements. Section IV.3 provides the main features of social security agreements entered into by countries of the Americas, as well as by countries that interact with them in a important way. Likewise, some basic positions about advantages and disadvantages of the welfare state and diverse modalities of integration are presented. Section IV.4 identifies various migration agreements into which the countries of the Americas have entered, and summarizes their main features. In addition, this Section analyzes the relationship between major migration flows among countries and the agreements signed to address this matter. Section IV.5 studies other instruments for labor mobility, such as trade of services under the shelter of regional and multilateral agreements, and submits some examples of these.

IV.2 Regional Integration

The multilateral trade system has been an essential tool for world trade liberalization in the last 60 years. The World Trade Organization (WTO) replaced the General Agreement on Tariffs and Trade (GATT) in its role as an international agency; however, GATT still exists as a general treaty of the WTO. The emergence of regional integration agreements responds to a need to supplement the trade liberalization mechanisms established under WTO.

GATT recognizes the usefulness of more integration among national economies through freer trade at the regional level. Therefore, it allows such integration; the provisions are exceptions to the general principle of the most favored nation clause. These groupings should meet certain conditions, whose purpose is to guarantee that the agreements facilitate trade between interested countries without imposing barriers to trading with the rest of the world.

The objective of regional integration agreements is to reduce trade barriers among member countries, beyond those established by GATT. These agreements have historical backgrounds that date back many years. Since the middle of the ‘80s there has been a significant increase in regional integration activities. Of the 334 regional trade agreements reported to GATT/WTO by September 30, 2005, 87 were noted since 1990; by January 2006, 183 agreements were in force.

Regional integration has given rise to the formation of economic blocs. These blocs have adopted different modalities, which range from free trade areas to economic and monetary unions. At least four different integration modalities have been recognized: 1) free trade areas, 2) customs unions, 3) common market, and 4) economic and monetary union. Table IV.1 presents the main features of these modalities.

Table IV.1
Integration Modalities

Agreement	Characteristics
Free trade area	Member countries eliminate trade barriers among them. Each country has the freedom to fix their trade policy (tariffs) with respect to third countries.
Customs union	Internal tariffs and other restrictions to trade between member countries are eliminated and a common external tariff with third countries is adopted.
Common market	Free trade of goods, common external tariffs, and free movement of factors.
Economic and monetary union	Free trade of goods; common external tariff; common tariff and customs legislation; free movement of capital, services and people; common institutions are created; unique currency and political integration.

IV.2.1 Free Trade Areas

Free trade areas are created by signing free trade agreements or treaties, where a group of countries agree to eliminate barriers to trade between them. At this level of integration, each party preserves its political sovereignty and is free to set its own trade policies with other nations not included in the agreement. Thus, each member maintains its own tariffs for imports coming from non-member countries. A free trade agreement does not restrict the country's possibility of entering into agreements of the same type with other countries, nor its possibility of participating in WTO.

Among theses types of agreements, we find the Free Trade Agreement of North America (NAFTA) and all other free trade agreements signed by countries of the Americas, or between these and others out of the region, as can be seen in Table IV.2. Likewise, we also find the Association of Southeast Asian Nations (ASEAN) and the Central American Integration System (SICA), which have a higher level of integration as their final objective, even though they are still in this early stage.

IV.2.2 Customs Union

In a customs union, internal tariffs are eliminated together with other trade restrictions between member countries, and a common external tariff for other third countries is adopted. As a consequence of the common tariff, the customs union requires a dispute settlement mechanism better than the one required in a free trade area (based on a panel arbitration system). In the case of the European Union, an Independent Justice Court was created.

At this level of regional integration are the South Common Market (MERCOSUR), integrated by Argentina, Brazil, Paraguay, and Uruguay; and the Andean Community (CAN), integrated by Bolivia, Colombia, Ecuador, Peru, and Venezuela.

The Andean customs union has been operating since 1995, when member countries, except for Peru,

Table IV.2
Location of the Blocs or Countries by Stages or Phases of the Integration Process

	Bloc, Agreement or Country
Free trade area or agreement	Association of Southeast Asian Nations (ASEAN), Central American Integration System (SICA), North American Free Trade Agreement (NAFTA), FTA between Uruguay and Mexico, FTA between Bolivia and Mexico, FTA between Mexico, Colombia, and Venezuela (Group of Three), FTA between Costa Rica and CARICOM, FTA between Dominican Rep. and CARICOM, FTA between Mexico and El Salvador, FTA between El Salvador, Honduras, and Guatemala (Northern Triangle), FTA between Mexico and Nicaragua, FTA between Mexico and Costa Rica, FTA between Canada and Costa Rica, FTA between Panama and Central America, FTA between Panama and Taiwan, FTA between Mexico and Chile, FTA between Mexico and the European Free Trade Association (EFTA: Norway, Switzerland and Island), FTA between Mexico and the European Union, FTA between Mexico and Japan, FTA between Mexico and Israel, FTA between U.S.A. and Australia, FTA between U.S.A. and Bahrain, FTA between U.S.A. and Chile, FTA between U.S.A. and Jordan, FTA between U.S.A. and Singapore, FTA between U.S.A. and Israel, FTA between U.S.A. and Morocco, FTA between U.S.A. and Oman, FTA between Canada and Chile, FTA between Chile and EFTA, FTA between Chile and Central America, FTA between Chile and Korea, FTA between Chile and the European Union, FTA between Dominican Rep., Central America, and the United States (DR-CAFTA), FTA between Panama and El Salvador, FTA between Chile and El Salvador, FTA between Chile and Costa Rica, FTA between Canada and Israel.
Customs union	Andean Community (CAN), South Commun Market (MERCOSUR).
Common market	Caribbean Community (CARICOM).
Economic and monetary union	European Union.
Countries pertaining to any commercial bloc or agreement	Cuba.

Source: Own elaboration using data of the WTO and the respective countries' web pages.

adopted an external common tariff (ECT) for imports coming from third countries. However, this setup has been considered imperfect because of the special treatments given to certain countries and products. Colombia, Ecuador, and Venezuela apply common tariff levels, but Bolivia maintains its own tariff, although it is subject to community administration. For its part, Peru does not participate in ECT and applies its tariff with total autonomy.

Member countries of the Andean Community are free to negotiate trade agreements with third countries or groups of countries, in virtue of Decision 598 adopted in 2004. The only requirement is to notify the CAN Commission before signing the agreement. In April 2006, Venezuela requested its official withdrawal from the Andean Community, which will be gradually carried out in a five-year term. According to CAN regulations, if Venezuela were to decide to withdraw immediately, it could have its trade and exports penalized. Likewise, on July 4, 2006, the accession Protocol of Venezuela into MERCOSUR was signed. With this, Venezuela will adopt the MERCOSUR regulations gradually, in four years at the latest, counted as of the date of Protocol enforcement.

SICA is taking actions directed at establishing a customs union. It can be mentioned that the European Union started as a customs union without going through the first level of integration (free trade area).

IV.2.3 Common Market

A common market includes free trade of goods, common external tariffs, and free movement of production factors (labor and capital). In a common market the linkage between countries is characterized by an integration of economic sovereignty of the parties. Therefore, a country loses its ability to carry out bilateral negotiations separately.

At this stage of the integration process we find the Caribbean Community (CARICOM). By July 2006, 12 of the 15 member countries were part of the common market: Antigua and Barbuda, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Saint Lucia, Saint Christopher and Nevis, Saint Vincent and the Grenadines, Surinam, and Trinidad and Tobago (still missing are the Bahamas, Haiti, and Montserrat).

IV.2.4 Economic and Monetary Union

The economic and monetary union is the most comprehensive form of integration. It includes free trade of products, external common tariffs, common tariff and customs legislations, and free movement of capital, services, and persons. In addition, common institutions are created with power over member state governments. The European Union is the example of this integration process. As of 1992, member counties of the European Union (at that time only 10, but now 25) not only shared a single market, free of barriers to trade among them, but in addition had significantly facilitated the transit of people (which may be permanent), services, and capital. They already share a single currency, although only 12 countries have it. The European integration process is also accompanied by elements of political integration.

In October 2004, heads of State of the EU member countries signed a treaty that aimed to establish a European Constitution, which was expected to be enforced on November 1, 2006. However, the European Council of June 2005 considered that the date initially chosen to look at the ratification status was no longer realistic. As of May 2006, only Austria, Belgium, Cyprus, Estonia, Germany, Greece, Hungary, Italy, Latvia, Lithuania, Luxembourg, Malta, Slovakia, and Spain had ratified the Constitutional Treaty. The two countries that will be joining the EU in 2007, Bulgaria and Rumania, have already accepted the Constitutional Treaty with the ratification of their accession treaty. The Czech Republic, Denmark, France, Ireland, Holland, Poland, Portugal, and United Kingdom have not ratified it.

This process was interrupted when on May 29, 2005, most of the French voters rejected the constitution in a referendum (54.7%). This rejection was followed three days later by the Dutch (61.6% voted against it). The current and future status of the EU continues to be subject to political issues due to different viewpoints between member states.

Among these differences are those that relate to the European Union Budget: British tax reimbursements, French benefits for common agricultural policies, large contributions of Germany and Holland to the EU budget, and the reform of European Regional Development Funds.

Through different funds, the EU allocates more than a third part of its budget to regional development and economic and social cohesion. For the 2000-2006 period, 213 million euros were assigned to structural funds for the first 15 member states, of which 64.6% were assigned to Objective 1 of structural funds (only for Greece, Spain, and Portugal, 57.4% of this fund has been assigned). EU structural funds are concentrated into three objectives: Objective 1 is directed to facilitate the recovery of less developed regions; Objective 2, to the economic and social transformation of zones that face difficulties; Objective 3, to modernize training systems and promote employment. In addition, through the cohesion fund (a special fund whose objective is to help the less developed member states, including the 10 new member states, plus Greece, Portugal, and Spain, and until the end of 2003, also Ireland). Greece, Portugal, and Spain received aid that represented 68% of this fund.

According to the third report on Economic and Social Cohesion of the European Union, the European value added has been significant at many levels, regarding the reduction of differences between developed and less developed countries (European Commission 2004). For example, it is estimated that by the application of the Community Framework for Support (structural funds plus national public expenditure), in Spain the effect of investment made between 2000 and 2002 represented 0.4% of the GDP; predictions say it will represent 2.4% in 2006.

The report also states that the EU's future faces new challenges posed by i) the strong increment of social and economic disparities in the EU after its expansion; ii) the accelerating pace of economic changes resulting from greater competition created by globalization; and iii) the effect of new technologies and development of the economy of knowledge. Additional changes include an aging population and the effects of extra-community migrations into the urban cores of the EU.

Thus, a wide range of agreements have been established around the world, ranging from free trade areas, in which countries do not waive their sovereignty of managing domestic policies, to economic and monetary unions, which also include political integration. The last-mentioned stage constitutes the most ample form of integration, although whether it is the best form, and for which type of countries, is a moot point.

Experts in the field have compared the advantages and disadvantages of a customs union as compared with a free trade agreement. Bhagwati (1996) indicates that a free trade agreement permits, and can encourage, individual nations to reduce their external tariffs, particularly in cases where trade diversions are taking place. Also, a customs union regularly avoids the application of rules of origin, which can be expensive to administer and protective in their effects. Free trade agreements and customs unions also differ in two other ways: A customs union requires a greater degree of political coordination or integration to develop its common external tariffs, and it restricts its members from negotiating individually with nonmember countries. However, greater coordination may be an advantage in some circumstances; in others, it is a disadvantage.

Thatcher (2002) states that the advantage of a free trade agreement vis-a-vis an economic union is that the latter leaves member countries free to sign any type of trade agreement with other nonmember countries. She writes, "It is only an association dedicated to free trade, and not a customs union or a political administrative entity with great ambitions." She concludes that it would be more convenient for Great Britain to access a Free trade agreement like NAFTA, or join some other free trade organization that would enable it to negotiate a new trade relationship with EU countries. This would have to take place before Great Britain becomes a full member of EU.

Common positions of various experts on the topic have argued that the European model implies a certain abandonment of national sovereignty and the existence of a more costly bureaucratic apparatus. Certainly, the EU considers this a cost justified by the benefits of advancing towards building a European common market, a goal that in Europe has unquestionably had great profits. On the other hand, the mechanism of social and regional funds is often viewed as the strength of the European approach to facilitate adjustment and ease the social and political tensions associated with liberalization.

IV.3 Policies Adopted by the Main Trade Blocs around Social Protection Issues

It is important to make a clear distinction between integration processes without neglecting the specifics of each, since the objectives they seek are different. Sometimes agreements include social order provisions, while in other cases they are limited to the trade and investments area. Exceptions are commitments in the socio-labor area, which are basically oriented to the appropriate application of domestic labor legislation to guarantee respect for the fundamental rights of workers. In various types of trade agreements, differentiated treatment is given to labor topics, as summarized in Table IV.3. In the OMC, the awareness of requirement of some countries for institutional support to totally take advantage of trade benefits has grown, and an agenda of "Aid for Trade" has been adopted (Box IV.1).

Box IV.1
Recommendations on the Task Force on Aid for Trade

The WTO has developed an agenda of "Aid for Trade", with the objective to facilitate developing countries the participation in trade negotiations. A week after the negotiations of the Doha Round were suspended, the Task Force on Aid for Trade submitted its final recommendations.

The report indicate that the effectiveness will require, different from the commitment of international organizations who target resources to assist development, to target resources to programs and projects specifically related to trade issues. At the same time, the scope of aid should be defined in a way that is both broad enough to reflect the diverse trade needs identified by countries, and clear enough to establish a border between aid for trade and other development assistance of which it is part. The following categories of aid for trade have been identified:

i) Trade policy and regulations, including training of trade officials, and institutional and technical support to facilitate implementation of trade agreements and to adapt to and comply with established rules and standards.

ii) Trade development, including investment promotion, analysis and institutional support for trade in services, trade promotion, and market analysis.

iii) Infrastructure.

iv) Building productive capacity.

v) Trade related adjustment, including support for developing countries to put in place measures that assist them to benefit from trade.

vi) Other.

Aid for trade is the result of diverse reflections about the fact that trade liberalization in itself does not automatically lead to growth and development. The argument is that most developing countries have not been able to fully benefit from trade because of two main restrictions: their lack tradable surplus and have deficient knowledge of market access opportunities.

IV.3.1 Free Trade Agreements

Many free trade agreements, particularly bilateral ones, abound in the Americas. However, none of them includes social security commitments, and only a few include labor commitments or have a parallel agreement on this topic. Examples are the Labor Cooperation Agreement between Canada and Costa Rica, the Labor Cooperation Agreement between Canada and Chile, The North American Agreement on Labor Cooperation (NAALC), and the free trade agreement between the United States and Chile.

IV.3.1.1 Association of Southeast Asian Nations (ASEAN)

The countries of the Association of Southeast Asian Nations (ASEAN) have not incorporated the labor dimension into their economic and free trade integration processes. This trend might be deepened even further due to the ASEAN and southern Asian countries' needs to compete with Chinese economic expansion, based on strong external investments and very low labor cost (Martinez 2004). However, the opposite is more likely to happen, because as they grow in wealth, Chinese workers will demand and earn improved labor conditions.

IV.3.1.2 Central American Integration System (SICA)

Trade among Central American countries has been subject to preferential rules for over 40 years. A free trade zone is in effect, based on a series of integration instruments. On December 13, 1991, SICA was established when the Tegucigalpa Protocol was signed. On October 29, 1993, the Protocol of General Agreement of Central American Economic Integration was put into place, with the objective of becoming a Central American Economic Union. Most of these instruments are centered on the trade of goods, although regulatory progress has also been made in other areas in later years. The objective of the region is for this integration scheme to evolve into a customs union. On June 29, 2004, the General Framework for the Negotiation of the Customs Union was passed and is being used as the basis for current negotiations. Central Americans have made progress in analyzing problems and finding solutions to obstacles in the free transit of goods, people, and transportation means through border customs, basically in issues related to international customs transit.

In virtue of the existence of this regional regulation, Central American countries have had to define whether the free trade agreements apply universally to all countries involved, or only govern the relationship between each country in the region and the non-member country involved. For agreements with Chile and the Dominican Republic, the countries adopted a bilateral application of the respective agreement. Nonetheless, for the Free Trade Agreement between the Dominican Republic, Central America, and the United States (DR-CAFTA), the application of the agreement is multilateral.

In labor issues, each member of DR-CAFTA assumes the obligation of effectively applying its own legislation; that is a general obligation. However, each member can use the dispute settlement instrument to claim the non-effective application of another member's internal legislation on this issue, when trade between members is affected. This is new in the relations of Central American countries, since legal instruments for Central American integration do not contain any obligations regarding labor issues. Even if every country has the duty to enforce its laws in this area, in virtue of its own internal legislation, no possibility exists of claiming this obligation in a dispute settlement mechanism between countries, as permitted under DR-CAFTA.

According to Rodas (2006), although the DR-CAFTA chapter relating to labor issues only discusses the achievement of workers' basic rights, it might even promote that the Ministries of Labor of Central American countries could carry out more stringent inspections of labor issues. Even agriculture could be subject to this type of supervision and audit. Likewise, what has been agreed in this chapter might exert some pressure on exporting companies to stop child labor, which is still significant in Central American countries.

Regarding the topic of social security, the DR-CAFTA sets forth in the financial services chapter, "This does not apply to the measure adopted or maintained by one Party regarding the activities or services that are part of a public retirement plan or a legal social security system." However, the chapter's provisions will be applied if one party allows some of the activities or services referred to in the chapter to be carried out by its financial institutions in competition with a public agency or financial institution. This means that, should social security reforms be made towards individual capitalization, as has been the case of El Salvador, regulations negotiated in financial issues might be fully incorporated. Therefore, we are not under a full exclusion, but a juncture exclusion motivated by the existence of schemes that differ among countries. This condition could be superseded to the extent that private service providers begin to play protagonist roles (Rodas 2006).

Also, the instruments signed under SICA have basically regulated trade issues. Labor and social security issues have scarcely been treated under the various legal instruments that regulate them. In addition, SICA has a document on social security, which at this point is a declaration of wills.

IV.3.1.3 North American Free Trade Agreement (NAFTA)

NAFTA is important to the history of free trade agreements in the Americas. It was the first agreement linking economies of developed countries and developing countries, establishing a free trade area between three of the four largest economies of the American Continent. In the second place, it is significant because it is the first broad-coverage free trade agreement that includes not only the trade of goods, but also services, investments, intellectual property, and public sector purchases.

On the other hand, it has universal coverage in the sense that before NAFTA, free trade agreements contained lists of products that would receive preferential treatment. The whole universe of products is included under NAFTA, except those cases that get special treatment.

NAFTA does not have special provisions for social security (except, as in SICA, to indicate that social security is not part of the agreement). However, it was the first free trade agreement to integrate an agreement on labor issues (parallel agreement). The North American Agreement on Labor Cooperation (NAALC) sets general obligations for each party to apply its own labor laws. Specific obligations refer to the publication of labor laws, procedures, and regulations, as well as their dissemination, knowledge, and enforcement. The agreement establishes commitments regarding fundamental rights at work, as well as in issues of fair compensation, fair working day, occupational health and safety, job promotion, and indemnities over occupational diseases or accidents.

The application of labor laws in NAALC signatory countries is promoted through a cooperation activities program in areas such as labor, health and safety, protection of migrant workers, and the development of the labor force.

IV.3.2 Trade Blocs

Economic Integration Agreements in the Americas are MERCOSUR, the Andean Community (CAN) and the Caribbean Common Market (CARICOM). In the next sections, the various treatments of social security issues in each agreement will be discussed. Likewise, the treatment of this topic in the European Union will be studied.

IV.3.2.1 European Union

One of the issues for Social Security, when it is analyzed from a community perspective, is its marked territoriality. Historically, regulations have been applied in the territory where they were enacted. However, social security is a mechanism that allows worker mobility across EU countries. Regulation 883/2004,

Table IV.3
Labor or Social Security Agreements in the Different Modalities

Modality	Agreement	Concessions
Free trade area or agreement	North American Agreement on Labor Cooperation (NAALC); Agreement on Labor Cooperation between Canada and Costa Rica; Agreement on Labor Cooperation between Canada and Chile.	Labor fundamental rights: freedom of association, no obligatory work, no child labor, nondiscrimination.
Customs union	MERCOSUR Social Security Multilateral Agreement; Andean Social Security Instrument; and Andean Instrument on Safety and Health at Work.	a) Insurance: health, elderly, disability or death; b) transference of funds for elderly, disability or death benefits; c) totalization of periods; and d) accumulation of periods for the years worked in a third country with bilateral or multilateral agreements on social security between this country and any member state.
Common market	CARICOM Social Security Agreement and Convention on Social Security in the Organization of Eastern Caribbean States (OECS).	CARICOM only covers pensions.
Economic and monetary union	Regulation on the Coordination of Social Security Systems in the European Union Treaty	a) Insurance: maternity, disease, labor accidents, dependency, elderly, unemployment; b) transfers of funds for elderly, disability or death benefits; c) totalization of periods.

Source: Own elaboration using data from the agreements.

about the coordination of social security systems, amended Regulation 1408/1971 regarding the application of social security schemes to employed workers and their families who move from one place to the other within the community. The purpose of this new regulation is to avoid the possibility that a free flow of workers between member countries could involve a reduction in protection against social risks or cause a loss of rights in this area.

Member countries of the European Union have adopted various measures at the national level to reach a proper relationship between contributions and benefits of their social security systems. These measures include adjustments in retirement age, replacement rates, and the way to calculate benefits, with a predominance of those reforms in areas where contribution rates increased. Regarding the bloc as such, it was assumed that with the completion of "The Treaty of Rome" in 1957, the harmonization of social policies would evolve naturally. However, with the increase in the number of members, possibilities of reaching an agreement have declined.

All the EU countries agree on the objectives of increasing employment levels, promoting social inclusion, investing in the productive sectors, providing professional training to future workers, and innovating in the economic sector based on knowledge. This convergence of objectives and ambitions led to the adoption of an Open Method of Coordination (OMC) for the implementation of public policies, which started with the insertion of a chapter about employment in the Amsterdam Treaty of 1997 (Esping-Andersen 2003).

The OMC, based on monitoring and setting objectives each country wants to achieve, is considered as important sign of progress in the integration of the EU in social security issues, since the topic had remained stagnant for a long time. This method promotes a learning environment based on innovation and experimentation in policies that acknowledge the deep heterogeneities of welfare states. In this procedure, political players respect national differences in accepting guides of study agreed on by member states, and learn about best practices of other countries. The objective is not to achieve common policies, but to share experiences and practices. So, although the EU is seen as the most advanced example of integration, member countries have rejected the possibility of integrating Welfare State programs.

IV.3.2.2 MERCOSUR

The multilateral Social Security Agreement of the Southern Common Market was signed in December 1997. In this agreement it was determined that social security rights of individuals who have worked in other member states would be recognized. Also, these individuals and their families have the same rights and obligations as nationals of those countries, regarding issues the agreement specifically mentions. The agreement also applies to workers of other nationalities who reside in the territory of one of the member states, if they have worked, or are working, in those states. The agreement is applied pursuant to the social security legislation regarding contributive, economic, and health benefits that exist in member states.

Each member state grants economic and health benefits according to its own legislation. Workers are subject to the legislation of each member state in whose territory they exercise their labor activities, with the exception of temporary professional workers and air or sea companies' personnel (that is the usual treatment in trade agreements).

Health Benefits. Health benefits are granted to workers who are temporarily transferred to the territory of another member state, and their families. The resulting costs must be paid by the managing entity that authorizes the benefits.

Economic Benefits. This agreement is also applicable to workers affiliated to retirement and pension schemes based on individual capitalization established, or to be established, by any of the member countries. The benefits provided by these schemes are old age, and disability or death benefits. Member states and those that will have future access to this agreement, and that have individual capitalization retirement and pension schemes, might establish fund transfer mechanisms to obtain old age, and disability or death benefits. The agreement includes conventional totalization rules to add periods of contribution in different territories.

IV.3.2.3 Andean Community

The Andean Community has three agreements related to social security: The Andean Instrument of Labor Migration, The Andean Instrument of Social Security, and the Andean Instrument on Safety and Health at Work. The first agreement establishes standards that permit free circulation and permanence of Andean nationals in the sub-region for work purposes under a relationship of dependency.

