


# Book Review: Social Insurance, Informality and Labor Markets: How to Protect Workers While Creating Good Jobs

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***Social Insurance, Informality and Labor Markets*** studies social protection programs in Latin America and explores one of the most pressing issues of the region's attempts to provide a safety net to its citizens: whether social programs discourages participation in the formal sector. **Chris McLachlan** writes that the evidence outlined in this book will have important implications for policy development globally.

**Social Insurance, Informality and Labor Markets: How to Protect Workers While Creating Good Jobs.** Markus Frolich, David Kaplan, Carmen Pagés, Jamele Rigolini, and David Robalino, editors. Oxford University Press. December 2014.

Given the British public recently elected a Conservative government on the back of £12bn cuts from the welfare budget, questions around how this will be costed have grasped our attention since its announcement. Plans to supposedly ring-fence the NHS budget and certain pensioner benefits means we are left guessing as to what sort of configuration Iain Duncan-Smith and his Department for Work and Pensions will devise to meet the £12bn pledge.

The debates around such configurations of social protection are both global and complex. *Social Insurance, Informality, and Labour Markets: How to Protect Workers While Creating Good Jobs* is a volume edited by authors from the Institute for the Study of Labour, Inter-American Development Bank and World Bank that evaluates differing approaches to providing social protection to workers in Latin America.

The book follows academic conventions in terms of style and methodology, and is a culmination of empirical work on different social programs across the region. Social protection involves social insurance, which centres on unemployment benefits, old-age, disability, pensions and healthcare, and it also involves social assistance for workers, which zeroes in on reducing and ameliorating poverty. In particular, the book focuses on how social programs can distort or reduce incentives to 'formal work', thus increasing the 'informal' sector.

The first part of the book assesses the effects of social insurance on labour markets. Since the 1930s onwards Latin America has been characterised by a Bismarckian vision of social security whereby access to social protection is restricted to individuals who contribute to the system. Social security was based on workers contributing to this system through formal work. Social protection, then, had to be earned. This causes a problem for Latin America, as Bosch et al (chapter 4) note that on average one out of two workers in the region is informal, meaning that contributions are funded by those working in the formal sector.

The book essentially proceeds as a critique of this Bismarckian model. Rightfully so, as contrasted with the successes of the Beveridge report in Britain in 1942 that founded the welfare state and stated that specific benefits, such as health and pensions, should be accessible to all. Essentially, the book suggests that the coverage of social protection has failed large swathes of the Latin American population due to the prominence of informal work in the region. It is perhaps the alignment between social protection and formal employment that has proved most problematic in our ill-considered contemporary discourse, because as soon as employment is tied with protection, narratives around 'deserving' and 'undeserving' begin to surface. Thus, one of the main goals of the book is to analyse the extent to which protection can be – and in some cases, is – extended to the non-contributory informal sector.



Public health in Mexico. Photo Credit: Instituto de la Visión Montemorelos. CC BY-NC-SA

In chapter 4, one notable empirical study written by Mariano Bosch, M. Belén Cobacho and Carmen Pagés reviews the implementation of Mexico's 'Seguro Popular' (SP) in 2003: a social program designed to provide affordable health care to 50 million uninsured people in Mexico, essentially targeting universal health coverage. What is most striking about SP, however, is that although the programme reduced the financial burden on health expenditure whilst increasing resources in the sector, little evidence of improved health outcomes for individuals exists. Indeed, the authors state that it may still be too early for results to materialise, but this would prove important work nonetheless.

Additionally, an unintended consequence of SP is that it makes informal work more attractive, as informal workers in Mexico now have access to health care regardless of the contributions made through their employment status. Although the authors discuss why such an outcome is worrisome, one wonders if the goal of universal health care should be to ensure the well-being of individuals or, rather, to maintain productive capacity in the formal economy.

More could be made of the fact that were healthcare to be 'unbundled' from other social protection – and thus depoliticised – the loss of other benefits as a result of informal work would not be as much of a problem. A point argued by the authors throughout the book is that social insurance might best serve individuals if they were to select (a 'menu') a combination of protection that is of maximum value to them, rather than bundling them together in one package. It would appear that in Mexico, health care would top such a menu.

The book ends with chapters dedicated to ways in which social insurance programs can be financed. It is here where the book's message becomes clearest: it is both more effective and financially viable to extend social protection to sections of the non-contributory informal population in Latin America. Of course, there are variations in each nation's political and economic context. Nonetheless, it is possible.

One of the key changes that could be made, for example, is financing social protection through value added tax (VAT) rather than payroll taxes, with the authors in the final chapters assessing the different ways this could be achieved. Protecting people, whether formal and informal, should arguably be the *raison d'être* of any welfare system. Although implied, the book could do more to make the normative case for such changes.

It is not until page 376, however, that the problematic nature of the book's title comes into focus. What are 'good jobs'? This notion is only explored in relation to 'equity and efficiency' considerations where it is deemed unfair for formal workers to bear a disproportionate burden in financing of public goods. Therefore, it seems that the authors consider good jobs to be formal jobs. Indeed, this is important so that individuals have access to social protection, but one is left wondering how good jobs might be understood in a more qualitative sense.

The evidence outlined in this book will have important implications for policy development globally. The authors are to be commended for bringing these alternative ideas to the fore in a sophisticated, technical fashion. Most importantly, though – with careful consideration and implementation – the lives of millions of vulnerable, marginalised individuals in Latin America may benefit from a social protection system that does not discriminate on the basis of the perceived formality of their labour.

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**Chris McLachlan** is a PhD student at University of Leeds in the Centre for Employment Relations Innovation and Change. His doctoral research explores restructuring processes in the steel industry, particularly focusing on how organisations ameliorate the negative impacts of job loss. He can be followed on Twitter @c\_mclachlan89

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