

Social security in flexible labour markets

The modified flexicurity triangle for Perú's informal sector



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Abstract

In the current debate about flexible labour markets the consensus is that numerical and functional flexibility are necessary for international competitiveness. New market structures and production patterns call for quantitative labour adjustability as a response to external shocks in open economies. This is especially true for economies trading in innovative or technological products that need quick adoption to changing demand structures. However, the increase in social risk in the wake of such flexibility makes the adaptation of institutional frameworks indispensable. The Danish model of flexicurity combines the alleged paradox of labour market flexibility and social security. Regarding substantial differences between Nordic- and Latin American

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economies, especially the size of the informal sector, it is questionable to what extent this model is transferable to the region. This essay proposes a modified flexicurity triangle for the informal sector. The model constitutes a transitional solution, increasing social security with the aim of a gradual long-term formalisation. In order to test the feasibility of an implementation, the willingness of informal sector workers to cooperate is tested by a practical investigation in Perú. In accordance with the results of this study a specific design for universal health insurance for the Peruvian informal sector is proposed.

Abreviations

| | |
|-------|---|
| ALMP | Active labour market policies |
| CEPAL | Comisión Económica para América Latina y el Caribe |
| ECLAC | Economic Commission for Latin America and the Caribbean |
| EPL | Employment protection legislation |
| IIEL | Instituto Internacional de Estudios Laborales |
| ILO | International Labour Organisation |
| IS | Informal sector |
| IMF | International Monetary Fund |
| HDI | Human development index |
| LA | Latin America |
| LM | Labour market |
| LMF | Labour market flexibility |
| LMP | Labour market policies |
| MINSA | Ministerio de Salud |
| NGO | Non governmental organisation |
| OECD | Organisation for Economic Co-operation and Development |
| SIS | Seguro Integral de Salud |
| SP | Social protection |
| OIT | Organización Internacional del Trabajo |
| OPS | Organización Panamericana de la Salud |
| OMS | Organización Mundial de la Salud |

Introduction

In the wake of globalised markets loud calls for flexibilisation policies for the labour market can be heard especially among neo-liberal economists. Allegedly rising volatility of open economies to external shocks requires the adjustment of the labour force in enterprises. It is supposed that flexible labour markets lead to international competitiveness of enterprises.

The first research question is thus the validity of this assumption. It will be scrutinized if labour market flexibility is a necessary condition for competitiveness and if this is the case, in which areas of the labour market regulations must be eased. Secondly, the role of social risks in flexible labour markets will be assessed. It will be concluded that due to resulting flexibilisation policies, increased employment volatility must be compensated for by tightly knit nets of social security. The difficult combination of social protection and flexibility on the labour market will then be challenged. For this purpose, the Danish flexicurity triangle is introduced as a model to prove that there does not have to be a trade-off between flexible labour markets and social protection.

Since the area of interest is Latin America, the transferability of Nordic welfare systems to Latin America will be studied. More concretely, the ambitious attempt of applying flexicurity to Perú will be undertaken. For this purpose the Peruvian labour market will be revised, underlining the significant size of its informal sector. Due to missing practicability of state regulations in this sector, the authors consider it an extremely flexible labour market and propose it for the application of flexicurity. However, the one-to-one adoption of the triangle is not adequate. Thus, the second question of research emerges: *How does the flexicurity triangle have to be modified in order to be applicable to the informal sector?* Keys to answer this question are the three pillars of the triangle. A modified flexicurity triangle will be constructed, and its potential for real implementation tested: One pillar of the triangle will be further elaborated with assistance of a practical investigation on universal health insurance in Perú. The last question of research

is *how to design health insurance for informal sector workers in Perú to make coverage universal*.

1. Flexibility for competitiveness in globalised labour markets?

LMF can either mean a quantitative variation of workers (*numerical flexibility*), of working time or of labour costs² (*labour cost flexibility*), or the employees' flexible behaviour within the production process (*functional flexibility*) (Lagos 1994; Meulders & Wilkin 1991; IIEL 1993). Additionally, some authors include worker mobility³ in the concept (IIEL 1993; for further information see HM Treasury 2003 and in relation to the consequences of globalisation ILO 2005).

The debate on labour market flexibility is extensive. The consensus usually is that numerical and functional flexibility are necessary for international competitiveness. The following findings of the literature help us to understand under what circumstances LM flexibility contributes to an increase in a company's international competitiveness. The dependence of the world economy on international trade and the increased vulnerability to external shocks requires adjustments on the labour market. The influence of constantly changing technology will be of major significance, requiring *numerical-* and *functional-* LM flexibility as comparative advantage. The effectiveness of *wage cost* flexibilisation policies remains in question (Rodgers 2006; Jilberto and Riethof 2002; ILO 2005; Di Tella and MacCulloch 2005; Cuñat and Melitz 2006; Saint-Paul 1997; Okun 1980; Bewley 1995; Agell 1999). The overall 'aim' of LMF policies, as Kestens

2 This can be wage or non-wage labour costs, with- or without relation to productivity.

3 Meaning geographical mobility or flexibility concerning the working space.

calls it, will indeed be reached: “Flexibilisation policies aim ... at improving the capacity of the labour market to adapt to its macro-economic environment” (Kestens 1991, p. 21). However, one should not buy a car without having tested its resistance in a car crash.