The Andean Social Security Instrument sets forth:

i) Full application of the national treatment principle within the sub-region for labor migrants and their beneficiaries, and elimination of any form of discrimination;

ii) Rights of migrant workers and their beneficiaries to receive social security benefits during their residence in another member country;

iii) Preservation of acquired rights and continuity of affiliation in the social security systems of member countries for labor migrants; and

iv) Recognition of the right to perceive health and economic benefits during the residency or stay of migrant workers and their beneficiaries in the territory of another member country, pursuant to the receiving country's legislation.

In accordance with the laws of the host country, the benefits granted to migrant workers, as well as their beneficiaries who move with them, are the following:

Health Benefits: Health benefits required by migrant workers in the receiving country, who continue to make contributions or payment of fees in another member country, shall be provided by the receiving country and charged to the member country where the worker continues to make his contributions or pays his fees.

Economic Benefits: For age or retirement, disability or death. The agencies of each country shall establish the fund transfer mechanisms for payment of economic benefits to migrant workers or their beneficiaries residing in the territory of another country. The totalization of periods of contribution is also included in the agreement.

The third agreement is the Andean Instrument on Safety and Health at Work. It sets the fundamental standards in the field of occupational health and safety. This instrument also promotes adoption of guidelines about the management of occupational health and safety, and the establishment of a national occupational health and safety system.

IV.3.2.4 Caribbean Community (CARICOM)

The countries of the Caribbean have a long history of migration in and out of the region. For this reason, social security agreements are very important. All the countries in the Caribbean, except for Turks and Caicos Island, have signed regional and extra-regional reciprocal social security agreements. Two regional agreements are in force: the CARICOM Agreement on Social Security (CASS), and the Social Security Convention in the Organization of the East Caribbean States (OECS). Similar agreements have been signed bilaterally by some countries with Canada and the United Kingdom.

The OECS agreement has greater coverage, since it covers short-term benefits and pensions, while the CASS only covers pensions. Also, the OECS convention applies any contribution made in two or more states, while the CASS only applies under certain circumstances when the minimum contribution has not been reached. Nine countries have signed the OECS; however, it has only been enforced by two (Grenada and Montserrat).

CARICOM governments signed the CASS at the beginning of 1996, and by mid-2002 all English-speaking CARICOM member states had ratified and enforced the agreement. However, three associated member states—Anguila, British Virgin Islands, and Turks and Caicos Island—have not signed the agreement. The CASS is directed at protecting CARICOM nationals' rights to benefits, providing national treatment when they move between countries, and facilitating labor mobility within CARICOM. The OECS convention is more equitable than CASS in the sense that if a national qualifies in one or more States, the contributions are always totalized (Osborne 2004).

As shown in Table IV.4, different countries of the Caribbean have entered into social security agreements with Canada. Barbados and Saint Lucia have a similar agreement with Quebec, and only Barbados and Jamaica have agreements with the United Kingdom. Of the agreements with Canada, only Canada's Pension Plan (CPP) includes disability and survivors' pensions, as well as old age; both are covered as retirement pensions even if only one contribution was made. Benefits covered by regional schemes include the three pensions (old age, disability, and survivors) and usually help for funeral expenses. Under the agreement of Barbados-United Kingdom, the short-term benefits, employment damage benefits, and contributory pensions are covered in both countries.

IV.3.3 Bilateral Social Security Agreements

With globalization, some workers have been motivated to work in a place other than their country of origin. For Social Security this entails two main problems: double taxation on income, and breaking up the contribution periods.

In order to solve these problems, some countries have signed International Social Security Agreements (ISSTA), also called "Totalization Agreements," that basically have two objectives. First, agreements help maintain the continuity of social security coverage for workers who have divided their labor carriers into two countries, permitting them to qualify for partial benefits in both social security systems on the basis of the totalization of contribution periods in both countries. In the second place, the agreements

Table IV.4
Caribbean Countries with Social Security Agreements

Country	Agreement		
	CASS	OECS	Other
Anguilla			
Antigua and Barbuda	Yes		Canada
Bahamas	Yes		Canada, Quebec and United Kingdom
Barbados	Yes		
Belize	Yes		
British Virgins Islands			
Dominica	Yes		Canada
Grenada	Yes	Yes	Canada
Guyana	Yes		
Jamaica	Yes		Canada and United Kingdom
Montserrat	Yes	Yes	
St. Kitts and Nevis	Yes		Canada
St. Lucia	Yes		Canada and Quebec
St. Vincent and the Grenadines	Yes		Canada
Trinidad and Tobago	Yes		
Turks and Caicos Islands			

Table IV.5
Coverage of ISSTA
(commercial blocs)

Agreement	Bloc	Elderly pension	Retirement pension	Disability pension	Death	Health benefits	Benefits for work risks and professional diseases
Decision 583 & Decision 584	Andean Community	Yes	Yes	Yes	Yes	Yes	Yes
Acuerdo Multilateral de Seguridad Social del Mercado Comun del Sur	Mercosur	Yes[1/]	No	Yes	Yes	Yes	No
Caricom Agreement on Social Security	Caricom	Yes	No	Yes	Yes	No	No
Acuerdo Multilateral para la Protección en Salud de los Asegurados en Tránsito de las Instituciones de Seguridad Social de Centroamérica	SICA	No	No	No	No	Yes[2/]	No

Notes: 1/Persons aged 70 or more who do not count with the needed contributions to obtain a pension will be able to accede to it by the so called *prestacion por edad avanzada*. 2/Only the nationals that are outside the state of origin and in conditions of urgency will be protected.
Source: Own elaboration using the text of the ISSTA.

eliminate double taxation on social security, a situation that occurs when a worker of one country works in a different country and needs to pay social security contributions in both countries (CISS 2005).

Among countries of the Americas that have signed ISSTA, Canada leads in the number of agreements with 41, followed by United States with 20, Uruguay with 13, Chile with 8, and Argentina with 6. Nonetheless, the ISSTA signed by Canada and the United States are mostly with European countries. On the other hand, some countries have not signed any ISSTA, such as El Salvador, Guatemala, Honduras, Nicaragua, Panama, Cuba, Dominican Republic, and Haiti (CISS 2005). Table IV.5 shows the insurance covered by the ISSTA for trade blocs in the Americas.

From Table IV.5 it can be said that, except for SICA, insurance policies covered by agreements of member countries of trade blocs are similar. The Andean Community agreement has the widest coverage. For Central American countries, signing an agreement represents a major chance to protect migrant workers, since with the exception of Costa Rica, these countries have not entered into any ISSTA (CISS 2005).

On the other hand, the Andean Community and MERCOSUR have gone beyond that by creating a common passport to facilitate the free movement of people in their territories. In addition, CAN has the Andean Instrument for Labor Migrations to regulate some features of labor migration. The Socio-Labor Declaration of MERCOSUR basically protects fundamental rights.

In the framework of multilateral trade negotiations under the WTO, neither social security nor labor topics have been subjects of agreements, as indicated in Box IV.2.

Box IV.2
Labor Issues in Multilateral Negotiations Rounds at the WTO

The General Agreement of Tariffs and Trade (GATT) was founded in October 1947. During the first years, the trade negotiation rounds of GATT concentrated on continuing the tariff reduction process. Only during the Kennedy Round (the sixth) were an antidumping agreement and a section on development adopted. The Uruguay Round (the eighth) was held between 1986 and 1994. It was the last and the most important round, since it gave rise to creation of WTO and to a new group of agreements.

New topics emerged that proved to be very conflictive. These topics were added to those of agriculture: services, access to markets, antidumping standards, and the project of creating a new institution (WTO). On April 15, 1994, the agreement was signed at a meeting held in Marrakech (Morocco). The Marrakech Agreement contained the commitment to hold agriculture and services negotiations again at the beginning of the new century. These negotiations began in 2000 and were incorporated into the program of the ninth and current round, The Doha Round for Development, that started at the end of 2001.

On July 27, 2006, The Doha Round negotiations were stopped, after the July 23 failure of the negotiations of the Ministers of Australia, Brazil, the European Union, India, Japan, and the United States regarding the topics of market access and internal help (subsidies).

Labor issues have not been included in programs of the various negotiations rounds. The position of trade ministers at WTO has been that the promotion of labor standards does not belong to the system established to regulate trade, and that it is a topic that should be treated at the International Labor Organization (ILO). Some people have criticized this position because the ILO does not have the power of execution. Critics have also stated that this view differs from those taken with respect to other trade-related issues incorporated into WTO negotiations, such as the rights of intellectual property, because they believe it proves the desire to protect certain types of rights over the rights of workers.

The complete failure of the Doha Round would imply that the WTO could become a complement to bilateral and regional trade agreements, with reduced power. Controversial points still on the table are difficult to agree on, considering the positions of the countries involved, as shown by the suspension of the Round.

IV.4 Migration Agreements

Due to the openness of domestic markets and the growing mobilization of people, countries have been forced to sign bilateral migration agreements. These agreements can be used to regulate migratory flows, or can be directed mainly to protect the migrant population regarding their social security rights (ISSTA).

It is important to make a distinction between the ISSTA and migration agreements. The ISSTA are agreements signed between social security institutions, which indicates that only individuals insured in the country of origin may have access to them. On the other hand, migration agreements are directed to all types of migrants, including informal ones, and are signed by the corresponding governments.

According to Geronimi (2004), a migration agreement may be defined as an agreement between two States governed by international law; its objective is to create, modify, or extinguish rights and obligations in the area of international migrations, with flexibility as the main advantage. That is, these agreements can be accurately adjusted to the needs and preferences of contracting States.

Following the author, agreements may pursue different purposes, such as re-admission, border controls, or struggle against migrant trafficking (restrictive policies); regulation objectives or labor recruitment (incorporation policies); free circulation of labor force (regulation policies); or return of nationals abroad (recovery policies); or assistance to nationals abroad (linking policies). Depending on the duration, application of the policies could be permanent or temporary. In addition, agreements may be unique or multiple; that is, they may include one or several of the aforementioned objectives.

IV.4.1 Migration Agreements

To show the many types of migration agreements, some examples are mentioned in the next paragraphs. In countries out of the region, Germany has entered into the largest number of agreements. One of the agreements is with Chile, to promote small firms formed by Chilean citizens repatriated from Germany.

Spain is important because of the number of Latin American migrants. The agreement signed with Argentina provides national treatment with regard to compensation, work conditions, and social insurance. Likewise, Spain has entered into double nationality agreements with the Dominican Republic, where it is said that social security and labor rights will be governed by laws of the place where work is carried out.

In addition to having signed 41 social security agreements, Canada has entered into temporary employment agreements for agricultural workers with Mexico and Caribbean countries, such as Anguilla, the British Virgin Islands, and Turks and Caicos Islands. Likewise, it has a Memorandum that facilitates the granting of labor permits for those people working in the construction sector, with at least high school education or specific training for the requested job. The labor permit has a maximum duration of 12 months, and it is renewable. Workers receive health insurance.

Even though the case of the United States is very important, in general no migration agreements are in effect. The United States regards the topic as one of full territorial application in a sovereign way. For this reason, in spite of substantially increasing its ISSTA, migration is not a topic of U.S. international agreements. This situation is outstanding in view of the large number of immigrants that come to the U.S. from all countries from the rest of the region. Proposals for migratory reform have been a hotly debated topic in the United States. In recent years, draft bills have made progress in both Houses, but have not yet been translated into legal reform.

Regarding other countries of the Americas, Argentina has entered into a migration agreement with Peru, where the term for nationals of one party to regularize their migratory situation is extended. On the other hand, it has signed an agreement with France on the exchange of students, applicable to professionals between 18 and 35 years of age, with duration of a year and renewable annually; in this agreement national treatment is guaranteed.

Likewise, Argentina signed an agreement with Chile that includes various issues about temporary workers. Argentina entered into another agreement with Italy about the treatment and stay of workers in the receiving country. Argentina has also entered into double nationality agreements with Italy. In addition, it has signed agreements with Japan, Spain, Italy, the Netherlands, and Switzerland, in which the immigration to Argentina is promoted and national treatment is offered.

Costa Rica signed an agreement to send its nationals for technical training in Japan, and to allow Japanese missions to study economic and social development projects in Costa Rica.

Table IV.6 shows some bilateral migration agreements that have been signed by countries all over the world.

Table IV.6
Bilateral Agreements about Labor Migration in the World: Selected Countries

Country	Counterparts
	Countries of the Americas
Argentina	Peru (1999), Bolivia (1999), Paraguay (not yet in force), Chile (1972), Brazil (1997): ordinance and regulation of migration flows. Mercosur (2004): residence.
Barbados	Canada (temporary workers).
Bolivia	Argentina (1999), Peru (2002): residence. Andean Community: Andean Labor Migration Instrument, Andean Passport Creation (in force on 31 December, 2006).
Brazil	MERCOSUR: Residence Agreement for Nationals of the MERCOSUR Member States (2004), Argentina: agreement for the facilitation of entrepreneur activities.
Canada	Seasonal workers in agriculture: Jamaica (1966), Barbados (1967), Trinidad and Tobago (1967), Mexico (1974), Organization of Eastern Caribbean States (1976).
Colombia	Spain (2001): ordinance and regulation of labor migration flows. Andean community: Andean Labor Migration Instrument, Andean Passport Creation.
Ecuador	Spain (1964): double nationality, (2001): workers' labor rights protection, ordinance and regulation of migration flows. Colombia (1993): agreement about movement of people, (2000): undocumented people. Chile (1990): undocumented people. Andean Labor Migration Instrument, Andean Passport Creation.
United States	H1 and H2 programs. H1: highly qualified workers, H2: for workers of low qualification, divided into program H2A, for temporary agricultural workers and program H2B, for temporary workers' suppliers of other services.
Guatemala	Mexico (1989): decision to create a binational group of migration subjects. (2002): installation of a group of agricultural workers for the traffic of undocumented people and their regularization.
Mexico	Canada (1974): Program for agricultural temporary Mexican workers who immigrate to Canada.
Nicaragua	Costa Rica: ordered administration of migration flows with employment objectives (2002).
Dominican Republic	Spain (2001): ordinance and regulation of migration flows.
	Other Countries
Albania	Greece, Italy, in force since 1997, seasonal employment.
Germany	About employment: association agreements with candidates to the EU1/ and Turkey, bilateral agreements of hiring for manufactures, bilateral agreements for invited workers (Gastarbeiter).

Table IV.6 (continued)

Country	Counterparts Other Countries
Argelia	Mali (1977), Nigeria (1996), Marruecos (1999): Immigration, Visas.
Australia	New Zealand (1973): free movement of people, employment and residence.
Austria	Hungary: agreement for border workers; practitioners, (1998): agreements subject to contingencies. Switzerland: agreement about invited workers; permanent residence, subject to contingencies. European Union (1995): free movement of EU nationals and some members of their families.
Belarus	Temporary employment: Russia (1996), Ukraine (1996), Poland (1996), Moldova (1997), Lithuania (not yet in force), Kazakhstan (not yet in force), Armenia (2001).
Belgium	Turkey (1997): workers' occupation. Argelia, Morocco, Tunisia, Former Yugoslavia (1977): employment and settlement of workers. Greece (1977): emigration of workers occupied in the exploration of coal.
Bulgary	Switzerland (1995), Luxembourg (2003): apprentices and practitioners. Greece: seasonal workers (1995). Germany (1992): employment with limited duration in hotels and restaurants, (1992, 1999): students. Czech Republic (2000) and Portugal (2002): employment.
China	Russia
Croatia	Germany (2002), Czech Republic (2003): for all the occupations.
Egypt	Qatar, Jordan (1974-1981), United Arab Emirates (1988-1990), Iraq, Libya, Lebanon, Greece, Sudan, Italy, Morocco and Kuwait: bilateral cooperation in labor matters and labor force organization in the signatory countries.
United Arab Emirates	Tunisia, Morocco, Sudan and Egypt (1981), Yemen (1988): organization of labor relations, individual labor contracts, governmental supervision of putting international norms into practice.
Eritrea	Common Market for Eastern and Southern Africa (COMESA): free movement of people, manpower, services, rights of establishment and residence.
Slovakia	Czech Republic (1992): employment, without quota. Finland (1998): practitioners, without quota. Luxembourg (1998), Germany (1996, 2001): practitioners, quota. Germany (1991): seasonal workers, without quota, (1996): construction and restoration, quota. Hungary (1999): independent and seasonal workers, quota. Poland (1992): independent workers and students, without quota. Russia (1995): employment, quota. Switzerland (1995): practitioners. Ukraine (1997): independent, seasonal, outstanding workers, quota.
Spain	Morocco (2001), Ecuador (2001), Colombia (2001), Poland (2002), Rumania (2002), Dominican Republic (2001), Guinea Bissau (2003), Bulgaria (2003). Double nationality: Argentina, Chile, Costa Rica, Honduras, Paraguay, Dominican Rep., Bolivia, Colombia, and Nicaragua.
Estonia	Germany (1995): invited workers. Sweden: practitioners, quota.
France	Argelia (1968, last modification 2003): entrance, permanence and employment. Morocco (1963): manpower, (1987): permanence and employment, (2001): interchange of young people. Tunisia (1963): manpower, (1988): permanence and employment. Senegal (1996): free movement of people. Argentina (1995): practitioners. Canada (2001): vacations and employment, (2003): interchange of young people. Quebec (1981, 1982), Bulgaria (2003), Hungary (2000): interchange of young people. Japan (1999), New Zealand (1999): vacations and employment. Turkey (1965): manpower. Poland (2003): seasonal workers.
Greece	Bulgaria (1996), Albania (1997): seasonal employment.

Table IV.6 (continued)

Country	Counterparts Other Countries
Hungary	Switzerland (1996): practitioners, quota. Luxembourg (1996): practitioners, quota. France (2001): professional practitioners, quota. Austria (1998): practitioners, quota. Germany (1990): invited workers, quota. Slovakia (1999): mutual employment, quota. Rumania (2001): interchange of practitioners and seasonal workers, quota.
India	Qatar (1985): regulation of the hiring of Indian nationals. Employment conditions, travel costs, employment contract conditions, conflict resolution, constitution of committees for conflict resolution.
Indonesia	Malaysia (1996): guidance for hiring personnel of domestic service of Indonesia, (1998): guidance for hiring personnel different from domestic service.
Island	Agreements with the Nordic countries.
Italy	Poland (1991), Slovenia (1996), Macedonia (1997), Rumania (1997), Georgia (1997), Hungary (1997), Lithuania (1997), Letonia (1997), Estonia (1997), Former Yugoslavia (1997), Croatia (1997), France (1997), Austria (1997), Albania (1997), Morocco (1998), Tunisia (1998), Bulgaria (1999), Slovakia (1999), Argelia (1999), Pakistan and Philippines.
Kazjastan	Azerbaiyan (2000): manpower and social protection. Kyrgyzstan (2003): manpower and social protection in agriculture (border zones). Mongolia (1994): hiring.
Morocco	Germany (1963), France (1963), Belgium (1964), Netherlands (1969), Qatar (1981), Spain (2001): manpower.
Noruega	European Union and Nordic countries
New Zealand	Singapore: for services providers, entrepreneurs, transfers inside the company. Australia: freedom of residence and employment.
Poland	Germany (1990): divided by sectors: construction, monument preservation, seasonal workers; quota. Czech Republic, Slovakia (1992): employment. France (1992): seasonal workers. Spain (2002): permanent or seasonal employment. Belgium (1990), Luxembourg (1996), Switzerland (1993): interchange of practitioners. Libya (1980): nurses' employment. Russia (1994), Lithuania (1994), Ukraine (1994), Belarus (1995): employment.
Portugal	Cabo Verde (1997): temporary emigration of workers in services. Bulgaria (2003): employment.
United Kingdom	Agreement European Union-Turkey; Japan: interchange of young people. Hiring of health care-takers: Spain (2001), India (2002), Philippines (2002), Indonesia (2002).
Czech Rep.	Healthcare: Afghanistan (1987), Iraq (1983), Yemen (1985), Cambodia (1981), Cuba (1961), Cyprus (1973), Libya (1981), Sudan (1970), Syria (1976). Reciprocal employment: Germany (1991), Poland (1992), Slovakia (1993), Viet Nam (1994, 2002), Switzerland (1997), Russia (1998), Hungary (2000), Lithuania (2000), Luxembourg (2001), Austria (2001).
Rumania	Spain: seasonal and permanent workers, and practitioners (2002). Switzerland (2000), Luxembourg (2001): practitioners, Hungary (seasonal workers and practitioners 2001), Germany (1992): invited workers, (1999): seasonal workers.
Rwanda	Congo (1979): free movement of goods and persons.
South Africa	Work permissions for low-qualified manpower with Botswana (1975), Lesotho (1973), Mozambique (1965), Swaziland (1975).
Sudan	Egypt, Jordan (2003): interchange of manpower.
Sweden	Switzerland: free movement of people.
Switzerland	Spain (1961), Italy (1964): recruitment. EU/EFTA (2002), free movement of people: right to establish and participate in economic activities.

Table IV.6 (continued)

Country	Counterparts Other Countries
Thai-land	Taiwan (China): employment of Thai workers (2002).
Tunesia	France (1966): residence and employment (1988). Germany residence and employment (2000).
Ukraine	Manpower and social protection: Russia (1993), Moldova (1994), Lethonia (1995), Armenia (1996), Belarus (1996). Reciprocal agreement of employment and social protection: Viet Nam (1996). Lithuania (1995), Poland (1994), Slovakia (1998): reciprocal agreement of employment. Portugal.
Zimbabwe	Mozambique: Social plan for migrant workers. The operative modalities must be still implemented.

Notes: 1/The countries pertaining to the European Union (EU) are as follows: Germany, Austria, Belgium, Czech Republic, Cyprus, Denmark, Slovakia, Slovenia, Spain, Estonia, Finland, France, Greece, Hungary, Ireland, Italy, Lethonia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, United Kingdom and Sweden.
Source: Own elaboration using data from Geronimi (2004), Geronimi, Cachon, Texido (2004), IOM and the Korean Labor Institute (2004), and from the texts of the agreements.

Table IV.6 shows the countries that have signed the largest number of migration agreements are Germany, France, and the United Kingdom; and Canada, in the American Continent. It can also be observed that most of the countries signed some type of agreement with nearby neighbors, as is the case of Mexico with Canada, and Argentina with Peru or Paraguay. However, others have signed agreements with very geographically distant countries, as is the case of Italy with Pakistan, and with the Philippines, which can be due to historical, linguistic, or cultural links between these countries.

Likewise, Table IV.6 shows that the agreements generally specify the type of worker and occupation required. The agreement between Mexico and Canada, for example, is focused on temporary agricultural workers; the agreement between Bulgaria and Germany deals with employment of hotel and restoration workers. Other agreements, such as the agreement between Poland and Libya, have been signed for the employment of nurses. An agreement between France and Canada on the exchange of youngsters between the two countries is an agreement that pretends to address the problem of an aging population faced by the European countries. An agreement about illegal aliens is in place between Ecuador and Chile. Other agreements, such as the ones between Slovakia and Hungary, or Estonia and Sweden, are based on quotas to regulate migration flows. Some others permit permanent residency. Despite their differences, these agreements pretend to control migratory flows.

IV.4.2 Migration Flows and Agreements

Recent estimates show that people who live outside their country of origin for a period of 12 months or more represented around 175 million in the year 2000. This figure would be equivalent to the size of a nation with the fifth largest number of inhabitants (Martin, 2003). According to ECLAC's data, the number of migrants in LAC increased from 21 million to almost 25 million in 2005, which represents 13% of the world total. Tables IV.7 to IV.11 present figures on the main migratory flows in and around the American Continent.

As can be seen in Table IV.7, panel a), in 1995 the main migration flows towards the United States came from the American Continent in approximately the same proportion as from other continents. Towards the year 2000, it can be observed that most migrants came from the American Continent. Likewise, only Canadians, Koreans, and British who come every year to the United States are covered by an ISSTA; coinciding with the significant number of Americans who come to these other countries, as is shown in panel b).

Table IV.7
United States: Main Migration Flows and Coverage
(thousands)

a) Inflows into the United States by Nationality

Country of origin	1995	2000	2004	Existence of an ISSTA
Mexico	88.9	173.9	175.4	In Negociation
Dominican Republic	38.5	17.5	30.5	No
El Salvador	11.7	22.6	29.8	No
Cuba	17.9	20.8	20.5	No
Colombia	10.8	14.5	18.7	No
Guatemala	6.2	10.0	18.0	No
Canada	12.9	16.2	15.6	Yes
Jamaica	16.4	16.0	14.4	No
Subtotal America	*203.3*	*291.5*	*322.9*	
India	34.7	42.0	70.1	No
Philippines	51.0	42.5	57.8	No
China	35.5	45.7	51.2	No
Viet Nam	41.8	26.7	31.5	No
Korea	16.0	15.8	19.8	Yes
United Kingdom	12.4	13.4	14.9	Yes
Poland	13.8	10.1	14.3	No
Subtotal Countries outside America	*205.2*	*196.2*	*259.6*	
Other countries [9/]	310.7	362.0	368.8	
Total	**720.5**	**849.8**	**946.1**	

b) Outflows from the United States into Other Countries

Host country	1995	2000	2004	Existence of an ISSTA
Australia[8/]	1.8	2.1	2.6	Yes
Belgium	3	2.8	2.6	Yes
Canada[8/]	5.2	5.8	7.5	Yes
Czech Republic	0.2	0.5	0.7	In Negociation
Denmark	0.6	0.5	0.6	In Negociation
France	2.4	2.6	2.6	Yes
Germany	16	17.5	15.3	Yes
Greece	1.4[1/]	N.A.	N.A.	Yes
Ireland	1.5	2.5	1.8	Yes
Italy	4.7	7.2	8	Yes
Japan	27	24	21.3	Yes
Korea	14.7[2/]	19[3/]	17.1[4/]	Yes
Netherlands	2.2	3.4	2.3	Yes
New Zealand	0.7	0.8	1	No
Poland	0.2[1/]	0.5	1	No
Sweden	1.1	1.1	0.9	Yes
Switzer-land	2.9	3.3	2.7	Yes
Turkey	6[2/]	6[3/]	7	No
United Kingdom	11[5/]	15[6/]	13.1[7/]	Yes

N.A. = Not Available.
Notes: 1/1998. 2/2000. 3/2002. 4/2003. 5/1992. 6/1996. 7/2001. 8/Permanent flows. 9/Includes countries inside and outside America.
Source: Own elaboration using data from the OECD 2006 and the United States Social Security Administration.

Table IV.8 shows that since 1995, Canada has received more migrants coming from countries out of the Americas than from countries in the region, a trend divergent from the one developing in the United States. However, as in the United States, most of the migrants who go to Canada are not covered by an ISSTA. Canadian migrants are basically well covered by social security, because there are ISSTA for cases with significant flows of Canadian workers.

Spain is another important country to analyze, since it receives a large number of migrants every year who come from some country in the Americas due to language issues. This result is shown in Table IV.9.

Table IV.8
Canada: Main Migration Flows and Coverage
(thousands)

a) Inflows into Canada by Nationality

Country of origin	1995	2000	2004	Existence of an ISSTA
United States	5.2	5.8	7.5	Yes
Colombia	0.4	2.2	4.4	No
Subtotal America	*5.2*	*5.8*	*7.5*	
China	13.3	36.7	36.4	No
India	16.3	26.1	25.6	No
Philippines	15.2	10.1	13.3	Yes
Pakistan	4.0	14.2	12.8	No
Iran	3.7	5.6	6.1	No
United Kigdom	6.2	4.6	6.1	Yes
Rumania	3.9	4.4	5.7	No
Korea	3.5	7.6	5.3	Yes
France	3.9	4.3	5.0	No
Sri Lanka	8.9	5.8	4.1	No
Russia	1.7	3.5	3.7	No
Afghanistan	1.4	2.8	2.5	No
Ukraine	1.8	3.3	2.4	No
Subtotal Countries outside America	*84.2*	*131.2*	*133.4*	
Other countries [4/]	123.7	90.0	94.9	
Total	**212.9**	**227.5**	**235.8**	

b) Outflows from Canada to Other Countries

Host country	1995	2000	2004	Existence of an ISSTA
Hungary	0.1	0.0	0.1	Yes
Korea	4.2 [1/]	5.3 [2/]	5.3 [3/]	Yes
New Zealand	0.3	0.3	0.3	Yes
Switzerland	0.9	1.3	0.8	Yes
United States	12.9	16.2	15.6	Yes

Notes: 1/2001. 2/2002. 3/2003. 4/Includes countries inside and outside America.
Source: Own elaboration using data from the OECD 2006 and Canada Social Development.

Table IV.9
Inflows into Spain by Nationality: 1998 to 2004
(thousands)

Country of origin	1998	1999	2000	2001	2002	2003	2004	Existence of an ISSTA
Bolivia	0.2	0.5	3.3	4.9	10.6	18.1	35.3	No
Argentina	1.2	1.9	6.7	16.0	35.4	24.8	23.2	Yes
Colombia	2.3	7.5	46.1	71.2	34.2	10.9	16.6	No
Brazil	0.9	1.6	4.1	4.3	4.7	7.3	13.0	Yes
Peru	2.1	2.9	6.0	7.1	8.0	13.3	13.0	Yes
Ecuador	2.0	9.0	91.1	82.6	89.0	72.6	11.9	Yes
Venezuela	0.9	1.6	3.4	4.1	5.4	10.4	10.2	Yes
Uruguay	0.2	0.4	1.3	2.8	6.2	9.3	9.8	Yes
Subtotal America	*9.8*	*25.4*	*162.0*	*193.0*	*193.5*	*166.7*	*133.0*	

Table IV.9 (continued)

Country of origin	1998	1999	2000	2001	2002	2003	2004	Existence of an ISSTA
Rumania	0.5	1.8	17.5	23.3	48.3	55	89.5	No
Morocco	10.6	14.9	38.3	39.5	40.2	40.9	58.8	Yes
United Kingdom	4.5	7.9	10.9	16.0	25.3	32.1	44.3	Yes, Multilateral Agreement
Bulgary	0.2	0.7	6.5	11.8	15.9	13.6	17.9	Yes
China	1.0	1.6	4.8	5.2	5.7	7.3	14.4	No
Germany	7.1	9.3	10.2	10.7	11.2	11.1	11.8	Yes, Multilateral Agreement
Ukraine	0.2	0.6	6.3	11.0	10.8	9.1	10.3	Yes
Subtotal countries outside America	*24.1*	*36.8*	*94.5*	*117.5*	*157.4*	*169.1*	*247.0*	
Other countries	23.4	37.0	74.3	83.5	92.2	93.7	265.7	
Total	**57.2**	**99.1**	**330.9**	**390.0**	**443.1**	**429.5**	**645.8**	

Source: Own elaboration using data from the OECD 2006 and the *Ministerio de Trabajo y Asuntos Sociales*, Spain.

In Table IV.9 it can be seen that by the years 2000 to 2002, the flow of migrants to Spain was mostly from countries of the Americas, specifically Ecuador, Colombia, Argentina, and Bolivia. In comparison with the United States and Canada, most migrants that enter into Spain from LAC are covered by an ISSTA.

Japan is another interesting country to analyze, since it receives the largest number of migrants from countries of the Americas, after the United States and Spain. It could be noted that "popular wisdom" views Japan as a culturally closed country, but it has actually become an important recipient of immigrants in the present globalization period.

Regarding social security coverage for migrants of the Americas who go to Japan, Table IV.10 shows that North Americans are covered by an ISSTA, while Brazilians only have an agreement to prevent double taxation. For countries out of the Americas, only two ISSTA exist, with Korea and the United Kingdom.

Table IV.10
Inflows into Japan by Nationality: 1995 to 2004
(thousands)

Country of origin	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Existence of an ISSTA
Brazil	11.9	16.4	39.6	21.9	26.1	45.5	29.7	22.7	33.4	32.2	Agreement for the avoidance of double taxation
United States	27	27.9	27.7	27.7	24.7	24	20.6	21.5	21.5	21.3	Yes
Subtotal America	*38.9*	*44.3*	*67.3*	*49.6*	*50.8*	*69.5*	*50.3*	*44.2*	*54.9*	*53.5*	
Philippines	30.3	30.3	43.2	47.6	57.3	74.2	84.9	87.2	93.4	96.2	No
China	38.8	45.6	52.3	55.7	59.1	75.3	86.4	88.6	92.2	90.3	No
Korea	18.8	17.1	17.9	17.1	23.1	24.3	24.7	22.9	21.9	22.8	Yes

Table IV.10 (continued)

Country of origin	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Existence of an ISSTA
Indonesia	7.2	8.3	10.2	8.6	8.8	9.9	10.6	9.7	11.1	10.7	No
Thailand	6.5	6.6	6.4	7.5	6.4	6.6	6.8	5.9	6.6	7.1	No
Russia	6.4	6	5.1	4.6	4.3	6.4	6.3	6.6	7.7	7.1	No
Viet Nam	1.7	2.1	2.7	3	3.2	3.8	4.7	5.3	6.6	6.5	No
United Kingdom	6.4	6.4	6.9	6.8	7	7	6.7	6.6	6.6	6.3	Yes
Subtotal countries outside America	*116.1*	*122.4*	*144.7*	*150.9*	*169.2*	*207.5*	*231.1*	*232.8*	*246.1*	*247*	
Other countries [1/]	54.7	58.8	62.8	65	62.0	68.7	69.7	66.9	73.1	71.4	
Total	**209.9**	**225.4**	**274.8**	**265.5**	**281.9**	**345.8**	**351.2**	**343.8**	**373.9**	**372**	

Note: 1/Includes countries inside and outside America.
Source: Own elaboration using data from the OECD 2006, the Japanese Ministry of Foreign Affairs, and the *Ministerio de Fazenda*, Brazil.

The next country to analyze is Germany, the country with the largest number of migrants in 2004, within the countries that belong to the OECD. North American immigrants make up a large part of the total number of migrants to this country, as can be seen in Table IV.11.

As can be observed in Table IV.11, countries that are part of the European Union are protected by a multilateral social security agreement, mentioned in previous sections. Likewise, Germany has an ISSTA with Turkey and another with the United States.

On the other hand, countries of origin and destination have also increased worldwide. In 1970, there were 64 main countries of origin or destination of migrants, and in 1990 this number had surpassed 100 (Commission of Experts in the Application of Conventions and Recommendations 1999). However, one of the most alarming events in international migrations is the growing number of illegal aliens. Women represent around half of them, and their vulnerability is evident because they do not have access to social security benefits. On the other hand, women whose husbands migrate are left alone, without social security coverage.

In addition, migrants confront new obstacles that have been the subject of various debates. An ongoing debate regards the issue of migrants' low skills. According to some experts, their lack of skills generates negative effects on earnings and employment of national workers in the receiving country.

A study made by the International Organization for Migration (IOM) and the Labor Institute of Korea (2004) poses the idea that studies regarding the topic have not been conclusive. Borjas (2006) reveals that practically all studies show a trend towards finding close to zero correlations. His opinion is based on studies made by Altonji and Card (1991), Borjas (1987), Card (1990), Grossman (1982), LaLonde and Topel (1991), and Friedberg and Hunt (1995). Nonetheless, in another study, Borjas (2003) finds that an increase of 10% in the fraction of immigrants to the United States reduces salaries of native workers with the same skills by 3.5%; salaries of nationals with same skills, but with different years of experience by 0.7%; and increases salaries of natives with different skills by 0.5%. These figures mean that the introduction of immigrants has a negative effect on salaries of nationals with the same skills and labor experience. On the other hand, the author finds that at a national level (including the increase of gains in companies), the effect is positive, since it increases by around 1 billion dollars in annual terms in 1960, and around 21.5 billion in 2000.

In this debate, the role of social security programs is central. Among the positions on free

Table IV.11
Inflows into Germany by Nationality: 1995 to 2004
(thousands)

Country of origin	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Existence of an ISSTA
United States	16.0	16.3	15.1	17.0	16.8	17.5	17.4	15.5	14.7	15.3	Yes
Subtotal America	*16.0*	*16.3*	*15.1*	*17.0*	*16.8*	*17.5*	*17.4*	*15.5*	*14.7*	*15.3*	
Poland	87.2	77.4	71.2	66.1	72.2	74.1	79.7	81.6	88.2	125	Yes, Multilateral Agreement
Turkey	73.6	73.2	56.0	48.0	47.1	49.1	54.6	58.1	49.8	42.6	Yes
Russia	33.0	31.9	24.8	21.3	27.8	32.1	36.6	36.5	31.8	28.5	No
Rumania	24.8	17.1	14.2	17.0	18.8	24.2	20.3	24.0	23.8	23.5	No
Serbia and Montenegro	54.1	42.9	31.2	59.9	87.8	33.0	28.3	26.4	22.8	21.7	No
Italy	48.0	45.8	39.0	35.6	34.9	32.8	29.0	25.0	21.6	19.6	Yes, Multilateral Agreement
Hungary	18.8	16.6	11.2	13.3	14.9	16.0	17.4	20.6	14.3	17.4	Yes, Multilateral Agreement
Ukranie	15.4	13.7	12.5	14.1	15.3	18.2	20.5	20.6	17.7	15	Yes, Multilateral Agreement
France	14.4	14.9	14.4	14.3	15.3	15.9	14.5	12.7	12.3	12.5	Yes, Multilateral Agreement
Bulgary	8.0	6.3	6.3	5.3	8.1	10.3	N.D.	13.2	13.4	11.6	No
Croatia	14.9	12.3	10.0	10.1	12.6	14.1	13.9	13.1	11.6	10.5	No
Greece	20.3	18.8	16.4	16.1	17.6	17.4	16.5	15.0	12.1	10.2	Yes, Multilateral Agreement
Czech Rep.	10.0	8.9	7.7	7.7	9.3	11.3	11.3	10.2	8.4	8.9	Yes, Multilateral Agreement
Bosnia and Herzegovina	55.2	11.1	6.9	8.4	10.3	10.4	12.8	10.5	8.4	8.0	No
Subtotal countries outside America	*477.7*	*390.9*	*321.8*	*337.2*	*392.0*	*358.9*	*355.4*	*367.5*	*336.2*	*355.0*	
Other countries 1/	294.7	300.7	278.3	251.3	265.0	272.5	312.4	275.5	250.8	231.8	
Total	**788.3**	**708.0**	**615.3**	**605.5**	**673.9**	**648.8**	**685.3**	**658.3**	**601.8**	**602.2**	

Note: 1/Includes countries inside and outside America.
Source: Own elaboration using data from the OECD 2006, and from the web page *social-security.de*.

migration, it is interesting to quote the views of Milton Friedman, a 94-year-old economist famous for his defense of liberal positions, and Gary Becker, another economist who has promoted market solutions. Friedman and Becker think the existence of welfare states makes it unfeasible to establish free migration, since rich countries do not have the capacity to control the costs of these programs (Friedman 2006). Some countries have implemented measures to prevent the burden posed by admitting migrants from causing problems in public finance. For example, Portugal has stated "that the mere fact that a foreign worker would be left jobless does not constitute, per se, a motive not to renew his residency permit whenever it is determined that the shelter and economic stability of the family are guaranteed." So, in summary, the wealthiest countries have a key element in social security programs to promote a welfare network for their population; and for that reason, they tend to consider that worker migration represents an undue cost to their programs.

In order to control migratory flows, including illegal migrations, some countries like Saudi Arabia or the United States have resorted to amnesties (1997). These annul the legal consequences of infringements committed by migrants in entering or working illegally in their territories. Other countries have entered into bilateral immigration agreements that, according to a study by the Commission of Experts of the ILO (1999), have been the tool most used by member countries.[1] The main advantages of such agreements are: i) They can be adapted to specific groups of migrants; ii) Both the State of origin and the receiving State share the responsibility of guaranteeing appropriate conditions of living and working; and iii) Both States actively share the supervision and organization of the stages before and after the migration. However, as could be expected, these agreements have also been criticized.

Ruhs (2002) argues that the provisions posed in these agreements are sometimes not put into practice. For example, he mentions that although these agreements may have a given duration, it can be extended. The stay of individuals in the receiving country can even become permanent, thus contributing to illegal migration. However, illegal migration has increased even in countries that have not entered into this type of agreement, which diminishes the validity of this argument.

Additionally, the relative vulnerability workers may be subject to has been criticized. On one hand, the agencies of the country of origin are too far away to be able to protect the migrant population effectively against abuses that they may be exposed to in the receiving country. On the other hand, the receiving country's institutions are more concerned with protecting nationals, rather than foreign workers. Finally, emphasis is placed on the difficult implementation of these agreements, due to the nationals' opposition to their expansion.

Table IV.12 shows the most relevant terms and conditions of some agreements entered into by countries of the Americas.

As is shown in Table IV.12, one of the main features of these agreements is that they adopt and enforce measures that regulate workers' recruitment, their exit from their country of origin, and their entrance and placement in the employing country. The duration of employment is also provided in the clauses of migration contracts. If migrant workers are guaranteed the salary obtained by nationals in similar jobs, the aim may be to prevent a permanent stay and reduction of national salaries. Finally, all of these agreements contain clauses for dispute settlements. Therefore, when clauses in the contracts have not been honored, migrant workers have the possibility of obtaining assistance from authorities in their countries of origin to investigate their cases. It is also observed that some agreements permit the permanent stay of migrants, when the workers are highly qualified.

[1] The use of bilateral instruments to regulate migrations became standard in the '60s, when countries in Western Europe celebrated a series of bilateral agreements with countries interested in supplying them with temporary labor. The background for the signature of these types of agreements is probably found in the convention on migrant workers (revised) of 1949, since the 1939 agreement was never enforced. Germany, France, Italy, Belgium, Switzerland, and the Netherlands, which signed agreements with one or more countries on immigrations located in the Mediterranean Basin, were pioneers in signing bilateral agreements. Since then, other migration agreements have been signed.

Table IV.12
Contents of Bilateral Agreements on Labor Migration: The Case in the Americas

Countries	Scope of application	Employment duration	Guarantees and obligations of the employer	
			Social security	Other
Canada-Mexico and Canada-Caribbean countries (Common-wealth)	Temporary agricultural workers	6 weeks or less - 8 months	Covers sickness insurance and occupational and non-occu pational accident insurance[1/]	The employer will cover the round trip transport costs of the worker. The worker will receive the legal minimum wage established in the province in which the worker is contracted, or the equivalent one to which Canadian workers receive in the same circumstances. There will be wage deductions that should not exceed a maximum.
Ecuador-Spain and Colombia-Spain	Workers in diverse branches	6 months or less	Yes[2/]	The selected workers sign a contract specific, among other points, to remuneration, that cannot be smaller than the one granted to Spanish workers in the same conditions. The temporary workers sign a return commitment to Ecuador.
Dominican Rep.-Spain	Workers in diverse branches	Stable workers: > 1 year, temporary workers: < 9 months, practitioners: 1 year, to extend until 6 months.	Yes	The selected workers sign a contract specific, among other points, to remuneration, that cannot be smaller than the one granted to Spanish workers in the same conditions. The temporary workers sign a return commitment to Dominican Republic.
Argentina-Bolivia and Argentina-Peru	For those who wish to settle down in the territory of the other party and for those who pretend to regularize their migration situation; the agreement is extensible to the family of the migrant.	6 months, renewable for a period of 12 months if certain requirements are fulfilled. Permanent if certain requirements are fulfilled during 3 years.	Yes	In the territory of the host country, immigrants will enjoy treatment no less favorable than that received by nationals of the host country, concerning the application of labor legislation, especially in the matter of social remuneration, work conditions, and insurance. In addition, immigrants will have the right to transfer funds to their country of origin, and their children will have access to public education.
Argentina-Chile	Temporary workers	Settlement cannot exceed 3 years	No	In order to be able to enter the host country, workers will have to have previously signed a contract. An "ID of seasonal worker" will be granted to the worker. In the host country, workers will enjoy the same rights and obligations as the national workers, mainly in the matter of wages and work conditions.
Brazil-Argentina	Entrepreneurs	Temporary or permanent	No	Temporary or permanent residence will be granted to entrepreneurs who fulfill certain requirements in order to realize their activity. Members of their families will also be able to obtain this guarantee.

Notes: 1/The expenses of non-occupational medical insurance include accidents, sickness, hospitalization, and benefits in case of death, or any other cost that, by virtue of the contract between the government of Mexico and the insurance agency, can result in benefit to the worker. 2/Agreement Ecuador-Spain: Migrant workers will be subject to the obligations and will enjoy the benefits determined in the Hispanic-Ecuadorian Agreement of Social Security.
Source: Own elaboration using data of the texts of the migration agreements.

Table IV.13
Contents of Bilateral Agreements about Labor Migration: The Case in the Americas
(commercial blocs)

Countries	Scope of application	Employment duration	Guarantees and obligations of the employer: Social security	Guarantees and obligations of the employer: Other
Andean Community	With individual displacement, company, temporary or border workers[1/].	90 days for temporary workers, to extend for the same period, and for once a year.	Access to social security systems is granted	The principle of equal treatment and opportunities is recognized for all Andean migrant workers in the communitarian space. Freedom to transfer funds is guaranteed. Their income will be taxed only in the country in which they obtained it. Free access to competent administrative and judicial instances will be conferred to exert and defend their rights, and payment of social benefits will be granted in accordance with the legislation of the host country.
MERCO-SUR	For those who wish to establish in the territory of the other party, and for those who wish to regularize their migratory situation	Temporary residence of up to 2 years, that could become permanent if certain requirements are fulfilled	Possibility of signed agreements of reciprocity in provisional matters.	Immigrants enjoy a treatment no less favorable than that of nationals, concerning the application of labor legislation, especially in the matter of social remuneration, conditions of work, and insurance. In addition, immigrants have the right to transfer funds to their country of origin, and their children have access to public education.

Notes: 1/With individual displacement worker: that person who has subscribed to a contract under dependency relation, or who responds to an employment offer from the host country, under dependency relation. Company workers: transfer superior to 180 days and by disposition of the company for which they work under dependency relation. Border workers: continuous transfer to the territory of the other Party to fulfill their labor activity.
Source: Own elaboration using data from the text of migration agreements.

Table IV.13 shows that some trade blocs entered into these types of agreement. This fact generates the question of whether member countries have an advantage, while those countries that are not part of the bloc are at a disadvantage.

IV.5 Labor Mobility in Regional Trade Agreements

The movement of workers is present in different forms under regional trade agreements. Some agreements cover the mobility of people in general (that is, including permanent migration but not workers); others offer free movement of workers (including entrance into local labor markets). Yet other agreements are limited to facilitating the movement of certain types of trade or investments in related activities; while others, such as the General Agreement on Trade of Services (GATS), only include the temporary movement of suppliers of services (and explicitly exclude entry to the labor market or permanent migration). Likewise, some agreements cover all levels of specialization, while others are limited to high levels of specialization.

The European Union provides vast rights to labor mobility. Article 18 of the European Community (EC) gives each citizen a fundamental and personal right to move and reside freely within the territory of member countries, even if he is subject to certain conditions. Likewise, the treaty applies to the movement of workers, employees, and service suppliers. In this treaty, a visa or work permit is not required, although a residency permit may be needed.

IV.5.1 Trade of Services

At a multilateral level, in the framework of GATT/WTO, the trade of services is governed by GATS. This agreement has two parts: The main agreement contains the standards, and the second part has national lists of commitments in which each member specifies the extent of access it is willing to guarantee to suppliers of foreign services. Due to the extraordinary flexibility of this agreement, since it allows members to determine the extent of the level of obligations they will assume, the commitments have not been important.

The agreement provides four main elements of flexibility:

i) The member chooses the sectors or sub-sectors of services in which it will assume commitments to guarantee the rights of foreign suppliers to provide services. Each member has a list of commitments, but since there is no basic requirement imposing a minimum of commitments, some lists encompass only a reduced part of the sector.

ii) The services in which commitments are assumed may have government limitations setting a specific level of access to the market and level of national treatment they are willing to guarantee.

iii) Governments may limit commitments to one or more of the four "supply methods" recognized through which services are traded. These are Mode 1: Cross-border trade; Mode 2: cross-border consumption; Mode 3: trade presence; and Mode 4: movement of people.

iv) Governments may accept exemptions, in principle, limited to a period of ten years. The principle of MFN is applicable to all services, whether they are included in the list or not.

The liberalization of services' trade implies reducing the non-tariff measures as national laws. This reduction refers to regulations and administrative controls that go beyond traditional tariff barriers.

Many regional trade agreements have integrated a host of disciplines for the trade of services. Inspired by NAFTA, some free trade agreements have incorporated disciplines on investments, government acquisitions, and movements of people. Various regional agreements contain a higher level of openness for the suppliers of services of member countries than agreements conceived at a multilateral level, which are only granted to one or some groups of countries (Stephenson 2002).

MERCOSUR members signed a protocol on services in December 1997, with the purpose of extending coverage of the MERCOSUR agreement to services' trade. This protocol establishes the lists of commitments that cover the whole services sector, improving their multilateral commitments. Nonetheless, it establishes considerations and special rules for four sectors: financial services, maritime transportation, land transportation, and the natural movement of persons.

Andean Decision 439 of 1998 established a structure of principles and disciplines for the liberalization of trade of services in the sub-region. Unlike GATS, the Andean Community Agreement on services established the MFN principle as unconditional for the trade of services among its members, and specified a period to complete the liberalization of services trade.

On their part, CARICOM members concluded a liberalization agreement for the trade of services in 1998. Through Protocol II: Establishment, services, and capital, member countries of CARICOM set forth the rights of nationals in that region to provide cross-border services, establish new companies, and have free labor mobility and mobility of capital in the region. The latter contains special provisions about graduate university students, professionals, and other occupations.

ASEAN does not have any provisions on labor mobility, although Mode 4 is included under the services trade coverage. The Free Trade Agreement Mexico-EU establishes a certain mobility of labor through the trade of services. Likewise, under the shelter of NAFTA, the United States grants visas for professionals for a year, renewable for another year.

An example of the importance of trade of services is reflected in the rapid growth of the health care sector at a world level. Globalization of health services is reflected by the growth of the provision of cross-border health services through the movement of personnel, consumers, and by a growing number of joint ventures and collaboration agreements. Examples of these are tele-diagnostic and consultations services, provided by United States Hospitals to hospitals in Central America; and physicians of India that provide telepathology services to hospitals in Bangladesh and Nepal (Chanda 2002).

Various countries, such as Cuba, export health services through cross-border services consumption. Since the end of the 80s, an objective of the Cuban government has been to turn the country into a "world medical power." It has directed itself to the treatment of foreign patients by sending a personal physician abroad. India also exports health services through cross-border consumption. Patients from developing and industrialized countries go to India to have surgeries and special services in areas of neurology, cardiology, endocrinology, nephrology, and urology. These patients are attracted by skilled professionals in health care at significantly lower prices than those offered by wealthier countries. Health services are also marketed through both temporary and permanent movement of health personnel, including physicians, nurses, technicians, and administrative personnel (Chanda 2002).

Labor mobility established in different regional trade agreements reflects an ample range of factors that characterize its members: the extent of geographic proximity, similarities in their levels of development, as well as historical and cultural links.

IV.6 Conclusions

Most integration processes in the Americas have had objectives that are fundamentally trade-oriented, and have generally dealt with labor and social protection issues at a later stage. In some cases, after many years, labor and social security aspects were developed by specific or supplementary instruments. Such is the case of free trade agreements, which do not include social security aspects. Only some of them protect the rights of workers through parallel agreements like NAALC. On the other hand, such trade blocs as CAN, MERCOSUR, and CARICOM emerged with trade purposes, but later included social security instruments.

Different bilateral and multilateral agreements were made to protect the labor force that is transferred from one country to the next, through specific migratory or social security agreements. Most countries in the world have entered into bilateral agreements of this type. These types of agreements have not been developed multilaterally, due to divergent goals of countries and the clear objective of keeping migration policy as a national issue.

In trade agreements, worker mobility is approached as an issue of trade in services under multilateral (GATS) or bilateral rules.

In contrast with globalization episodes in the past, countries have currently restricted migration in a significant manner. In this way, the main mechanism to equalize wages across countries has been eliminated. In recent years, some developed countries have gone further, searching to attract high-skill workers and restricting the immigration of those with lower skill levels.

CHAPTER V
GLOBALIZATION AND PROTECTION AGAINST UNEMPLOYMENT RISK

CHAPTER V
GLOBALIZATION AND PROTECTION AGAINST UNEMPLOYMENT RISK

V.1. Introduction: Unemployment and Globalization

Globalization brings forth changes and uncertainty because of a greater exposure to international trade and capital mobility. This is an important issue for social security institutions, as these changes may affect households' well-being. Perhaps most countries' greatest concern in this respect is the possibility that large groups of people might lose their jobs due to the globalization process, especially when unemployment becomes a long-term problem.

In previous Chapters, it was argued that globalization and market deregulation might restrict the development of social policies, which would require larger governmental efforts to grant protection to workers. In many countries the response has been to combine structural changes with labor market policies aimed at softening the impact of globalization on employment. In OECD countries, greater levels of trade seem to be associated with the expansion of programs run by governments and social security to combat unemployment; for example, increases in benefits and the duration of unemployment insurance (Garrett and Mitchell 1996, Carroll 2000).

In Latin America and the Caribbean, the application of solutions aimed at protecting individuals against job loss takes place in a context different from the one that prevails in industrialized countries, with more institutional and financial limitations. At the beginning of the 21st century, Latin America has become one of the regions with highest unemployment, reaching levels around 8%—when the world average was about 6.2% (ILO 2004a and CISS 2004). This problem is associated with undesirable situations such as growth of the informal economy, increased wage and wealth inequalities, and growth of marginal communities that may be a source of social tension. These situations can cause an excessive reliance on social security and other programs that could, in turn, have their collections diminished, and the demand for benefits increased. For the richest part of the Continent the situation has been different; Canada and the United States have had a positive employment performance, especially in relation to Western Europe.

As the phenomenon of globalization in Latin America is experienced in combination with unemployment and informality concerns, the need is urgent to design institutions that would help fight unemployment and promote adequate labor performance. At present, several institutions and special programs in the labor markets operate to provide employment protection (severance payments for unjustified dismissal, subsidized employment, tax credits or in-work benefits, training programs, and public works, among others). Out of all these programs, unemployment insurance is the tool governments and social security institutions have used to provide direct protection against job loss, but only in a few countries.

Unemployment insurance provides economic compensation that helps individuals and their families subsist while unemployed. Access to benefits is usually conditioned on actively searching for a job. Obviously, unemployment insurance itself cannot eliminate the potential causes of unemployment. However, a suitable unemployment insurance program could facilitate the economic adjustments demanded by structural change. A well-structured program could improve the match between firms' demands and workers' expectations, and help workers obtain new skills. Reaching this goal requires broadening the current conception of unemployment insurance beyond its nature as a subsidy intended to attenuate a family's income deficit.

Although unemployment insurance is not extensively used in LAC countries, it is common to find employment protection regulations. To some extent, the existing regulations provide workers protection through rules aimed at both providing monetary compensation in case of dismissal, and reducing the incidence of dismissals. Nevertheless, it has been argued that this type of legislation could have undesirable effects on employment, due to high labor costs related to compliance with these laws (Heckman and Pagés 2005).

The objective of this Chapter is to document the situation and features of design in unemployment insurance programs operating in countries of the Americas. Specifically, it attempts to: i) examine unemployment trends; ii) review theories that explain the main causes of unemployment; and iii) document the most widely used mechanisms of protection against unemployment. In particular, the Chapter looks at unemployment insurance and the central aspects of its implementation across the Continent, in a context of globalization.

Section V.2 describes aggregate and regional unemployment trends. Section V.3 reviews contemporary theories of unemployment. It also describes the conceptual framework used to study unemployment, keeping in mind that the main objective is to try to understand how unemployment insurance might help society deal with this issue. Section V.4 documents legislation that grants protection against job loss, as well as the main characteristics of unemployment insurance in selected countries (Argentina, Barbados, Brazil, Canada, Chile, Colombia, Ecuador, Mexico, the United States, Uruguay, and Venezuela). Section V.5 reviews the evidence found in previous Sections and presents some reflections about the necessity to offer protection against job loss, by creating labor market policies designed to cope with the structural change produced by globalization.

V.2 Unemployment Trends

The behavior of unemployment is the result of a combination of macroeconomic and globalization-related factors (trade, technology, foreign investment flows) that interact with policies (active and passive) and labor market institutions (unemployment insurance, unions, minimum wages, and employment protection legislation).

When individuals are unemployed, the loss of labor income affects their families' well-being. Furthermore, unemployment can cause future losses if the next job provides a lower remuneration. This phenomenon, especially long-term employment, has been a subject of great interest to countries since the 1980s, particularly in Europe, where unemployment has significantly increased.

The CISS Report of 2005 points out that average unemployment rates tend to be higher in the Americas when compared with other regions of the world. Nevertheless, this average hides important differences among countries. This Section describes the trends in unemployment rates of countries in the Americas. Special emphasis is placed on differences among countries, CISS-regions, and populations such as youth and women.

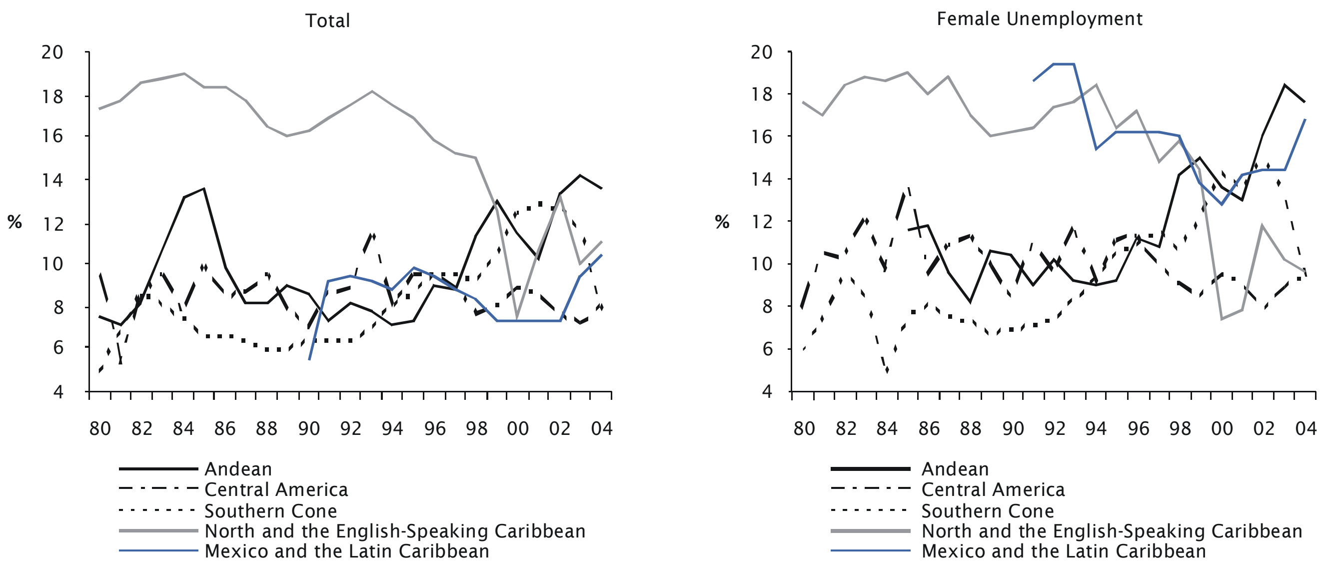
V.2.1 Regional Trends

ILO's definition of employment states that people are unemployed when they have not worked for more than an hour during a given period of reference, but are actively looking for a job.[1] Similarly, open unemployment is defined as the percentage of the economically active unemployed population.

Figure V.1 illustrates the trends of unemployment rates in the Americas for the last three decades. Each panel shows total, female, and male unemployment, respectively. During this period total unemployment decreased in the region of North America and the English-Speaking Caribbean, mainly due to reductions of about 8% in female unemployment and consistently low unemployment rates in the United States. In the Andean Region and the Southern Cone (up to the year 2000), total unemployment rates increased around 7%, apparently due to increases in female unemployment. In Central America, total unemployment rates oscillated between 6 and 10% until 1994, to stabilize later at levels close to 7-8%. In Mexico and the Latin Caribbean, employment levels fluctuated between 6 and 10%.

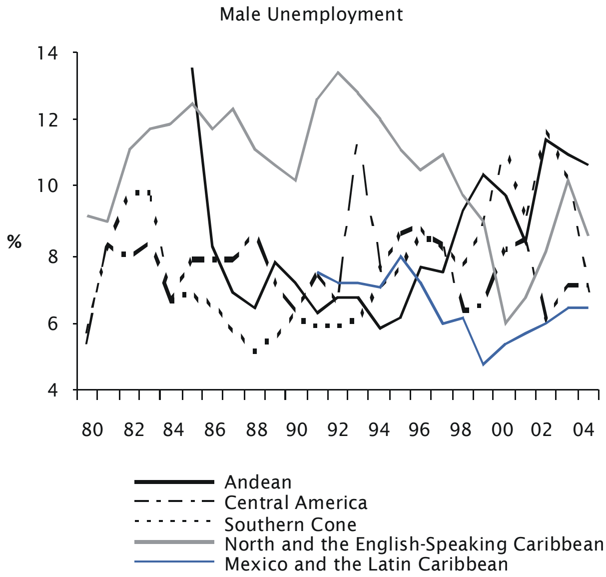
Box V.1 shows the trends of unemployment rates within regions. In general, unemployment tends to be higher among females. In the last decades, differences between female and male unemployment diminished; this might be caused by an increase in the participation rates of women, and not necessarily by changes in unemployment levels.

Figure V.1
Unemployment Trends by CISS-Region
(% of Total Labor Force)



[1] The reference period is generally the prior day or week, but it differs among countries.

Figure V.1 (continued)



Source: Own elaboration using data from World Bank (2004) and ILO (2006).

Box V.1
Unemployment Trends within Regions

Knowledge about unemployment levels and trends of different groups of the population is an ingredient for designing adequate policies that may help undermine its adverse effects. The following figures show male and female unemployment rates across countries in the Americas, from 1980 to 2004.

Unemployment profiles are very similar for both sexes in each country; though in general, trends show a higher level of female unemployment in relation to male unemployment throughout the period. Furthermore, figures of female unemployment usually have more variation, because women enter and leave the labor market more often due to maternity and child rearing.

In Canada and the United States, in the region of North America and the English-Speaking Caribbean, as well as in Mexico, variations in unemployment rates have shown a trend in the last two decades. This is also observed, but with more variation, in the Dominican Republic and countries of Central America—Costa Rica, Honduras, and El Salvador—since 1990, with unemployment rates under or around 10%; in Panam a, female unemployment rates have reached levels of 20%.

Unemployment behavior in El Salvador is an interesting case, as more males were unemployed than females for most of the period. This behavior could be associated with the phenomenon of migration, as there might be a significant number of men working out of their country of origin who are not counted in the statistics represented here.

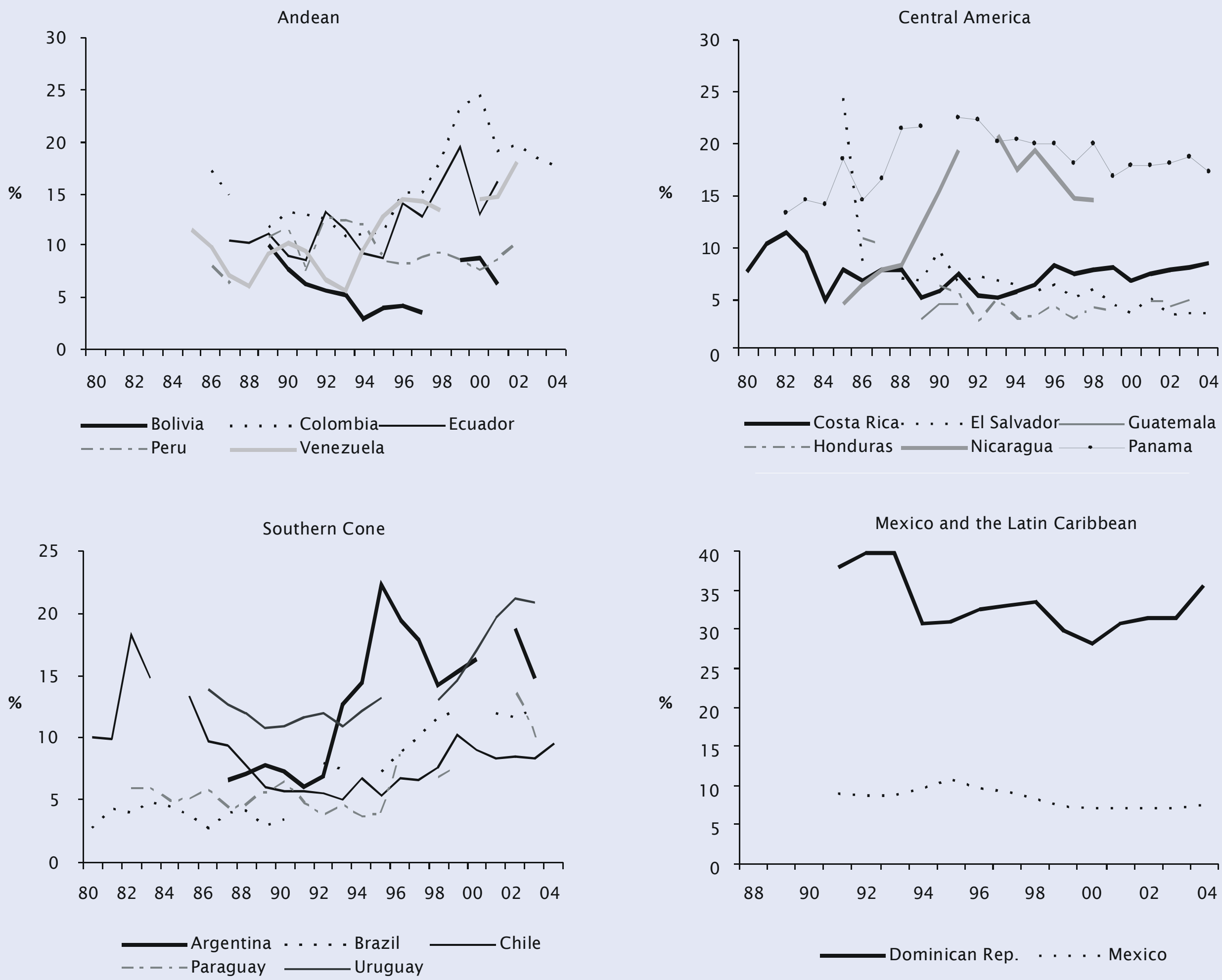
In the Andean Region—Bolivia, Colombia, Ecuador, Peru, and Venezuela—unemployment rates seemed to reach the lowest levels in the early ‘90s. Since then, a generalized increase in unemployment rates was noted until the end of the decade. Colombia was the country with the highest unemployment rates around 2000 in this region, reaching levels near 18 and 25% for men and women, respectively.

Box V.1 (continued)

In the Southern Cone region, similar trends can be seen, even more pronounced than in the Andean region. Chile, the country with the most complete time series, showed a dramatic fall in unemployment rates, which went from about 20% in 1982 to around 5% in the early '90s. Then, unemployment stabilized around this level until the end of the decade, when unemployment increased to around 8-10%.

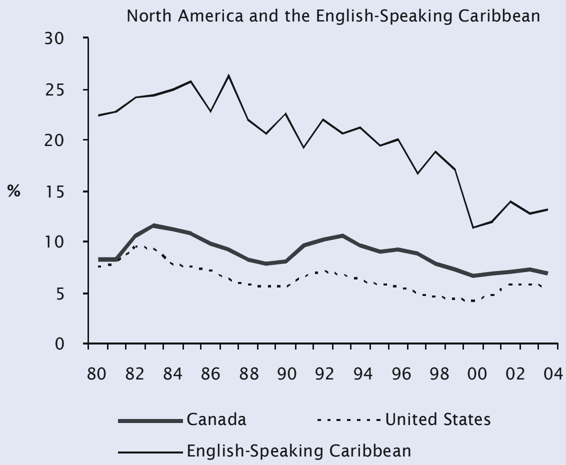
Evident increases in unemployment rates in Southern Cone countries began during the '90s. The highest levels were reached in Argentina in 1995 (22% for females, and 17% for males), and in 2002 (around 20% for both sexes), as well as in Uruguay in 2002 (around 15% for men and 20% for women). In Brazil, unemployment rates for both sexes seemed to increase slowly to levels around 10% in 2002.

i) Female Unemployment (% of Total Labor Force)

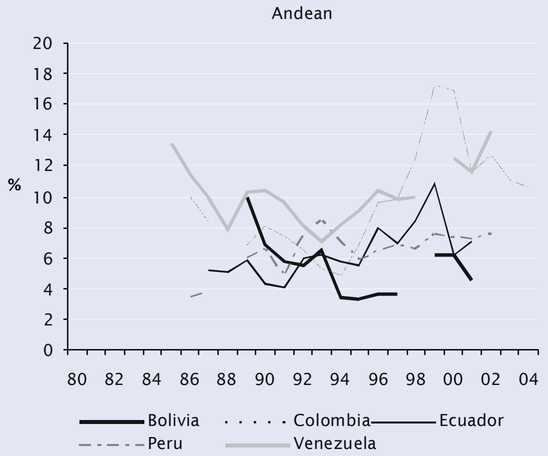


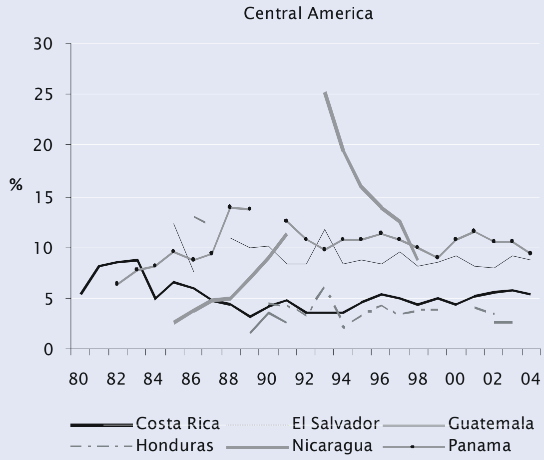
Box V.1 (continued)

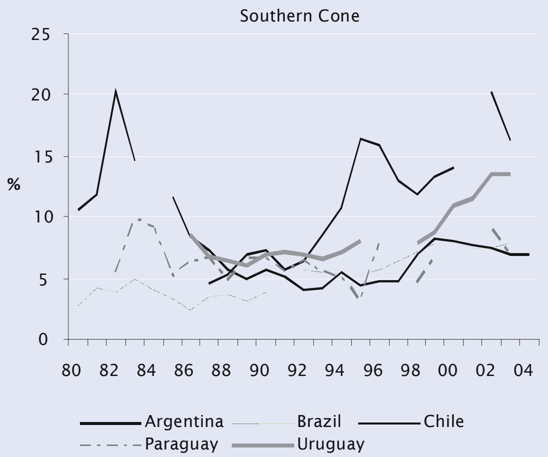
i) Female Unemployment (% of Total Labor Force)

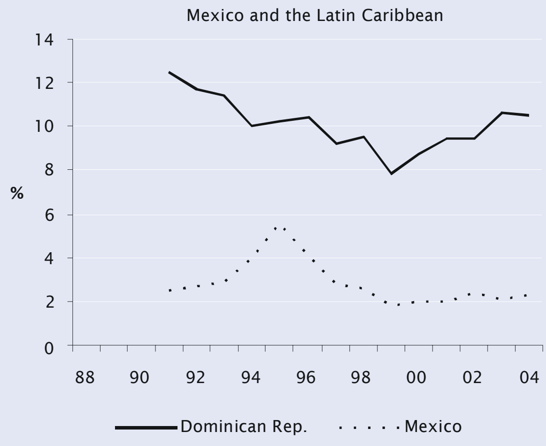


ii) Male Unemployment (% of Total Labor Force)



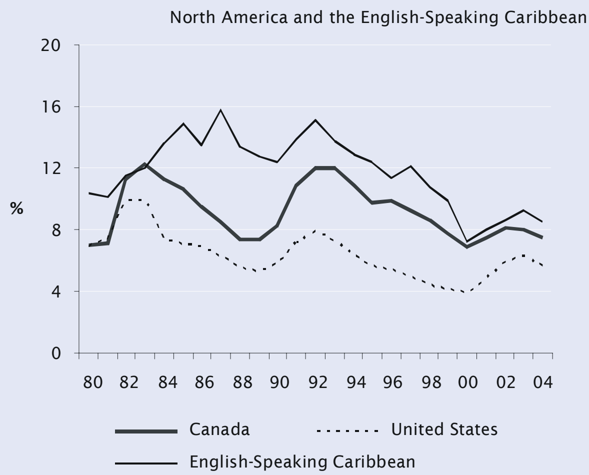






Box V.1 (continued)

ii) Male Unemployment (% of Total Labor Force)



Source: Own elaboration using data from World Bank (2004) and ILO (2006).

V.2.2 Unemployment among the Economically Active Population

In the past, labor markets were simpler. Workers suffered because of natural phenomena that damaged the means of production, such as bad harvests, food shortages, epidemics, or illnesses that undermined the productivity of the family or the entire town. Until the end of the 19th century, the composition of unemployment was mainly defined by the structure of production. It was clear that reductions in labor demand caused unemployment in the affected production sectors (mining, construction, etc.), and that workers' individual characteristics were not significant determinants of unemployment (Eichengreen 1989).

Around the 1880s, the global economy suffered what can be considered as the first global economic crisis. England, the leading industrial economy, was affected by a type of unemployment that had been previously unknown. In 1888 the term "unemployment" was used for the first time. The new phenomenon was not explained by "forces of nature." Furthermore, it was difficult to understand that a nation's commercial prosperity occurred along with a failure to employ healthy individuals who were willing to work (Eichengreen and Hatton 1988).

The problem of unemployment became more acute and extended to industrialized countries with World War I, and deepened during the Great Depression of 1929. The period between the world wars is characterized by the arrival of new technologies, industries, and collective bargaining. Further changes were the creation of unemployment insurance and the first legislation on minimum wages in Europe. Labor markets have transformed gradually, in a complex way, from these historical moments.

As of today, great differences in the characteristics and composition of unemployment exist among countries. In Europe, long-term episodes of unemployment are more common: Once unemployed, workers remain in such a state for a long time. In other countries (like Mexico or the United States), rotation prevails—many workers have relatively short unemployment episodes.

V.2.2.1 Youth Unemployment

One of the main difficulties that young individuals face when they enter the labor market is their lower human capital accumulation (education and experience), which yields higher rates of unemployment and segregation towards less skilled jobs. Unskilled youth have few options in the labor market because they aspire to work in occupations of low productivity, which offer low wages.

Unemployment statistics show the following trends: i) The percentage of youth relative to total population has diminished in the Americas, Europe, and Oceania since the '80s; ii) The labor force participation rates of youth are decreasing, in part due to their growing participation in the educational system (more individuals enter and remain in school for a longer time), although this reduction can also be due to the difficulty of getting employed; and iii) Unemployment rates of youth are higher than those of the adult population (O'Higgins 2003 and ILO 2004b).

The relationship between unemployment rates for youth (aged 15-24) and those for adults (aged 25 and older), for 1990 and 2001, is shown in Figure V.2. During this decade, youth unemployment increased in relation to adult unemployment rates two- to threefold in most countries of the Continent. In some cases, this relationship has reached five times the adult unemployment rate, as in Uruguay and Honduras in 2001. Regarding time variations, in countries such as Peru, Colombia, Honduras, Argentina, Uruguay, and Ecuador, youth unemployment rates decreased in comparison with those of adults; while they increased in countries such as Canada, Nicaragua, Trinidad and Tobago, Bolivia, Venezuela, United States, Panama, Barbados, Brazil, and Costa Rica.

In Latin America and the Caribbean, the greatest differences between groups are those defined by skills. Groups with the lowest or highest educational levels have lower unemployment rates than those with intermediate education. This fact is explained because the educational levels of the latter (between 7 and 12 years) allow them to find better jobs, even if they spend more time in the job search (ECLAC 2004).

In the late '90s, Diez (2001) points out that an important group of the young population was in neither the educative system nor the labor force (neither working, nor searching for a job). At least one fifth of the youth population lives in these circumstances in Colombia, Ecuador, El Salvador, Mexico, Nicaragua, Paraguay, Uruguay, and Venezuela.

V.2.2.2 Female Unemployment

Increased participation of women in the labor force is one of the most important labor phenomena of the last decades, arising from changes in the economic environment and labor market institutions. According to international trends, the number of children is still a factor contributing to unemployment, as it increases women's likelihood of getting out of employment or working in part-time jobs.

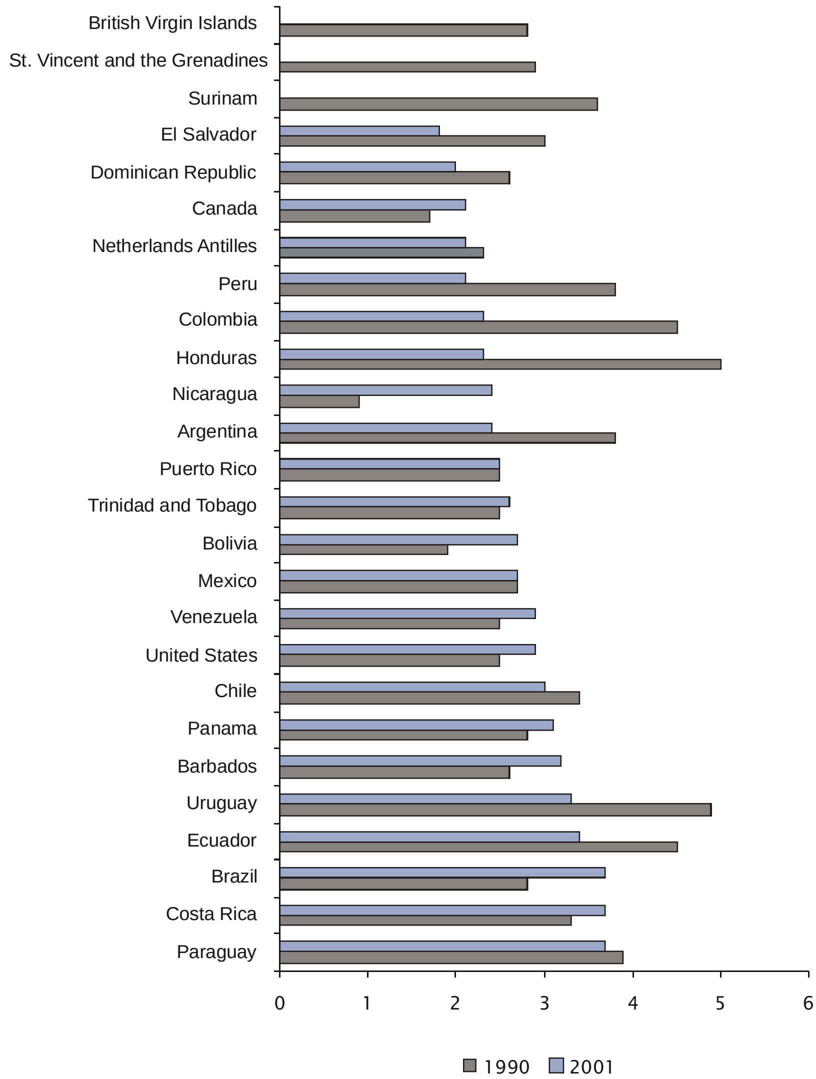
Women usually perform the role of caregivers, either of children or the elderly. Being a caregiver usually comes with a shortage of income, mainly in Latin America, because this is a non-remunerated activity. Furthermore, social security institutions provide protection to the families of female caregivers only indirectly, in relation to the husband's labor market status. Thus, women may be left unprotected in case of divorce, or when the husband loses his job.

V.2.3 Long-Term or Persistent Unemployment

Long-term unemployment refers to individuals that remain unemployed for a period of at least 12 months. Reinstatement of individuals who have been left out of the labor market for such a long time is perceived as a serious problem, mainly because of the possible effects of human capital depreciation. For this reason, a long unemployment spell can cause significant losses for future levels of individuals' incomes.

In the United States, Jacobson, LaLonde, and Sullivan (2004) find that workers who become unemployed after a long employment history experience an immediate drop in their incomes. They later recover only partially, suffering a loss in their permanent income. Currently, no clear answers exist

Figure V.2
Ratio of Youth Unemployment Rate (15-24) to Adult Unemployment Rate (25+)[1/]



Source: UN (2006b).
Notes: 1/The data correspond to the years 1990 and 2001, or to the closest year available. Data for Brazil, Panama, Bolivia, Puerto Rico, Nicaragua, Colombia, and Surinam correspond to 1990; data for the Netherlands Antilles to 1992, and the rest to 1991. Data for Panama, Bolivia, Puerto Rico, Colombia, Netherlands Antilles, and Dominican Republic correspond to 2000, and the rest to 2001.

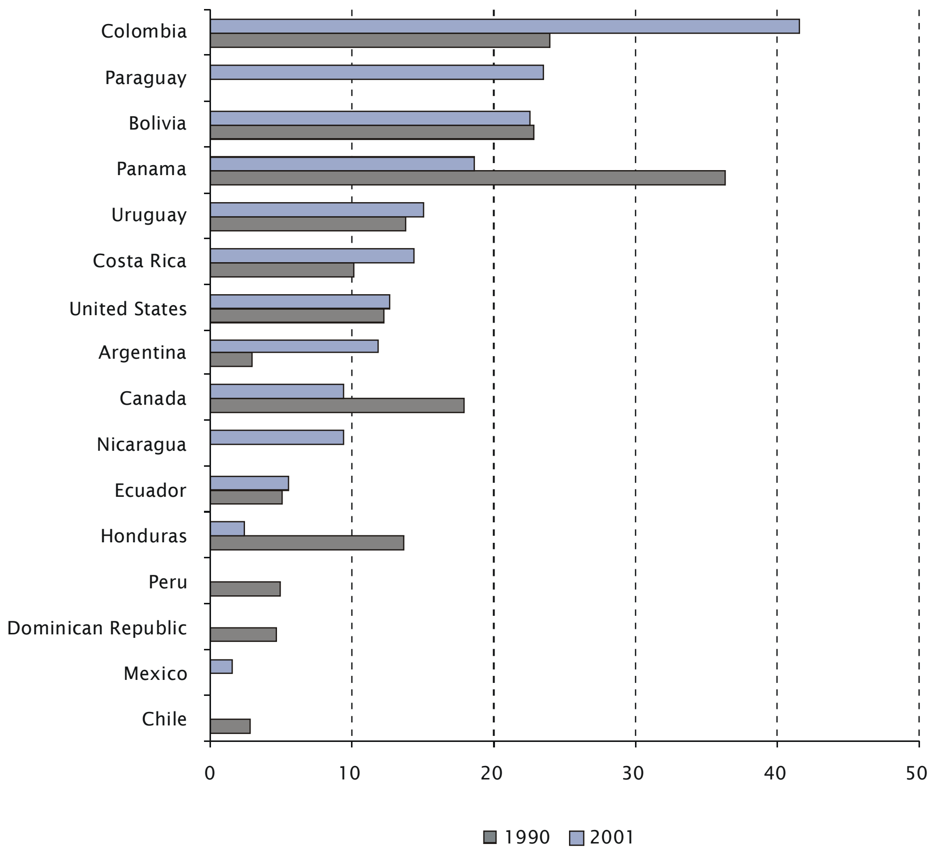
as to why the private sector cannot find a way to employ the long-term unemployed. In countries where unemployment insurance is generous, this could work as a disincentive to job search, and as a detonator of long-term unemployment.

In combination with economic recessions, long-term unemployment leads to an uneven burden of economic allocations. For example, if prices that workers have to pay fall faster than wages, the well-being of those who remain employed frequently suffers relative increases during a recession. In Latin America, the coexistence of unemployment with growing wages of those who work has been repeatedly observed. In Mexico, those who leave (formal) employment have been able to find another job rapidly, and recover their wages; the exceptions are regions or industries with massive layoffs. However, although these workers become employed in a relatively short period of time, they usually do not fully recover their former wages (Kaplan, Martinez, and Robertson 2005).

In the Continent, long-term unemployment seems to present less severe problems in North America, Mexico, and Central America than in other regions. For Latin America, Figure V.3 shows the percentage of unemployed individuals aged 15-64 with unemployment duration of more than 12 months in the '90s. For 1990, Bolivia, Paraguay, and Colombia exhibit unemployment rates above 20%. In Colombia, percentages significantly increased towards 2001, with a shift from somewhat above 20% to more than 40%. Similarly, Argentinean long-term unemployment increased from around 3% in 1990 to more than 10% in 2001. Countries with a noteworthy reduction in long-term unemployment are Panama, with a decrease from above 35% to less than 20%; Canada, changing from above 20% to less than 10%; and Honduras, with a reduction from above 10% to a level close to 3%.

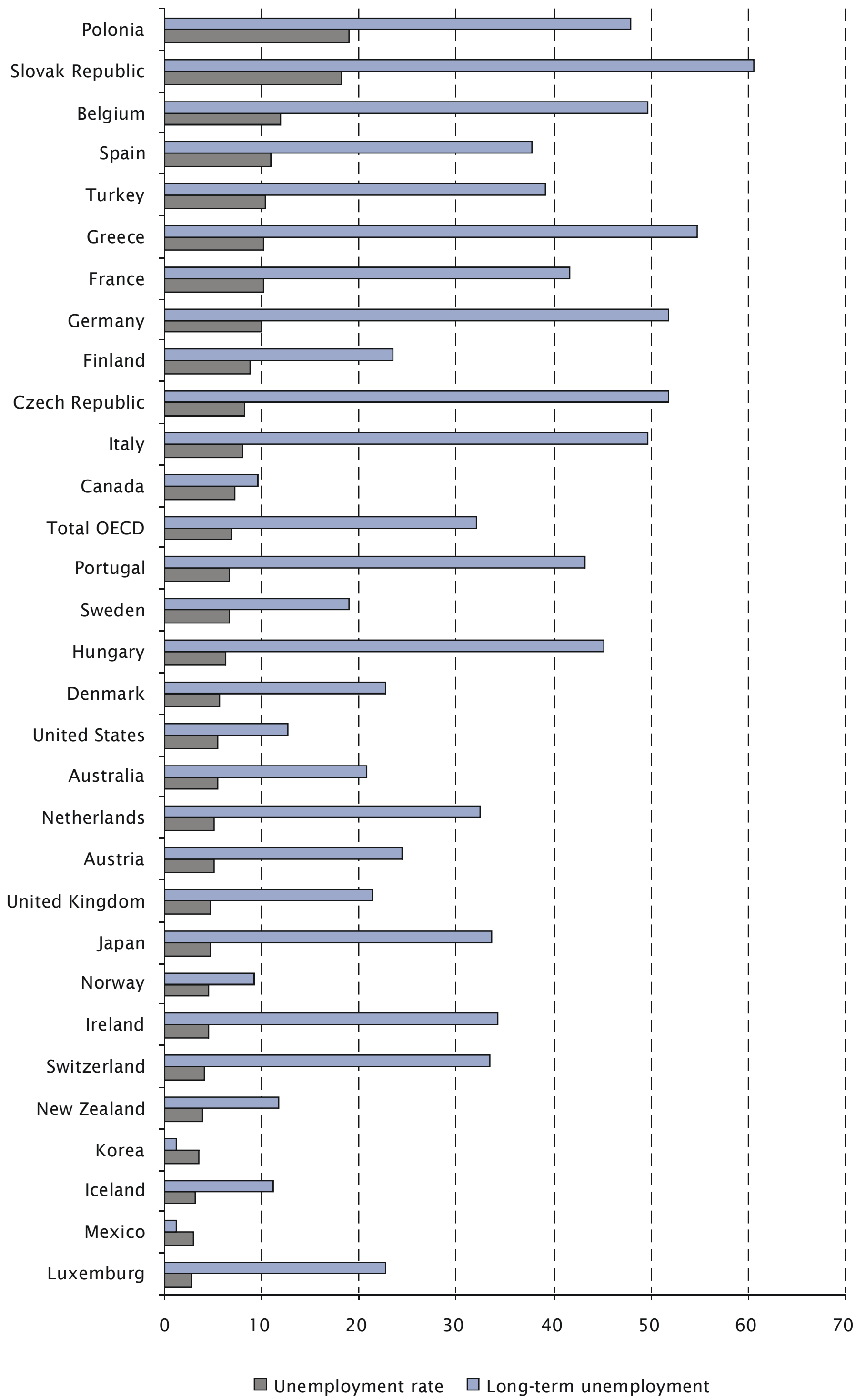
At present, unemployment rates in OECD countries are usually under 10% (see Figure V.4). Few countries have unemployment rates above this figure

Figure V.3
Proportion of Long-Term Unemployed Aged 15 to 64
(Unemployment Duration Higher than 12 Months) 1/



Source: IADB (2004).
Notes: 1/ Data correspond to the years 1990 and 2001, or to the closest available year. Data from Costa Rica and Panama correspond to 1991. Data from Argentina, Honduras, and Uruguay correspond to 1992. The rate of Nicaragua corresponds to 1993. Data for Peru, Canada, and the United States are from 1994. Data from Ecuador corresponds to the year 1995. Data from Chile and the Dominican Republic are from 1996. Data for Bolivia are from 1997 only. Data from Ecuador, Nicaragua, and Uruguay correspond to the year 1998. Data from Honduras, Paraguay, and, Colombia correspond to 1999. Data from Costa Rica and Panama are from 2000. Data from Canada and the United States correspond to 2004. The others are from 2001.

Figure V.4
Unemployment and Long-Term Unemployment Rates[1/] in OECD Countries, 2004



Source: OECD (2005d).
Notes: 1/ Long-term unemployment calculated as a proportion of unemployment.

(such as some countries in Eastern Europe, like Poland and Slovak Republic; and in Southern Europe, Greece and Spain). Nevertheless, a noticeable factor in European countries is the proportion of long-term unemployment, which reaches levels above 30% in some cases; as these figures were considerably lower in the past.[2] This upward shift of long-term unemployment coincides with the gradual increase in unemployment insurance benefits that started during the '60s.

V.3 What Are the Causes of Unemployment? Contemporary Theories

Unemployment is the outcome of gradual and complex transformations of labor markets. It results from government intervention and new forms of organization in the process of production. This Section describes some of the most relevant unemployment theories. Since the advent of the Great Depression (which occurred at the end of the '20s) and the beginning of World War II, governments have relied on economic theories to design their strategies against unemployment. This period was decisive for creating social security in the Americas and defining the state's role in adopting policies to boost employment and fight unemployment in the world. Most national social security agencies arose in the period between the Great Depression and the end of World War II.

This review of unemployment theories starts with the so-called "search theories." In recent times, these have been the most influential theories for policy design.

V.3.1 Job Search and Matching Theories

Current economic theories of unemployment have been developed within the framework of dynamic labor markets with search frictions, matching effects between workers and employers. In these theories, the unemployment rate depends on how easily workers who are searching for a job are matched with available vacancies.[3] Equilibrium is defined when a balance between flows into unemployment, and out of it, occurs; which is affected by the creation and destruction of jobs.

In search theories, unemployment is understood as a period of search for the most adequate job, at the best wage. Labor market frictions can be represented as opportunities to match firms and workers. Searching for job offers is costly when workers and firms do not have complete information about the prices and wages each one of them offers or demands. Firms and workers face costs of resources and the time it takes to obtain information, interview prospects, and carry out the actions involved in hiring. Search frictions determine a random encounter between parts involved in the negotiation. Therefore, rotation and labor reallocation phenomena take place, as well as the formation of interpersonal relationships.

Search and temporary unemployment are common results within this framework, because the intensity with which workers search for a job, and decisions to accept job offers, determine the duration of time workers remain unemployed. An important aspect emerging from the uncertainty during an interview between the firm and worker is that each interview may yield unique results, and consequently, wage dispersion occurs; in other words, identical workers can end up earning different wages.

In the flows approach, employment creation and the number of unemployed are related to the number of available vacancies. They are also linked to the intensity with which workers search for jobs and firms

[2] Until the beginning of the '70s, Western Europe and Japan showed very low unemployment rates.

[3] These theories are defined as "search theories" and "flows approach," respectively, by researchers Dale Mortensen, from Northwestern University, and Christopher Pissarides, from the London School of Economics (where William Beveridge served as Director; he is frequently quoted as one of the intellectual creators of social security). These types of models have an influence that goes beyond labor market analysis, since they are also useful in understanding other "markets" such as marriage, real estate, and the general market for any goods for which search costs and special results when parties meet are involved.

hire. As of today, models of flows have been integrated into search models. Among other results, these models try to explain why: i) When economic conditions change, firms react by adjusting vacancies more quickly and widely than employment; ii) Changes in real wages do not entirely reflect changes in real products; and iii) Unemployment responds faster to negative economic conditions than to positive; in consequence, unemployment falls more rapidly at the beginning of a recession and recovers at a slower pace during expansions.

As opposed to other unemployment theories that will be analyzed, search theories can be used to model cyclic fluctuations of job flows. Search theories can also model alternative mechanisms for wage determination, such as the renegotiation that can take place after the initial employment agreement between employers and workers; varied forms of negotiation with unions; wage rigidities; and strategies of announcement of wages by employers. An important application has been in demonstrating that, if technological change favors the demand of highly qualified workers, different employment policies might cause different outcomes in employment and wages.

These theories not only help analysts understand long-term unemployment, but also heterogeneity in unemployment behavior. According to Rogerson, Shimer, and Wright (2005), some basic questions that help discern the causes of unemployment, for which these theories have proved to be useful, are:

i) Why do unemployed workers sometimes decide to stay out of employment, rejecting job offers?

ii) What determines employment and unemployment spells?

iii) How can unemployed workers and job vacancies coexist simultaneously?

iv) Which factors determine aggregate unemployment and employment vacancies' rates?

v) Why do workers who are homogeneous in appearance and have similar jobs earn different wages?

vi) Which constraints do firms face when paying different wages?

vii) What determines optimum job rotation?

When studying the form in which workers search for a job and firms search for workers, most researchers have concluded that these processes are determined in conjunction with the rates at which jobs and wages are offered and demanded. Similarly, it has been found that in some cases, wages are set before hiring. For example, some firms announce a wage and do not modify it until the worker is hired. In other cases, firms and workers negotiate a wage after the meeting takes place. Knowing whether there is a negotiation helps understand why there is wage dispersion for very similar workers.

A first policy implication of this literature, which explicitly introduces benefits and unemployment insurance duration into the models, is that more generous unemployment insurance has the effect of: i) raising the wage at which the worker is willing to take a job; ii) raising the general level of wages—not due to higher productivity, but because low-wage jobs stop being filled; and iii) decreasing the rate at which the unemployed find a job.

A second result relates to the relationships existing between wages, employment duration, and the rate at which workers leave their jobs. For instance, workers typically improve their wages in relation to the time spent at the same job, so that workers who were previously unemployed can earn a lower wage. This does not necessarily mean that the job or the worker has low quality. Similarly, workers who have been employed longer with higher wages receive fewer "good" offers of alternative jobs. Additionally, a learning process can take place between workers and firms, which could be related to persistent unemployment. It adjusts slowly to the new conditions of economic environments, such as interest rates or inflation. For example, when workers are not happy with their current wages, they can search for another job, or leave the labor market and return when job offers improve.

A third result is that higher unemployment benefits may eliminate the creation of some jobs by firms and increase the duration of unemployment. This is a different result from the first, since the former comes from workers' behavior, while the latter relates to the firms' responses.

A fourth result is that unemployment insurance can increase productivity and wages when workers are risk-averse and liquidity is constrained to finance consumption, in case of being unemployed. This occurs because insurance allows workers to accept "risky" jobs more easily—with higher probability of short duration. Alternatively, workers who have a lot to lose if they become unemployed would rather choose a low productivity job with a low probability of being unemployed, instead of one with higher productivity, which might lead to a temporary income loss (Acemoglu and Shimer 1999).

A fifth result is the existence of a marked wage dispersion among workers who apparently have the same characteristics. It is well known that education, marital status, geographical location, and other variables observed in the labor market explain only a part of the difference in wages. New unemployment theories try to explain these differences based on three factors: i) Workers are heterogeneous; ii) Firms are heterogeneous; and iii) Market frictions exist. Workers who are apparently the "same," according to statistical or administrative information used by public programs, can actually be heterogeneous because i) The value of their leisure time is different (due to family activities, academic or artistic interests, and other causes); ii) Their unobserved abilities are different (due to biological reasons, previous accidents, or other factors); and iii) Information used by unemployment programs, labor legislation, and surveys is much more limited than the information workers and firms have on hand when they meet to decide about initiating wages and a labor relationship.

A sixth result is that firms can pay higher wages to increase the entrance flow of potential workers—i.e., to receive more candidates for a single vacancy—as well as to decrease the outflow of workers who are already employed. As a consequence, firms that pay higher wages are larger. In turn, workers who search for alternative jobs while employed tend to take some other job that has been offered to them, but they abandon it when they receive better offers. This issue can be put forward through the following questions: Why are two different firms willing to pay the same worker a different wage? Why can identical workers end up having different labor market histories (number of jobs and duration)?

As the seventh and last result, when there is an ex-post negotiation between the firm and worker, labor market inefficiencies may arise. For instance, if the worker has to make an investment (such as acquiring abilities) before getting a job, the employer may be likely to pay a wage that is too low, if the worker is already employed with the firm and cannot easily find another employment. Similarly, if the firm has invested in training or providing workers with special capital and cannot easily replace them, workers can end up demanding a higher wage than previously agreed with the firm at the beginning of the labor relationship. Analysts have not been able to discern the effect of this problem on welfare. In particular, they have not discovered a form in which unemployment insurance, labor protection regulations against layoff, or any other mechanism of public action can help solve this problem.

Viewed separately, some of these results could appear to be of common sense; however, it is convenient to raise two issues. First, as a whole, these results describe in detail the way employment relations take place and how wages are set. Second, they allow research about labor markets at national and regional levels to be carried out systematically, in a framework including the likely impact of employment and training programs.

V.3.1.1 Active Labor Market Policies

Active labor market policies are those designed to reduce unemployment through actions directed at the unemployed. Three main forms of doing this are to: i) promote the match of demand and supply of labor through public and administrative services of employment—which facilitates occupation of vacancies and is thought to reduce pressures on wages and promote job creation; ii) create training programs to increase the abilities and knowledge of the unemployed until they find a job; and iii) encourage public intervention in the creation of public-sector jobs or provision of work subsidies in the private sector (see Box V.2). Some particular examples of these policies include training programs for youth and the disabled—with the aim of providing abilities that increase their human capital—and programs that provide sheltered work.

In developed countries, active labor market policies are usually implemented in conjunction with passive policies (such as granting unemployment insurance benefits). The literature about the effectiveness of active labor market policies to reduce unemployment in developed countries shows positive outcomes, though adverse effects have also been noticed. For example, because these policies are costly and some individuals would probably find a job even without the programs, a social loss can arise. In addition, the training provided can be attractive to some individuals, but does not promote an exit from unemployment. To avoid this, training policies are often conditioned on active (and monitored, when possible) job search.

It is common to find training programs in LAC; however, the intermediate institutions required to match labor supply and demand have not yet been completely developed. Thus, government-promoted training programs cannot stimulate employment as desired. As long as active labor market policies do not allow vacancies to increase, it will be very difficult to decrease unemployment. Since LAC has an excess supply of labor, the match between supply and demand is a very important issue to reduce the size of both unemployment and the informal sector.

Recent reforms taking place in industrialized countries have been in the direction of granting unemployment insurance benefits conditioned on participating in training programs. As will be discussed below, few countries in LAC have unemployment insurance. Where these policies are in place, they take the form of a segmented program that only covers a fraction of the population working in the formal sector. For this reason, in general, a functional model to establish a direct relationship between active and passive policies has not yet been achieved.

Box V.2
Provision of Wage Subsidies and their Secondary Effects:
The Case of Finland

Finland's case is a good illustration for analyzing the experience of a country that underwent the implementation of policies to foster performance of labor markets. Since the 19th century, this country has had a long history of implementation of labor market programs such as the Public Employment Service (PES), Training for the Labor Market (TLM), or subsidized employment.

According to the study of H. Raisanen (2001), Finland implemented extensive labor reform, beginning in 1998. Before that year, previous policies attempting to stimulate the labor market had no links between them, and were not part of an inclusive plan of labor development.

The Employment Act of 1971 established, for the first time, that as a rule, employment should be offered to every unemployed person, in function of abilities or experience. Vocational training constituted a typical action to prevent unemployment.

Afterwards, the Employment Act of 1988 established that both the State and municipalities had the obligation of hiring either young persons aged 18-19, or individuals in a situation of long-term unemployment. The goal was to provide temporary (6 months) jobs through a subsidy coming from a labor market policy's fund. The law itself represented an application of the constitutional right to work. Nevertheless, in 1995, after a constitutional change, this right turned into an obligation for municipalities and the State.

Box V.2 (continued)

Although this action seemed to reduce unemployment levels, in the long term it generated serious problems in the labor market. During the economic crisis of 1992, the State and municipalities did not have the capacity to accommodate all the unemployed with the right to work, so the law stopped being applied. Another problem generated by the law is that the unemployed did not have incentives to accept alternative jobs before the 12-month period of unemployment. In this sense, according to Raisanen, any strategy aimed at reducing unemployment from destruction of the selectivity of labor policies would not be prosperous.

During the economic recession at the beginning of the ‘90s, the State continued to grant subsidies to employers in private and public sectors to hire the long-term unemployed. Nevertheless, this action presented three important side effects. The first effect was that there were no incentives to integrate the new unemployed to the programs, since subsidies were to be used for the long-term unemployed. The second effect is known as the «addiction effect,» and meant that both employers and the unemployed became dependent on labor subsidies, particularly in periods of economic recession; as soon as the recession lessened, employers preferred to hire qualified and trained individuals. Finally, the third side effect of this action was the loss of social welfare, because beneficiaries of the subsidy might have found a vacancy even without this labor action.

Besides its potential negative effects, labor subsidies continue to be an important action to fight unemployment in Finland. However, since 1997, the law established that the subsidy will continue to be provided for 6 months; the beneficiary will have to work for at least 10 months to renew it.

Active Policies for Workers with Low Abilities

A growing emphasis has been placed on development of policies on the "supply side," which are intended to improve workers’ abilities and incentives to work. Nonetheless, some critics believe this is not enough to fight unemployment, especially in the case of low-income workers. For instance, Bartik (2001) holds that even in times of economic expansion there are not enough jobs for workers with low skills. In that respect, evidence shows that as a matter of fact, employers respond weakly to changes in the characteristics of low-skilled workers, so interventions to increase their education only have small effects.

Additionally, if employers face uncertainty and costs for hiring low-income workers, they do not noticeably react to wage subsidies. Furthermore, when the supply of low-income workers increases, policies that promote the labor supply tend to decrease wages, in particular those of low-income workers, who may not directly participate in these programs.

If one agrees with the argument that supply-side policies can be effective in reducing unemployment only when they are accompanied by demand-side policies, then the question is: What are these policies? Two tools show up as the main candidates: employment programs in the public service, and wage subsidies paid through the tax system. Employment programs are sometimes criticized for possible displacement from private employment, possibilities of waste and fraud, political use of the program, and generating an artificial necessity of workers when the economy grows and the program maintains high employment levels. The design of employment subsidies faces problems like: i) providing subsidies to people who would not be unemployed if the program were not in place; ii) finding adequate methods to target employers who could be willing to hire disadvantaged workers; iii) minimizing the stigma and maximizing political feasibility.

Training and Educational Programs: Evaluation

Training programs to promote work are active policies on the "supply-side." This means they try to foster employment and improve wage prospects through the development of human capital of the unemployed. Despite the fact that training programs seem to be attractive to low-income workers, these policies are not generally considered to be successful tools against unemployment and poverty (Lafer 2002). Yet, these programs have developed since the ‘60s and ‘80s. Initially, countries tried to provide long-term training and generate government-sponsored jobs. This evolved towards programs that assisted the job search. As of today, programs to modify attitudes and labor market habits of the trained are in operation. It is hard to determine whether programs are less effective because their quality has diminished, or because governments have decided to reduce expenditures on them, as they proved to be somewhat ineffective. At any rate, this experience has shaped contemporaneous decisions about the provision of training for low-income workers with the aim of reducing unemployment.

Academic and political debates frequently contain references about the necessity of providing "good" or "decent" jobs. A set of recommendations to achieve this goal is based on improving abilities acquired during secondary school, via i) occupational certification at the national labor market level; ii) learning programs; and iii) compelling firms to spend a minimum percentage of their revenues in training, or making them pay more taxes (Burtless 1994). Nevertheless, some critics say it is not clear whether these training programs are currently short of funds; there is no evidence that it is necessary to oblige firms to provide more training for their workers (Heckman, Roselius, and Smith 1994). Those who have a different opinion recommend strengthening the educational system, allowing parents to choose the school their children will attend, as well as subsidizing jobs that demand low levels of ability.

The discussion about obliging firms to provide training is, in fact, part of a wider discussion about the impact mandatory benefits imposed by legislation have on labor contracts. In general, economists’ opinions cite efficiency reasons to justify safety and hygiene regulations, work injury insurance, or mandatory participation in pension plans. However, this discussion points out that the best way to provide education is through the educational system, rather than the employment protection system.

New unemployment theories imply that the human capital workers have when they find an employer explains a substantial part of their probabilities of getting and keeping a job. We have already seen that many economists are skeptical about the efficiency of training programs. This debate is even wider, as the Heckman and Krueger (2003) discussion summarizes.

Krueger is less pessimistic than most other economists who think training programs have a very small effect on incomes. Nonetheless, he recognizes that using human capital policy to entirely reverse inequality trends of the last decades could be very costly. Yet, a more modest human capital policy in conjunction with other income policies could have a significant effect on inequality.

On the other hand, Heckman, Krueger, and Carneiro see early childhood intervention as promising, with very high estimated future benefits because of improvements in non-cognitive behavioral abilities. Heckman and Carneiro are much more skeptical about the potential returns of training for adolescent or adult workers (Heckman and Krueger 2003).

The discussion in previous paragraphs has wider applications in a high-income country such as the United States. To the extent a country has a higher proportion of low-income workers, the argument favors the hypothesis that families face financial constraints in educating their children, thus resulting in higher unemployment levels and lower potential wages for youth. Whichever the case, recommendations to concentrate efforts in the development of small children are shared by most researchers. An implication of this idea is that in the short term, human capital policies will have little effect on income distribution and youth unemployment. This does not mean that no current policy options exist, but combating youth unemployment in short-term human capital policies may not be the most effective tool. The discussion also indicates that the best way to fight youth unemployment in the long term is to reinforce human capital programs for small children.

Similarly, the reasons training programs may have limited effects when used to combat unemployment are also under debate. Some people believe the limits are a consequence of lack of effort in developing these programs. One associated thesis is that subsidized training programs have been separated from their fundamental educational components (Norton 1996). This separation particularly occurs because programs are aimed at finding a job as soon as possible, and tend to ignore the development of abilities and other pedagogical aspects. Also, the programs' administrators are evaluated on the basis of their ability to put people to work, and not on medium-term results. Under this thesis, it is desirable to have a higher integration of educational and training programs to promote employment.

V.3.2 Labor Market Institutions and Regulations

V.3.2.1 Rigidities

An idea gaining importance in recent decades after the unemployment phenomenon, which does not respond to fiscal or anti-inflational incentives, is that unemployment is promoted by "rigidities," or inadequate labor market institutions. This is why the term "flexibility" has entered the usual vocabulary of public policies against unemployment. Some of the most often-cited elements listed as possible causes of unemployment are minimum wages, unions and collective bargaining, and "efficiency wages."

Arguments about minimum wages as a cause of unemployment have emerged after the convergence of two events. In many countries, minimum wages are relatively low and cover a relatively small proportion of the population. When governments decide to set lower minimum wages, they proceed precisely on the idea that this action should prevent women, youth, and low-qualified workers from unemployment. This population consists of those workers who may become unemployed when minimum wages are relatively high. In a number of countries, governments have provided employment and income support to low-wage workers through direct fiscal resources. They hereby avoid the possible negative effects these resources could have on labor markets, by means of monetary income subsidies—usually delivered by tax income legislations—in the form of wage subsidies, income tax credits, negative income taxes, or other analogous types.

The topic of unionization and collective bargaining as a cause of unemployment is complex. Evidence exists in favor of this explanation, but important cases against it also prevail. Theories of *"insiders-outsiders"* have been used to argue that in some countries high unionization rates can coexist with low unemployment, because institutional mechanisms of negotiation help allocate benefits and costs of collective bargaining among the entire population. On the other hand, in countries where negotiations are not centralized, unions and firms can reach agreements that benefit "insiders"—workers already employed and firms that already function—at the expense of workers and firms external to the agreement. This approach is one most favored by European economists to explain the phenomenon of high unemployment in the region (Layard, Nickell, and Jackman 1994).

Theories on efficiency wages illustrate the inflexibility of labor contracts to a certain extent; firms and workers would rather agree on a contract with relatively high, inflexible wages than deal with the uncertainty of a new labor relationship. That is, once a firm gets to know the worker, it will pay a higher wage, even though it understands that equally capable individuals who will do the job for a lower wage can be found. Firms do this to avoid the risk of not finding another temporary worker, or to bypass the insecurity of hiring a candidate who, in appearance, looks like a good worker but later turns out to be the opposite. In summary, these theories contend that firms pay relatively high wages to their employees to lessen labor mobility and elevate the quality of their labor force, though generating wage inflexibility. This condition occurs because even when unemployed individuals are willing to take these low-wage jobs, firms do not generate new vacancies.

The literature about effects of wage rigidities on employment is inconclusive. It has been argued that low unemployment in the United States, when compared to Europe, is related to the high flexibility that allows real wages of low-ability workers to adjust against changes in the economic environment. On the other hand, it is believed that in Europe, institutional factors—such as the presence of unions, minimum wages, and generous unemployment insurance—hinder wage adjustments of low-ability workers. Nonetheless, Card, Kramarz, and Lemieux (1999) study wage differences of these types of workers in the United States, France, and Canada and find no evidence that wage inflexibilities account for differences in the levels of employment in these three countries.

V.3.2.2. Unemployment Insurance

Unemployment insurance is a labor market institution that originated in European countries. Unemployment insurance and pension payments are known as "passive policies" of the labor market, since they grant protection without actively looking to reintegrate the worker into employment.

In Europe, this insurance was provided by some unions before becoming mandatory for all workers (Holmlund 1997). Governments from industrialized countries currently allocate significant public spending for these benefits. Some voluntary schemes of unemployment insurance can also be subsidized by governments. Unemployment insurance is considered to be a useful tool for a competitive economy to support both workers and firms by allowing employment rotation while avoiding unacceptable costs, such as loss of a family's income.

The literature about the effects of unemployment insurance generally analyzes *benefits* or replacement rates, *duration* of benefits, and the form in which insurance is *financed*. If unemployment insurance pays high benefits, it can cause pressures on future wage negotiations between firms (or unions) and workers. This also affects the adequate functioning of unemployment insurance, since both sides can transfer to the insurance part of the negative consequences of their negotiations. Increases in insurance benefits can also imply increases in non-labor costs, because higher amounts have to be collected through taxes to finance insurance.

The literature identifies three main features in the design of unemployment insurance that help it function: i) duration and form in which benefits are paid—single payment or periodical payments; ii) a monitoring process to guarantee job search effort, and sanctions (such as benefit reductions) when this is not the case; and iii) requirements or conditions that oblige beneficiaries to take training courses or other work programs, in exchange for benefits (Fredriksson and Holmlund 2005). These three features can be seen as an "administrative list" to take into account when designing unemployment insurance.

Alternatively, to define the best unemployment insurance policy, the theory describes three key variables: i) the extent to which families value their consumption smoothing; ii) how much unemployment insurance contributes to smooth consumption; and iii) how an unemployment spell's duration is extended as a result of unemployment insurance benefits. This is a list from a "household's point of view."

The following issues, which usually affect unemployed workers, can be included in this framework: financial constraints affecting workers' decisions (such as promptly accepting a job when they are liquidity-constrained), job search technologies, human capital accumulation effects, private insurance markets that reduce the value of public intervention, the importance of savings, and the benefits of leisure while unemployed (Chetty 2005).

The objective of unemployment insurance is very specific, in the first place: to avoid excessive variation in a family's consumption. Consumption depends on the factors previously mentioned: how that variability affects a family's well-being, how much unemployment insurance contributes to lessen that variability, and to what extent unemployment insurance can lead to employment reductions. It has been argued that unemployment insurance should have wider objectives. This argument can be valid, but it is still convenient to assess the use of unemployment insurance as a healing tool to handle structural problems such as human capital deficiencies, racial or gender discrimination, or problems that may be remedied with other special solutions.

V.3.2.3 Employment Protection Regulation

Employment protection policies attempt to protect workers against job loss caused mainly by reasons attributable to the employer. The most common employment protection legislation includes payments for dismissal, severance, voluntarily leaving the job, and advance notice of dismissal. The indemnity or payment proposed by these labor policies for dismissal of workers may increase firms' costs. In such situations, firms can restrict their hiring behavior, and the duration of unemployment may increase.

Arguments about strict employment protection regulation have been used to explain the long duration of unemployment spells in Europe when compared with those in the United States. Latin America, on the other hand, is also considered a region with a high level of labor regulations (Heckman and Pagés 2005). The current matter of debate is how adequate it is to protect employment at the expense of reducing labor mobility and keeping employment that could be considered of low productivity. Section V.4, below, discusses employment protection legislation throughout the Continent in more detail.

An inevitable tension for employment programs and employment protection regulation comes out when the sense of causality between these programs and unemployment insurance is questioned. As has been discussed earlier, economic theories of unemployment generally assume that unemployment benefits can cause more unemployment as they reduce people's incentives to work. Nonetheless, it is apparent that some historical episodes characterized by great growth in both unemployment insurance coverage and benefit payments occurred because economic crises detonated social pressures to increase those benefits. These were not cases in which governments designed an unemployment program with undesirable effects, but where unemployment was already there, and the program tried to mitigate a social problem that came out before benefits were granted.

V.3.3 Macroeconomic Theories

One of the first theories about the origin of unemployment is based on lack of aggregate demand in the national market. From this perspective, a situation can arise in which production is higher than demand for goods and services in national economies, generating unemployment. With this diagnostic, the solution to foster unemployment seems to be in a higher level of public spending or other measures to increase national expenditures, such as reducing interest rates. This idea, identified as Keynesianism (Keynes 1936), has had a very strong historical influence. During the first decades after the Great Depression, it was determined that the main action against unemployment would be to increase public expenditure or create inflation. As a consequence, the most important (historically speaking) employment policy for decades relied on ministries of the treasury and central banks. In other words, when the issue of decreasing unemployment was raised, the first idea that came to mind was for policies to administer the national demand through public expenditures and inflation.

Today, although to a lesser extent than in the '60s, the influence of these theories that consider a country's monetary and fiscal policies as tools against unemployment prevails. Nevertheless, a number of experts consider this possibility to be null in practice, saying that if governments attempt to take advantage of these politicies, they will only end up generating greater levels of inflation. Other experts, possibly a great majority in central banks and ministries of national treasuries, believe that possibilities to take advantage of the relationship between unemployment and inflation still exist,[4] although their power to affect long-term employment is limited.

A very common expression of these ideas for political purposes is based on the notion of a "natural unemployment rate at which inflation is not accelerated." In this version, a central bank can support employment creation by identifying whether the unemployment rate is higher than the one arising without creating inflation. If this is the case, the central bank could generate a number of jobs in the country through actions aimed at decreasing interest rates, or by creating a little inflation. National arguments of almost any country often discuss that authorities should "care more about employment and less about inflation." This is what these debates are about.

Joseph Stiglitz's (1997)[5] vision is a good example of how these macroeconomic theories are currently considered. He calculates that, when inflation is low, changes in inflation rates are mainly attributable to a labor market phenomenon: If inflation decreases, it should be because unemployment is growing. The opposite should also hold true: If inflation grows, it is because the labor market is "tightening." Additionally, Stiglitz thinks an important number of markets in the economy are monopolistic. For this reason, firms tend to reduce prices when threatened by competence, but they do not raise prices at the same pace when inflation exists, out of fear of losing their monopolistic power. Therefore, for a policymaker (such as a central bank or ministry of treasury), when inflation is low, it is possible to generate employment by slightly increasing inflation.

V.3.4 Hysteresis

Explanations about the causes of unemployment based on the role of adverse economic events face a serious empirical problem, because these events do not differ enough among countries to explain long-term variation. This means that unemployment varies more across countries than what phenomena such as increased oil prices, high interest rates, or wars could explain. Descriptions based on the adverse role of labor market institutions also pose an empirical problem, since many of these institutions were already in operation in the '60s, when unemployment was low and similar among countries (Blanchard and Wolfers 2000).

The hypothesis of unemployment "hysteresis" emerges because of the changing economic environment derived from the great episode of high unemployment in Western Europe. According to Gottschalk and Moffitt (1999), for example, individual income became unstable between the periods of 1970-78 and 1979-87. Apparently, some evidence points to the increase of economic turbulence, particularly since the '80s. In view of this situation, theories on hysteresis are based on the interaction of adverse economic effects and institutions. Hysteresis means that once workers are unemployed, they start to lose their skills and abilities to return to similar jobs. If the unemployment spell is too long, returning to work could become a very difficult task.

Ljungqvist and Sargent (1998) study the problem of labor supply—the worker's decision to participate in the labor market—and suggest that welfare systems hide an intrinsic unsteadiness. This is because, under stable conditions, the unemployed may find work faster, and costs faced by the welfare system are low. However, generous unemployment compensation can delay economic restructuring when changes cause a rapid loss in the value of abilities.

[4] Central banks are influenced by economic theories, but they should also choose wisely to remain independent from them when necessary (Eisner 1999).

[5] Stiglitz has won popularity for his critical visions about economic development strategies. He was Chairman of the Council of Economic Advisors to President Bill Clinton in the United States.

The main cause of long-term unemployment in turbulent times is the instantaneous loss of abilities after job separation. As unemployment benefits do not depend on loss of abilities, those who experience greater ability losses tend to wait for higher wage offers—those corresponding to their actual level of abilities—and they also tend to search less intenively for a job. Another case is that of unemployed workers who lose training and ability in new technologies, which prevents them from returning to economic activity.

V.3.5 Over-education Hypothesis

Another element related to unemployment is that university graduates work at jobs that previously required lower educational levels. The alternative vision is that the fundamental shift has been on the side of labor market supply. Educated workers take jobs at inferior levels because their supply increased, thus replacing less educated workers. The final result of this "cascade" process is the dislocation of less qualified segments of the population, which end up unemployed.

According to this hypothesis' supporters, unemployment among low-skilled workers cannot be attributed to the disappearance of low-skilled jobs (Pryor and Schaffer 1999). The explanation is that when employers face an excess supply of workers with high educational levels, they select workers based on their general skills and knowledge. More educated workers with high levels of cognitive skills end up working in highly qualified jobs; however, those who do not obtain a highly qualified job displace workers with a lower level of cognitive skills in a less qualified job. The displaced workers, in turn, take jobs that require less education than the previous job they had. This situation continues throughout the labor structure until the less educated are totally displaced out of employment.

V.3.6 Effect of Taxes on Employment

Taxes can affect aggregate demand of goods and services through consumption taxes, the income of individuals through income taxes, and labor costs through payroll taxes. Kolm (1998), and Calmfors and Holmlund (2000), point out that reducing taxes on certain goods and services that can be produced by households could help reduce unemployment.

Reducing payroll taxes could have favorable effects on job creation. This issue is important for social security in Latin America. Several studies point to high costs of labor, which prevail in these countries, as an important factor that determines unemployment growth (Heckman and Pagés 2005). Social security contributions can also have adverse effects on (formal and informal) employment, when no direct relationship exists between contributions to, and benefits received from, social security. A discussion of the impact of taxation on labor markets and social security is presented in Chapter IV of the CISS Annual Report 2005.

Income taxes can affect employment when tax systems explicitly make a difference between the incomes individuals earn when they are employed and when they are not. This is of major importance in developed countries, where tax collection and welfare systems are integrated. Thus, when an unemployed person claims unemployment insurance compensation benefits, these could be reduced when other sources of income are declared, even if they are temporary (OECD 2005e, 2006). In many Latin American countries, income taxes mainly affect formal sector workers, so predicting their effects on employment is a difficult task.

V.4 Unemployment Insurance and Protection

Throughout the decades, governments have used diverse formulae to protect employment, reduce unemployment, provide incentives for the non-working to return to the labor force, promote wage growth, and provide a guaranteed minimum income to individuals. In attempts to achieve these objectives, it is important to understand how different labor market policies are complemented or substituted by others. To understand these interrelationships it must be recognized that in the absence of increased productivity and employment, obtaining a general improvement in families' incomes is not an easy task. It has been studied and demonstrated that a country's level of competition in markets of final products is a key element for achieving these objectives.

Governments protect employment using two main tools: regulation for labor protection, whose objective is to protect and maintain employment; and unemployment insurance, which looks at protecting the income of the unemployed. Additionally, governments have tools to: i) guarantee a minimum income level via the minimum wage, or subsidies applied to wages or earned income; ii) provide incentives for the unemployed to return to the labor force through training, fiscal incentives, employment services, and other policies known as active labor market policies; and iii) promote a general and homogeneous behavior of wages, through national collective bargaining, wage "pacts" or other public agreements, and mechanisms regulated by law.

Despite their limitations in coverage and potential for improvement, social security programs in LAC take care of the families' main demands, with the great exception of unemployment insurance. Nevertheless, legislation in Latin American countries provides protection to workers who lose their jobs for reasons attributable to the employer. This is a temporary aid—of considerable help in some countries—in case of job loss.

This Section documents the tools most often used to protect the unemployed in countries of the Continent, considering specific characteristics of the labor markets. The aim is to examine the elements that indicate advantages and weaknesses of different employment protection mechanisms in Latin America—where a considerable part of the working population belongs to the informal sector—in a context of globalization.

V.4.1 Unemployment Insurance[6]

Heterogeneity can be found in the provision of protection against the risk of becoming unemployed in countries of the Americas. In general, countries can be divided in *two large groups* according to their labor markets:

i) *Countries in which labor is traded in a framework of almost universal social security coverage*, including unemployment insurance (the United States and Canada, in North America). Between the '80s and '90s, this group of countries experienced important changes in the functions of unemployment insurance programs. Programs were oriented towards reintegrating workers into labor markets, and job search incentives were provided.

In Canada, unemployment insurance is mandatory, with both employer and workers in charge of its financing.[7] To have access to benefits, the main document (besides proper identification and bank accounts) that has to be presented is the employee's record of employment with the last employer. Replacement rates are as high as 55% of the gross average income. Entitlement depends on the number of hours worked during the established period, and the local rate of unemployment. Benefits, which are taxable, increase when the beneficiary has economic dependents that live in a low-income situation. It is possible for beneficiaries to be requested to take training courses to facilitate their return to the labor market. [8]

[6] This Section is based on the CISS' Working Paper on Unemployment Insurance (CISS/WP/06012).
[7] Human Resources and Skills Development Canada (HRSDC) administers unemployment insurance. The institution is also in charge of paying benefits for maternity, sickness, and taking care of a sick relative at risk of dying (compassionate leave).
[8] Canada also has a program called "work-sharing," to help employers and workers decrease temporary layoffs. This program grants monetary benefits to workers willing to work part time when the normal activity levels of the firms are reduced (and which are beyond the employer's control). To be put into practice, both parties must agree. Benefits last from 6 to 26 weeks, with the possibility of extending them up to 38 weeks. This program allows employers to stabilize their labor force by keeping qualified workers employed, avoiding the expensive process of hiring and training new workers when activity goes back to its normal levels. Workers benefit by keeping their jobs and receiving monetary transfers during the days without work.

In the United States, in accordance with the Social Security Act of 1935, the Department of Labor is in charge of monitoring the system, but each state administers its own program. Significant differences exist between states in eligibility conditions, benefits, and contributions. Insurance is mandatory for private sector workers. It is mainly financed by the employer, and is based on previous unemployment experience, according to the state's guidelines.

Benefits in the United States are based on a percentage of the income individuals received in a 52-week period, up to a maximum. In general, insurance grants 50% of income. To be entitled to benefits, individuals must register with the employment service, which helps them find available vacancies and provides training. Individuals must call the agency back (by mail or phone, depending on the state) each week or two, to answer questions verifying whether they still fulfill eligibility conditions. They must report the labor income earned during the week and any job offers received (so authorities can see the number of jobs that were rejected during the period).

ii) Countries with a high participation of the informal economy in labor markets. In this group, some countries have unemployment insurance, whether as programs with limited coverage or as incipient programs. According to Velásquez (2003), the coverage of unemployment insurance in Latin America does not exceed 14.7% of the unemployed. He reports the following data for coverage: Argentina (2000), 10%; Brazil (2001); 11.8%; Chile (2000), 6.7%; Uruguay (2001), 14.7%; Venezuela (1999), 7.2%.

In LAC countries that have unemployment insurance, it is usually part of the social security scheme, where a fund financed by employers and workers is created to grant benefits in case of job loss. Unemployment insurance in Argentina only covers salaried workers of the private sector; it excludes public sector workers, domestic workers, and the self-employed. Benefits are equal to 60% of the highest wage of the last 6 months. Duration varies according to the number of contributions. After the fifth month, benefits are reduced to 85% of the level calculated in the first period, and after the ninth month, to 70% of that level.

In Brazil, unemployment insurance covers formal workers who have been dismissed involuntarily. The program is financed by the *Fundo do Amparo do Trabalhador* (FAT), and is administered by the Ministry of Labor. To be entitled to benefits, an individual must have worked for at least 6 months of the last 36, been dismissed without justified cause, and have no other source of (individual or family) income support. If the beneficiary rejects a new job, he automatically loses the benefit.

Unemployment insurance in Barbados covers salaried workers aged 16-64 who contribute to social security. It is financed by both employer and workers. The replacement rate is 60% of the last wage. Beneficiaries must register with the employment service, which organizes training courses.

In Chile, since October 2002, the workers' protection system has based unemployment insurance on two components: individual accounts and a pooled fund, which is financed by a fraction of employers' contributions and by a direct contribution from the government. This alternative combines a mandatory savings plan based on individual accounts with a pooled fund that operates as a complementary financing source to pay benefits when a worker is unemployed.

In Chile, a regular amount can be withdrawn from individual accounts if the individuals lose their jobs and are eligible to receive unemployment benefits. If funds are not enough to pay the benefits, the government will lend the necessary amount. The account will earn a market interest rate on existent wages, and will pay the same rate on amounts lent by the government. If the individual reaches retirement age, the funds are pooled in an individual retirement account. In this way, the incentive to increase the frequency and duration of unemployment inefficiently is avoided, since benefits are financed by the individual (Feldstein and Altman 1998). The pooled fund assures a minimum level of benefits for permanent workers whose own funds cannot finance the amounts allowed to be withdrawn. The requirement is that they have contributed to the program for 12 consecutive months.

The social security reform of 2001 in Ecuador introduced a mixed pension system, and a general mandatory insurance that protects the unemployed. Eligibility conditions are defined as a function of age. The benefit equals 3 months of the annual average wage, which is granted in a single payment.

In Uruguay, unemployment insurance covers private sector workers. Benefits are equal to 50% of salaries earned during the last 6 months, which are financed by general contributions to social security. To be entitled to benefits, some duration requirements need to be fulfilled. Beneficiaries can receive training by registering with the National Employment Direction (*Dirección Nacional de Empleo*).

Venezuela has insurance in case of involuntary unemployment; it works as a pay-as-you-go financial scheme, financed by both workers and employer. The beneficiaries of this insurance are salaried workers and employees from public and private sectors who are dismissed, and who belong to the mandatory social insurance scheme. The Venezuelan Institute of Social Security (*Instituto Venezolano de los Seguros Sociales*) manages the insurance funds. The replacement rate is equal to 60% of the annual average wage. Benefits can be extended up to 26 weeks, the time in which beneficiaries are required to take training courses.

In LAC, unemployment insurance operates as a direct transfer from the government in very few cases, financed from general taxation, in which benefits are paid in a single lump sum. In Colombia, for example, the labor reform (Law 789) of 2002 introduced some rules to increase social protection and make work more flexible. Regarding the extension of social protection, this reform created an unemployment subsidy equal to 1.5 (current legal) minimum wages, divided into six equal payments. The money can be used to contribute to the health system and/or receive food or education certificates, and training to facilitate the return to work. The benefit is granted only once during the individual's labor history. The subsidy is financed by a special fund to foster employment and unemployment protection.

In Mexico, the government finances the System of Economic Grants to Job Searchers (SAEBE). The program supports the unemployed population in the process of job search through grants that can be used to pay for transportation to the place of interview, establish communication with the firms, and as family income support. Workers can receive the monetary grant only once a year, for an amount that falls just under 190 dollars. The Ministry of Labor and Social Protection (*Secretaría de Trabajo y Previsión Social*) of each state is in charge of administering the program, which started in 2002. Its diffusion has been limited and its coverage is low, when compared to the figures of open unemployment.

For the group of countries with large informal economies, institutional and financial conditions make it difficult for unemployment insurance to take the form observed in North America or Western Europe. In these countries with informal labor markets, occasionally and with some confusion, the idea appears that the existence of an informal labor market reduces unemployment to a secondary problem. It is usually said that the problem is "one of underemployment." Actually, two different problems exist. Evidence indicates that unemployment is an important problem, even for informal economies. Low labor productivity is also a problem causing longer working days and high employment rotation, a situation observed in both the formal and informal sectors.

In Latin America, the literature is ambiguous about the effects of unemployment insurance benefits on unemployment duration and wages obtained after benefits were received. Saavedra and Torero (2005), and Kugler (2005) examine variations of the unemployment duration period and its relation to conditions of entitlement to benefits. Cunningham (2000) studies the relationship between unemployment benefits and the activities of self-employment and informality that arise after return to the labor market.

V.4.2 Individual Unemployment Accounts

Several aspects in the design of unemployment insurance prevent distortions in workers' behavior. A major complication relates to the process of monitoring beneficiaries, who generally belong to the formal sector, for them to i) continue with the process of job search (though, in Latin American countries, beneficiaries can also work in the informal sector, which does not lead to sanctions that reduce benefit amounts), and ii) declare when they find a job.

How can private insurance help solve the moral hazard problems inherent in unemployment insurance schemes? Recent interest has focused on Chilean reform, which is based on individual accounts and private administration of cases (CIEDESS 2005). The idea that individual accounts can be used in case of unemployment is based on the creation of savings funds to guarantee compensation, should unemployment occur. A percentage of the wage is regularly deposited into the account. Funds can be withdrawn when unemployment occurs; otherwise they can be used to top-up the old age pension. If a worker's resources in the individual account are too low, the state is again obliged to grant a minimum income guarantee. Also, using old-age pension funds to finance unemployment causes the problem of low retirement benefits.

Protection against unemployment in Chile is based on individual accounts, combined with benefits that come from a pooled fund. Employers of permanent workers contribute 2.4% of wages, from which a proportion goes directly to the worker's individual account (1.6%) and the rest to the pooled fund (0.8%). Workers contribute 0.6% of their wages to their individual account. The government's contribution amounts to 10 million dollars per year (quantity fixed in real terms), deposited into the pooled fund. Temporary workers are not entitled to pooled fund benefits; for this reason the contributions are directly deposited into their individual accounts (employer 3% and worker 1.6%). Savings from the balance of individual accounts can be withdrawn independently of the type of contract or cause of dismissal, though eligibility criteria and characteristics of withdrawals differ between permanent and temporary workers.

Individual accounts have been used to protect the unemployed by taking advantage of pension system reforms. In Mexico, the Social Security Law allows workers to withdraw resources from their individual retirement accounts every 5 years, equivalent to what is lower between 10% of the balance of the account or 75 days of the wage that is subject to contributions. As unemployment benefits are taken from the individual account, the amount saved for retirement is reduced. Similarly, the number of weeks of contributions to the Mexican Social Security Institute is reduced, thus affecting disability and survivors' pensions.

In Ecuador, workers up to the age of 40 are obliged to participate in the system of individual accounts, where an employer contributes to unemployment insurance with the equivalent of a month of wage per worked year. The affiliate is entitled to benefits each time the fund accumulates a sum equal to 48 monthly contributions into the individual account. The benefit is a single payment that equals 3 months of the average monthly income of the last 12 months.

In Argentina, the system of individual accounts only covers workers in the construction sector; an employer contributes with 12% of wages during the first year, and afterwards with 8%. In Brazil a Guarantee Fund for Time of Service operates, where a worker is forced to save by depositing 8% of the monthly wage in an individual account. It was created with the aim of making layoffs more flexible, because the previous law introduced limits to unjustified dismissals.

In Colombia, individual accounts have operated since 1991 to modify the system of indemnities. It is mandatory for those with labor contracts as from this date, and optional otherwise. The employer deposits into the individual account an amount equivalent to a monthly wage per every year worked; the account balance can be withdrawn at the end of the labor relationship, despite cause of dismissal.

V.4.3 Regulation for Employment Protection

The main difference between unemployment insurance and regulations for employment protection is that the former tries to allocate unemployment risk to society by transferring it from the employer-worker's relationship to a collective fund. The advantage of this approach is that it allows more labor mobility, as it is easier for the firm and worker to break their relationship and find a more productive one, in such a way that the cost is collectively paid by insurance and compensated by general productivity gains of the economy. Workers usually have liquidity constraints that distress their consumption in a few weeks when they lose a job. Therefore, in the absence of unemployment insurance, even if workers have better employment prospects in a few more weeks, they can end up accepting a less productive job to solve their problem of liquidity.

Canada and the United States have fewer regulations for employment protection, but use social security more extensively as a protection mechanism. In North America, the cost of regulation for employment protection is the lowest in the Western World. Social security has the lowest cost as a percentage of wages—partly because wages are high, and partly because a great percentage of protection is granted through private instances.

V.4.3.1 Legal Compensations for Dismissal

Compensation or payment for dismissal is the most common form of employment protection in Latin America. It generally consists of a single payment granted to the worker when an employer ends a labor relationship without a justified cause. The payment is a function of the wages and time the worker has spent employed. In most countries, the employer is in charge of directly paying this amount. Labor legislation defines the cases in which dismissal is not justified, and gives formulae to calculate the amount of compensation. Coverage is usually limited to formal private sector workers with indefinite contracts.

Legislation varies according to benefit amounts. For example, Argentina, Chile, Venezuela, and Uruguay grant benefits equal to a month's wage for each year of work (up to a maximum of 5, 6, and 11 monthly wages in Venezuela, Uruguay, and Chile, respectively). In Mexico, the benefits granted are equal to 3 months, plus 20 daily wages for each year in the job. In Brazil, compensation for dismissal for time of service is a percentage of the balance in the guaranteed fund's account. When dismissal is not justified, the worker has the right to withdraw 40% of the accumulated balance in the account.

Colombia has two schemes currently operating: the traditional and the new. The latter started in January 1991 and was created by Law 50. Workers with labor contracts prior to Law 50, who do not opt for integration into the new scheme, receive compensation benefits according to a formula, in function of the years of work. Under the new scheme, an employer must deposit a monthly wage into an account managed by an Administrator of Pension and Compensation Funds (*Administradora de Fondos de Pensiones y Cesantías*) each year. When the labor relationship ends, a worker can withdraw the accumulated balance. A special characteristic of this new program is that benefits are granted despite cause of dismissal. Furthermore, workers can make partial withdrawals from this account for such reasons as improving their homes or financing higher education for their children.

A special case of compensation for dismissal in the Continent is Barbados. Employers are in charge of financing these compensations, but instead of paying workers directly at the time of dismissal, they contribute to social security with 0.5% of wages. Workers are entitled to benefits (which are a function of the years worked) if the duration of the job was more than 2 years.

Some countries in the Americas, such as the United States, do not have legislation regulating compensation for dismissal. In this country, an important percentage is covered by a plan of compensation that results from collective negotiation. According to the OECD (2003), in the United States only around 20% of private sector workers in 2000 were covered by any compensation plans. Among OECD countries, the United States and Canada are ranked in the first three places of countries with the least stringent regulation for labor protection (OECD 2004).

V.4.3.2 The Cost of Employment Protection

The most common forms of regulation for employment protection are payment for dismissal, payment when voluntarily leaving the job, payment for severance, and payment for advance notice of dismissal. The book by Heckman and Pagés (2005), edited by CISS, presents a detailed analysis of these regulations and the costs of social security institutions in Latin America and OECD countries.

Figure V.5 shows that costs of employment in OECD countries are generally higher than in Latin America, though with a crucial difference in composition of the cost. In OECD countries, 96% of the cost takes the form of social security contributions, whereas in Latin America, costs of regulation for employment protection are the most important. This is an important result, since the higher cost of social security in OECD countries is mostly associated with the provision of unemployment insurance. In the absence of unemployment insurance, Latin America has regulations for employment protection. Both tools work as substitutes, but are not equivalent, and it is necessary to understand the differences. Reaching a conclusion about their effectiveness can be even more complicated.

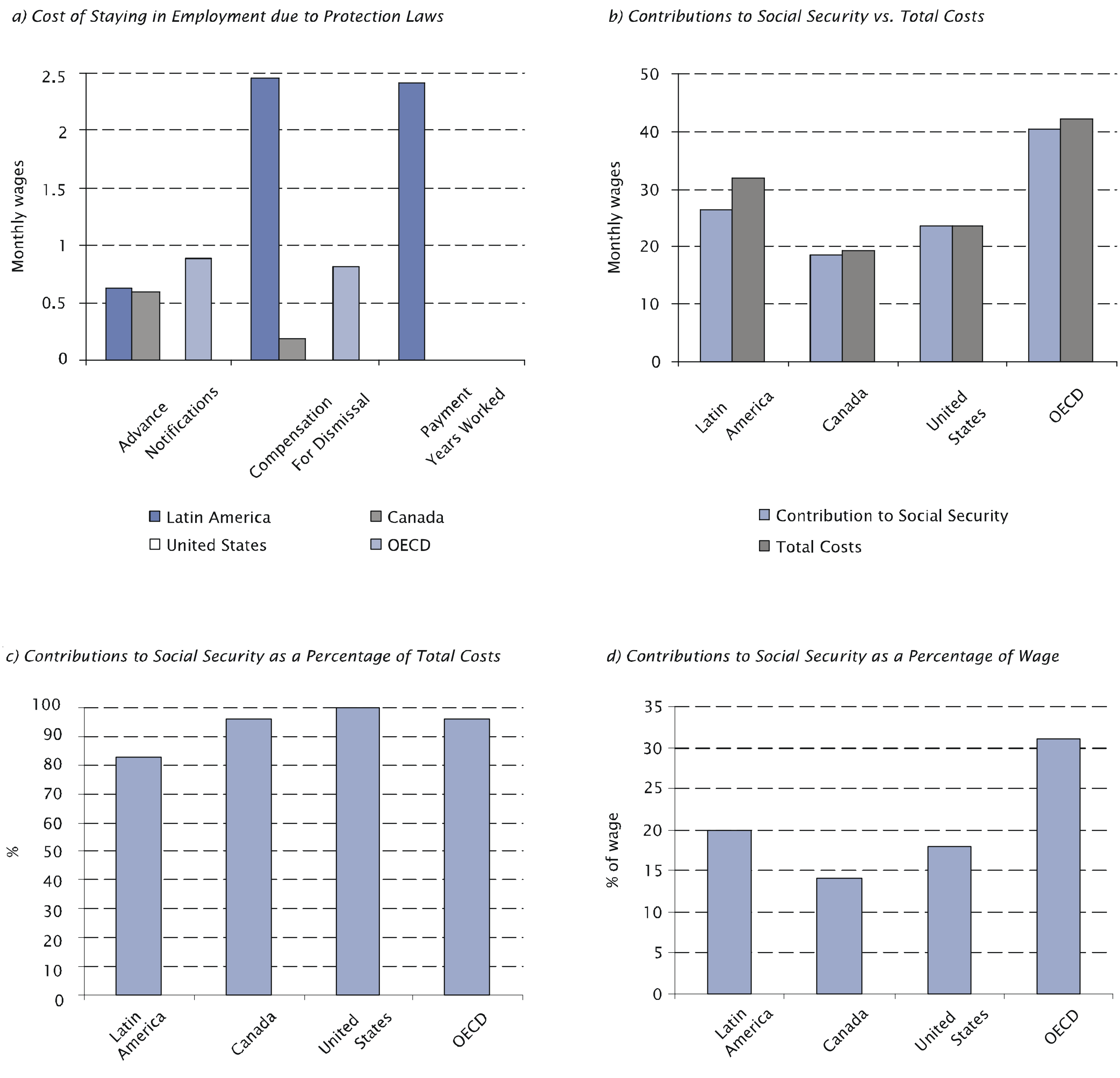
Ideally, unemployment insurance should encourage employment mobility, protect a family's consumption, and allow fast reintegration of the unemployed into a new labor relationship, preferably more productive than the previous one. In practice (in OECD countries, where it works better), this ideal result tends to vanish because unemployment insurance seems to pay very high benefits, in the sense that some individuals prefer to continue receiving benefits instead of looking for a job (see Box V.3). Regulations for employment protection try to increase the cost of breaking the labor relationship, especially that of workers with the longest employment histories. When it cannot be avoided, the firm is charged with a high cost for dismissal.

As in the case of unemployment insurance, regulations for employment protection do not operate in a simple way. In practice, these regulations impose a maximum cost to firms when they face the hardest burdens. If a firm going through a difficult financial situation has to fire workers, regulations for employment protection oblige it to pay out large amounts. As a result, firms simply tend to avoid paying these benefits. In the extreme case that a firm goes bankrupt, regulations for employment protection expect it to pay benefits to its workers when it does not have resources to do so. Unemployment insurance avoids this problem by socializing the cost of unemployment benefits.

Additionally, Latin America experiences inequality in the application of regulations for employment protection. This inequality is the result of the presence of a large informal economy and high judicial costs in the region. The firms that comply with the law also generally respect regulations and operate at higher costs than those which evade taxes and disobey other regulations. On the other hand, the informal economy is seen as an obstacle for the adoption of effective unemployment insurance, since the lack of contributions to insurance from a large proportion of the population creates two situations. First, evidently, paying benefits to non-taxpayers is problematic, since no administrative records of their incomes are on file; it would create stronger incentives for informality. The second situation is that if unemployment insurance covered only those who contributed, the gap in labor costs between formal and informal firms would grow, and insurance would not accomplish its objective of protecting the entire population.

In summary, Latin America has higher costs of regulation for employment protection than OECD countries, in general, and than the United States and Canada, in particular. OECD countries are usually more organized around social security systems—in relation to regulation for employment protection, including unemployment insurance. Unemployment insurance socializes the costs of protecting workers, whereas in regulations, the cost of risk falls on the labor relationship (firm and worker). Both unemployment insurance and regulation for employment protection have advantages and disadvantages in practice. These tools substitute for each other, though imperfectly.

Figure V.5
Measures of Regulation in the Labor Market, 1999



Source: Own elaboration using data from Heckman and Pagés (2005).

Box V.3
Reforms to Labor Legislation and Unemployment Levels: The Case of France

Economic theory suggests that a relationship exists between labor legislation and unemployment levels in a country. In this sense, reforms to labor legislation tend to make the mechanisms of hiring and firing workers more flexible, with the aim of increasing employment levels of a country.

According to Jianping Zhou (2006), it may be the case that in European labor markets, stricter labor legislation causes higher job destruction. Although separation rates are relatively low, firms hire fewer workers than they could, according to their productivity, because they fear increasing costs in case they need to adjust their labor force.

France has faced serious unemployment problems for 20 years. Particularly as of 2000, this situation has forced the government to adopt an emergency employment program. Up to the present, typical actions carried out to reduce the alarming unemployment levels consisted of providing employment subsidies, reducing contributions to social security, or even reducing the work day (the famous 35-hour week).

One of the programs implemented to fight unemployment was the creation of early retirement for the insured with long labor histories. Early retirement is possible for all the insured who have 168 quarters of effective insurance, or by periods recognized as the equivalent in all basic mandatory schemes in France or other foreign countries; and who start working at an early age. In this way, workers can receive their old-age pension before the age of 60. For the insured who started their labor activity before the age of 16, the pension is available from the age of 56, when justified by a period of contributions of 168 quarters, or from the age of 58, if the period of contributions is of 164 quarters.

In August 2005, the French government put a new type of labor contract into practice, the new employment contract. It comprises a trial period of 2 years for the worker, at the end of which he can be dismissed or hired for an indefinite period of time. This contract is attractive because it does not include employment restrictions for dismissals in terms of administrative or legal procedures. The contract is limited to firms with less than 20 employees. On the other hand, the government recently tried to adopt the first employment contract, another type of labor contract that focused on workers under the age of 26; nonetheless, the program was not politically feasible.

According to Zhou's study, recently implemented labor reforms France follow the trend that other European countries have adopted in the last 15 years. These consist of increased flexibility in making restrictions to hiring and firing temporary workers, without modifying labor legislation for regular or permanent contracts. According to the results of Zhou's statistical analysis, these types of reforms are inefficient, since flexibility in hiring conditions of temporary workers generates both higher creation and destruction of employment; whereas strict labor legislation actually hinders both. In France, Zhou determines that the effect of current labor legislation is stronger on job destruction than on job creation.

In general, the French level of labor protection has increased in the last two decades because of new types of jurisprudence and legislation. Current labor legislation is very strict: Employees under permanent contracts are protected against a possible unemployment situation in case a firm decides to restructure. In this sense, a dismissal for economic reasons can be very expensive, since it implies diverse legal and administrative procedures. Contracts for a limited period of time do not have the same level of labor protection, but imply certain restrictions; for example, the fact that a firm is not able to contract workers during the 6 months after dismissal of a worker for economic adjustment.

V.4.4 Public Works Programs

These programs have been used by governments to counteract unemployment during recessions and in cases of natural disasters. Public works programs offer individuals temporary or part-time jobs that generally require physical activity and pay low wages; for example, in construction or maintenance of highways and avenues.

It has been argued that administration of these programs is not complicated and that benefits can be observed relatively fast. Nevertheless, public works programs allow neither permanent job creation nor the development of training programs. For example, in Argentina, the program «*Trabajar*» was created in 1996-1997 in response to increased unemployment levels. The government financed and supervised the project through the National Employment Fund—with payroll taxes and resources that came from credits provided by multilateral organizations—and the co-financing of states and municipalities. The program was oriented towards the less qualified unemployed in urban areas, and the rural unemployed without unemployment subsidies.

Another example of this type is the program *Empleo en Accion* in Colombia. This was based on the program *Trabajar* of Argentina, with the objective of alleviating short-term effects of unemployment caused by the Colombian recession of 1998-1999. Direct investment activities began in 2001 and were designed to operate for 3 years. The beneficiaries had to belong to levels one and two (out of seven) of the System of Information and Selection of Beneficiaries (SISBEN), in which they should have been previously registered.

V.5 Conclusions: Protection Systems against Unemployment in a Context of Globalization

In this Chapter, the main theories explaining the causes of unemployment have been discussed. Unemployment trends in the Continent, resulting from the interaction between structural changes (macroeconomic, institutional, technological, and production mechanisms) and the phenomenon of globalization have also been presented. The direct tool that governments and social security institutions use to tackle the problem of unemployment is unemployment insurance. This program prevails in North America, and some Latin American countries but in a segmented form benefiting only some groups of workers.

Even when the use of unemployment insurance in LAC is not generalized, these countries count with extensive legislation for employment protection. The challenge of developing countries in the Continent may be to design protection systems against job loss that allow moderated unemployment levels, avoid restrictions to labor mobility, and foster workers' productivity. At the same time, it would be desirable to lessen the high costs associated with job loss ordered by legislation, while still protecting workers against the risks associated with a globalized world.

Unemployment insurance has some problems in functioning, because it creates behavioral distortions (incentives to reduce job search effort and extending the time during which benefits are received) and entails the high costs of monitoring beneficiaries' activities. In an attempt to avoid these inconveniences, several countries have opted for the use of individual unemployment accounts. These are attractive, since creation of savings does not generate the distortions in behavior (in relation to employment) that are observed in unemployment insurance. However, its operation requires important state intervention, as in the case of Chile's new unemployment insurance.

Some analysts have argued that the optimal unemployment insurance scheme should rest upon two pillars: a solidarity component, and an individual provision through saving. Insurance should allow workers to select the relative weight of each component in their personal insurance plan, with an aim of achieving a self-selection that decreases the costs of insurance. In the first plan, employees could select contracts with a set of options. In the beginning of their working lives, they could select contracts with a guaranteed benefit and pay the quote in advance.

To obtain more generous benefits, it would be necessary to pay a higher premium. If no benefits are withdrawn after long period of time, the worker could receive a bonus. The second choice (premium based on experience) uses different contribution scales. Benefits depend on income level, with an additional bonus for a low incidence of unemployment. Upon returning to work, a new premium is again rated. It would depend on the type of contract selected (type of coverage) and on unemployment duration (a higher premium for longer spells).

Contracts could also include human capital elements in such a way that training courses would be compensated with higher benefits. If higher benefits are granted during the training activity, later benefits could be reduced more quickly. This arrangement would provide job search incentives and take the best labor options into account (otherwise, countries run the risk of creating ineffective training programs only to justify higher unemployment subsidies).

In more developed countries, a mechanism that could be considered is wage insurance, which focuses on the long-term unemployed. If an individual receives a wage offer below the insured wage, insurance should pay the difference to facilitate employment. This condition is important because people could frequently accept jobs with lower wages, compared to the higher wages expected in the long term. This arrangement could benefit both the firm and workers, since the former has the opportunity to recognize the abilities of the latter, as time and experience accumulate. Similarly, workers could become aware that their abilities are not as valuable as they thought, and decide to stay in the job. Pissarides (2000) discusses the modern unemployment theory, in which the information workers and firms have about themselves, each other, and the labor market plays a key role.

Finally, it has to be acknowledged that developing countries still lack the required institutions to match the supply and demand for labor. This means that designing and implementing some active labor market policies, such as training courses, may not guarantee protection against job loss. The structural change resulting from globalization has to be accompanied by adequate labor market policies that promote the match between employers that offer jobs, and workers who need them.

CHAPTER VI
SUMMARY

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SUMMARY

1. Introduction

The subject of social protection remains pending in the world-wide political agenda. Approximately 30 years ago, the subject of globalization did not appear very high in the debate on economic policy of the great majority of countries. In their discussions, very few countries considered the possibility that the phenomenon fundamentally affected their social policy. Towards the end of the '80s it began to be clear that things had changed, with the coming of unforeseen political transformations. The chapters of this Annual Report on Social Security in the Americas weigh the phenomenon of globalization, the main debates around it, the form in which international negotiations of commerce have evolved, and the degree to which they affect social protection. The report additionally analyzes the development of unemployment programs as tools of social security to protect the population.

When talking about globalization, economic historians speak of a world-wide movement whose complexity and force exceed the capacity of control by individuals or nations. It is a movement thought to be impelled by technology and social reorganization, seeking to elevate the population's level of wealth. While globalization is a very long-term process, the current episode has run from the end of World War II and deepened since the '90s.

Three great differences arise when comparing the current episode with previous stages of globalization: i) A much greater proportion of commerce is intra-industrial and intra-corporative, and includes a great part of services; ii) The geographic and social scope is broader, because during earlier globalization periods the economies of the North Atlantic were preeminent, including acting as colonizers. The greater part of the world, in effect, remained at the margin of technological and productive advances; and iii) The migration of people was largely free during earlier episodes. In the current period, however, nations have become increasingly interventionist and even hostile to migration, often because they see it as a threat to their welfare states.

These historical events generated elevated expectations for the future of world-wide economic integration. Great strides have been made along these lines, but a skeptical view of the framework of commercial negotiation has developed. After the growth of democracy and commerce, wider agreements in commercial issues between countries began to proliferate, but it became clear that something was not working. Meetings on commercial negotiations in Seattle (1999), Cancun (2003), and Geneva (2006) represent the difficulties governments face in achieving multilateral agreements. With the continued growth of commerce, the main losers in the lack of advance in that multilateral forum will be the smallest, weakest countries not already associated with the great commercial blocs.

Within the complexity of global politics, the subject of social rights has proved to be one of most difficult. Social protection topics have been considered by treaties originating in the American continent as national decisions that are not subject to general provisions on trade. Consequently, social security works on a territorial base, with rights and obligations defined by national governments.

If basic rights have been difficult to integrate with commercial negotiations, the problem of social protection is even further removed from finding a solution. Although advances concerning totalization agreements and double taxation have been made, the great majority of international migrants on the American continent are not covered by them.

The proliferation of political environments beyond domestic borders expands the ranks of political actors and modifies our understanding of political units and the relationships among them. Global policy increasingly involves the elaboration of rules at the global level, especially in areas of economic regulation, labor security, standards, environment, rights, security in foods, product standards, and others. One implication of the lack of advance in multilateral forums is that the space for global governance can end up being occupied by institutions that leave weakest nations at the margin.

The difficulties in multilateral negotiations should not cause loss of heart for advancing a social protection agenda at the international level, and particularly at the continental level. On the contrary, the difficulties are an impetus to look for greater communication and find solutions to the problems. A recommended list of policies follows:

I. To strengthen research and development in national systems of social protection.

II. To deal with the known effects of globalization that threaten well-being and social agreement. Sufficient evidence already exists on an important series of globalization's effects in the American continent: i) Labor inequality has widened; ii) New forms of work have developed; iii) Adjustment costs concentrate in some regions and social groups; and iv) Twenty previous years of reforms to social security can be useful for other aims, but they do not face the problems derived from globalization.

III. Contributions are necessary to reconstruct multilateral conditions. Strengthened attention to migration problems is required to: i) obtain social security coverage for all migratory workers; ii) develop multinational coverage of health, disability, and survivor insurance programs, with the purpose of protecting families in their places of origin; iii) face the problem of territoriality in social security and insurance regulation, in general; and iv) adopt effective programs to help the poorest countries reach compliance with core labor standards.

IV. Unemployment insurance is underdeveloped in the LAC zone. In absence of unemployment insurance, governments tend to resort to partial solutions, such as temporary employment programs or restrictions on commerce that do not solve the bottom line of the problem.

V. To recognize the need to improve productivity, raise workers' earnings, and generate stronger options for social protection. "Aid and Trade," or simple "Aid" approaches, are not expected to do much more than palliate short-term, relatively small problems. To the extent that effective social insurance provides national populations with the trust to support further liberalization actions, the potential to interact with productivity-enhancing policies is improved.

2. On the Dimension of Globalization

Globalization is a historical process resulting from human innovation and technological progress. It refers mainly to the increasing integration of economies around the world, particularly through trade and financial flows. The process also includes cultural, political, and environmental aspects, as well as the movement of people and knowledge (technology) across international borders. The term has come to be used with increasing frequency since the 1980s, reflecting technological advances that have made it easier and quicker to complete international transactions.

Global markets offer greater opportunities for people to tap into more and larger markets around the world. It is now easier to have access to capital flows, technology, cheaper imports, and larger export markets. But markets do not necessarily ensure that the benefits of increased efficiency are shared by all. Some ongoing changes will subject institutions such as social protection systems, which were created under a different environment, to significant pressure; therefore, countries must be prepared to embrace the necessary policies.

Thus, understanding globalization based on facts and findings is indispensable for policy making, strategic decisions, and many other types of analysis. In this perspective, this chapter presents the tools currently available to measure and evaluate the globalization process as individual indicators and indexes.

The main individual indicators and the position of LAC countries according to these indexes are as follows:

- Trade: Through the 1980s and 1990s, LAC countries became significantly open to trade. The export of manufactured goods has been an important factor for most LAC countries. Caribbean exports, however, have moved increasingly away from manufactures and towards tourism and other services.
- Capital movements: The boom of the FDI in LAC countries in the '90s mainly reflects mergers and acquisitions of firms already established, with a lower degree of investment in new assets. The U.S. is the world's most significant investor.
- Migration: The emigration rate of high-skilled individuals is very important for some countries, especially those in Central America, the English-speaking Caribbean, and Haiti; even though in the majority of countries emigration rates were lower in 2000 than in 1990, with the exception of Mexico and a few other countries.

Additionally, we present two indexes that have been recently developed to provide a comprehensive tool of measurement of the globalization process: the Kearney Foreign Policy index and the Dreher index. These indexes have been used to assess different effects or impacts of globalization in such aspects as inequality, development, and growth. Scores provided from both indexes give the top positions mainly to European countries, the U.S., and Canada. Argentina is the leader of LAC countries, followed by Uruguay, Chile, Venezuela, Brazil, and Mexico. Most LAC countries show political and social components as main elements of the overall index.

It is interesting to note that during the current phase of globalization, the least globalized countries emerge as the best performers. Right now, both China and India are the fastest growing economies, but they are far behind in globalization rankings. This phenomenon holds a lesson for many other developing countries.

From this perspective, it is important to note that the issue for national governments to understand is the impact of globalization on social security programs. A national government can wait passively and respond to mounting social pressures against perceived economic processes. On the other hand, it can be proactive and: i) think about a class of social insurance programs that can generate the population's support; ii) reform programs to accelerate economic growth, such as well-targeted social safety nets to assist people who are displaced; and iii) provide education and vocational training, to make sure workers have the opportunity to acquire the right skills in dynamically changing economies.

3. Present Debates on Globalization

As it has been observed in previous paragraphs, the integration of the economies of the continent and in particular of the LAC countries has grown in an important form in the last years. Natural and pertinent questions for the social security systems are: which has been the effect of this greater opening in the well-being of the people? That is to say, have the predictions of the classic theory of the commerce been fulfilled—the basis on which reforms were justified—in the sense that greater growth, less poverty and less inequality would be observed in the developed countries? How is the population covered against risks after the reforms of the last decades?

Chapter III of the Report compiles the recent studies that try to give answers to these questions. The survey had to be limited due to the immense amount of studies on the subject. It was chosen to analyze the recent studies of economic orientation based on empirical evidence. Within this literature, the study deals with the one that analyzes the effect of the opening, mainly commercial and financial, on labor markets—in particular the analysis of the wage distribution, employment and informality—, on poverty, on the health of the population, on productivity, on growth and on labor standards. Also the changes in the programs of social protection registered recently in the ALC countries are briefly analyzed. From these two sets of analysis, hypotheses are set out on how the risks that the population faces are being aligned vis-a-vis the systems of social protection, which allows to glimpse the changes required in the public policies of social protection and in particular in social security programs. Finally, the Chapter summarizes the general opinions on globalization and the suggestions of necessary changes that four international organisms have expressed in diverse publications: the World Bank, the International Monetary Fund, the ECLAC and the World Commission on the Social Dimension of Globalización established by the ILO .

The main results can be summarized in following ten points:

1. Adjustment costs apply in terms of wages, and to a lesser extent, in employment in LDC; these costs can be very high in some countries. In general, with exceptions, the adjustment cost is borne by low-skill workers and those employed in industries facing new import competition from countries with even lower wages. Also, workers formerly employed by industries that enjoyed high rents before trade reform are affected. High-skilled workers and those employed in export-competing sectors benefit from trade exposure. The evidence is mixed on FDI's effect on wages and employment. An association between trade exposure and informality has not been found.

2. Findings on the labor market suggest that labor is not perfectly mobile across sectors, from contracting sectors to expanding ones. This fact implies limits of achieving gains from comparative advantage.

3. It has been found that public policies affect the outcome of globalization in labor markets and on the poor. This holds true for policies that allow people or firms to take advantage of globalization (for example, access to credits and technical assistance to farmers), or policies to attenuate the adverse effects faced by some groups (for example, poverty reduction programs).

4. Three main findings address poverty: i) Within a country, globalization generally lowers poverty and helps some groups of the population to better face financial crises; ii) Globalization creates losers in particular sectors, especially for individuals of low qualifications, but the negative effect on the income side may be attenuated, and may even be reversed, when lower prices, higher quality,

and more variety of products associated with openness are taken into account in the well being of the individuals; and iii) No consensus has been reached on the association between globalization and world poverty (and inequality).

5. The impact of globalization on health takes place through two channels: an indirect channel, via its impact on income and poverty; and a direct channel, via the transmission of health-related knowledge and technology. Evidence exists that this last channel has helped reduce infant mortality rates and improve life expectancy, for example.

6. Globalization has been associated with lower labor standards, specifically via outsourcing and off-shoring to countries with lower labor standards, and because of the more common tele-work. It is unclear how important in size these new corporate practices are, but labor, international agreements, and social security regulations have not been adapted to improve labor standards for this new reality. Finally, it should be recognized that despite implementation of global policies, labor standards will increase when workers demand them, when corporations adapt them voluntary and in response to consumers and public opinion; and when governments decide to enforce them and improve their administrative capabilities.

7. Financial crises, even though less common now, are very costly, especially to the poor, who have lower skills and no insurance.

8. Some evidence suggests that globalization is associated with productivity, but as of today it is not clear whether these productivity gains are translated into economic growth and welfare. Gains from globalization can be greater with macroeconomic stability, competitive environment and sound regulation.

9. Recent reforms in social security programs in LAC have had a goal of financial strengthening, but generally did not address the challenges of a dynamic labor market. When the impact of relatively sudden movements of trade or investment generates the risk of large losses for specific regions and social groups, the social protection system should react accordingly to avoid long-term adverse impacts on workers and social decay of cities and regions.

10. All international organizations claim credit for some changes in the globalization process. These changes are aimed at supporting poorer countries and people who have not benefited from globalization, or who bear the adjustment costs. In particular, developing countries need policies in the arena of social protection.

The Chapter finally emphasizes the necessity to make changes at local, regional and global levels, so that the benefits of globalization extend to all the groups of the population. In particular, it is mentioned that the countries and the institutions of social security, in their scope of action, are liable to take the lead in promoting reforms to the programs of social protection so that they cover the risks faced by the different groups of the population. Also programs directed towards the groups that face in greater measure the costs of the globalization must be implemented. Specifically, it is established that the extension of coverage to all social groups is necessary, specially pension and health programs. Also needed are new programs to cover the most frequent risks, for example, those of unemployment and poverty reduction; a redefinition of the programs to adapt them to the new reality of the labor markets, for example the reforms to the systems of pensions to incorporate specific components against the swings of international commercial and financial flows without affecting their financial viability; and a redefinition of the present mechanisms of operation of the programs of social protection to avoid leaks of coverage. For example, an effort is due to recognize in the regulations the new corporate practices of operations such as offshoring, outsourcing and tele-work.

4. Social Issues in Trade Negotiations

This chapter studies the policies of social protection that have been adopted by countries at the bloc and national levels, in relation to those issues in the context of trade accords.

Five commercial blocs operate within the Americas. Their emergence responds to the need to supplement trade liberalization mechanisms established under GATT, now WTO. The South Common Market (MERCOSUR) and the Caribbean Community (CAN) are classified by their integration levels as customs unions. The Caribbean Community (CARICOM) is the commercial bloc with the greatest integration level within the region; the Central American Integration System (SICA) has the objective to become a customs union, but is still classified as free trade area. The largest zone in area and economic value is covered by the Free Trade Agreement. It began with the United States and Canada, later included Mexico, then added Chile, and very recently brought in part of Central America, South America and the Caribbean. Outside the region, the European Union is seen as the most advanced example of integration. However, with regard to social security issues, the EU has rejected the possibility of integrating welfare state programs.

In social security matters, MERCOSUR has adopted the Multilateral Social Security Agreement of the Southern Common Market. This guarantees the preservation of acquired rights and continuity of affiliation in social security systems of member countries. In addition, it recognizes the rights of migrant workers and their beneficiaries to receive health and economic benefits under the principle of national treatment within the sub-region. The Andean Community signed the Andean Instrument of Social Security, which is similar to the one subscribed to by MERCOSUR. The Andean Instrument on Safety and Health at Work is also in effect; it establishes fundamental standards in the field of occupational health and safety. CARICOM has two regional agreements: the CARICOM Agreement on Social Security (CASS), and the Convention in the Organization of the East Caribbean States (OECS), which has greater coverage than the first agreement. MERCOSUR and the Andean Community have also entered into agreements on labor migration, and have created a common passport to facilitate free movement of people between member countries. NAFTA has not been linked to migratory or social security agreements.

On the other hand, countries in the region have signed bilateral international social security agreements (ISSTA), which allow workers who have divided their careers between two countries to maintain their social security coverage and eliminate dual social security taxation.

In relation to analysis of regional migration flows, one result is that most migrants are not covered by an ISSTA, except those originally from Canada and the United States. Migrants from these two countries are almost totally covered by an ISSTA, with higher coverage for Canadians. Nevertheless, diverse countries in the Americas have also entered into migratory agreements, different from ISSTA, that are signed between the corresponding governments, rather than between social security institutions.

At the multilateral level, the GATS only includes temporary movements of suppliers of services, and explicitly excludes permanent migration or entry to the labor market. Similarly, at the bilateral level, no free trade agreement in the Americas includes compromises in social security issues. This means that trade agreements deal with labor subjects only as sale of services, and do not consider social protection issues.

Finally, it is important to mention that labor topics (rights of workers) have never been included in multilateral negotiation rounds at the WTO. In addition, conflictive topics, such as market access and internal help (subsidies) gave place to the suspension of the 9th and current round. The failure of the Doha Round implies that the WTO might become only a complement to bilateral and regional trade agreements, with reduced power. Since the interruption of negotiations, the WTO's General Council has agreed to continue with the agenda of "Aid and Trade." However, the Council itself recognizes that the expectations of having a significant welfare impact after this program are modest.

5. Globalization and Protection against the Risk of Unemployment

Perhaps the main concern of families and social security institutions is the possibility of a significant increase in the number of people that lose their jobs. This circumstance, due to the effects of globalization, may lead to persistent unemployment.

In Latin America and the Caribbean, the implementation of remedies intended to protect people from job loss occurs in institutional and financial conditions that differ from those prevailing in developed countries. Currently, several institutions and special labor market programs provide job protection, such as severance payments, subsidized employment, tax credits on labor, training programs, and public works.

Unemployment insurance is the instrument used by governments and social security institutions to deal with lack of protection due to employment loss. This instrument, however, is used in only a few countries in the Continent. Unemployment insurance provides economic assistance to individuals and their families for the period they remain unemployed, usually conditioned on the individuals' continued job search. This instrument's functioning has attracted attention due to the incentives it provides to delay receipt of unemployment benefits and increase the time of job search. However, the high costs of monitoring the beneficiaries' behavior have also been pointed out.

Some experts argue that optimal unemployment insurance should be based on two pillars: solidarity and individual contributions through savings accounts. Several countries have opted for the use of individual accounts for unemployment. These are attractive because saving is encouraged and does not produce the distortions in individuals' employment behavior that have been observed in traditional unemployment insurance schemes. However, governments play an important role of intervention in the implementation of individual savings accounts, and the issue is likely to remain hotly debated.

Although unemployment insurance is not widely used in LACs, these countries have extensive regulation on employment loss protection. In some cases, payments associated with job loss are considerably high. This has been considered a factor of rigidity in labor markets, as it may have a negative impact on job creation.

In developing countries, institutions required to make the match between labor supply and demand have not yet been well developed. This means the design and implementation of active labor market policies, such as training courses, cannot guarantee protection against possibility of job loss. To take advantage of structural changes produced by globalization and encourage more efficient matching processes between employers and workers, adequate labor market policies are required.

The implementation of well-designed programs would provide support to unemployed workers by training them to acquire new skills. It would also increase the possibility of matching workers' expectations with market demand for labor. Reaching this goal requires broadening the current conception of unemployment insurance beyond its nature as a subsidy intended to attenuate deficits in a family's income.

Improving worker security leads to the challenge of designing specific programs to protect against the possibility of job loss. These programs would ideally contribute to keep unemployment levels moderate, reduce job mobility, and encourage worker productivity. This, in turn, requires action from a system which is based on high unemployment compensation payments, but is able offer protection from risks associated with the negative effects of globalization.

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