2. The social roller coaster of labour market flexibility

Referring to the modification in production structures, it seems that LMs, as many other parts of the world economy, are “... caught in a transition crisis of globalisation” like as (Bandt 1991, p.59). New patterns do not fit into the modified LM framework any longer. Kestens (1991, p. 27) compares this situation with the end of the Bretton Woods exchange rate system in the sixties, saying that the arrangement no longer fit into the modified monetary and economic context of those times. We suppose the same for labour markets. Rigid LMs no longer fit into modern production processes and globalised competitiveness requirements. Thus, we do propose a certain degree of *numerical*- and *functional* flexibility.

However, it cannot be ignored, that flexible adjustments of the labour force (*numerical* flexibility) puts social security of the workers at risk. Hence, the most difficult task for politicians and economists is to determine, how much liberalisation is necessary and to what extent state intervention for risk compensation is required. Accepting the necessity of flexibility, we conclude that state intervention *will* be necessary especially in flexible LMs, to compensate workers for the increased social risk. The following Nordic experience will be examined in the search to combine flexible LMs and social protection.

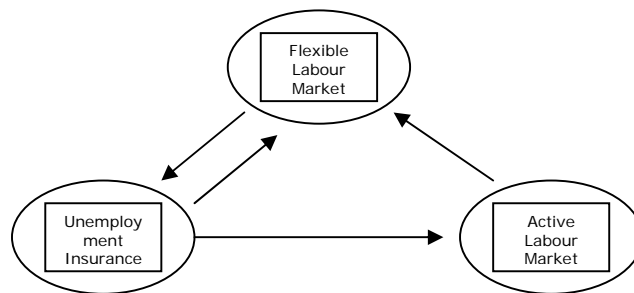
3. Combining flexibility with social security

Denmark achieved the paradoxical combination of low employment protection legislation with well developed social security services (Auer and Cazes 2002). This gives room for a high degree of flexibility and adaptation in the labour

market (relatively low tenures) without putting the social security of workers at risk. The keys to this achievement are high coverage of unemployment insurance and active labour market policies (LMP) for reintegration in the labour market. The Danish model exemplifies that there does not necessarily have to be a trade-off between the two characteristics of LMs.

To find out how this model will have to be modified to become transferable to Latin America, a closer look will be made at its components. The famous figure one of three components depicts a relatively secure flexibility on the LM (Auer & Cazes 2003, p. 55).

Figure I: The flexicurity triangle



Source: Arbejdsministeriet 1999.

Low EPL allows employers to hire and fire employees on short notice, which further makes the LM flexible. A tight social security net, typical for Nordic welfare states, provides social protection through generous unemployment compensation financed by general taxation. The third component is the key to avoiding long-term unemployment problems. Active labour market policies (ALMP) help push the unemployed back into the LM and enhance their skills through training programmes (Madsen 2002, p. 54).

4. Transferability to Latin America: The Case of Perú

The extent of application of this model to LA will now be examined. Taking a quick look at LA's economies compared to Europe, it is hard to imagine that a European model could be transferred to this region. Carrol and Palme (2006) tested the transferability of the European Nordic welfare system to LA and achieved mixed results, which calls for caution in adopting a Nordic model to LAn economies. However, taking into consideration distinct features of LAn societies some lessons can be learned. To find out concretely which components are distinct, LA's labour markets will be examined in greater detail.

We decided on Perú as representative for Latin American LMs because the country seems to be a reasonable sample of a medium developed LAn economy. According to the Human Development Report (UNDP 2006), Perú belongs to a group of countries with 'medium human development' (Human Development Index (HDI) between 0,500 and 0,799), exhibiting an HDI of 0,767⁴. Mesa-Lago (2007, p. 4) categorised Perú as intermediate in a group of classifications based on the development of the countries' social security systems and demographic indicators.

Figure two assesses the degree of Peruvian LMF almost two decades after labour market reforms had been brought into being (for more information see Chacaltana and García 2004), comparing it to Denmark. World Bank data (2007) shows flexibility indices, where higher values represent more rigid LM regulations. In almost all categories Perú still exhibits high values for rigidity except for non-wage labour costs. Firing costs are also intermediate. The table proves the assumed flexibility of the Danish LM, with only the 'rigidity of hours' index being intermediate in international comparison. Compared to LA in general

4 For details on methods of measurement please see the United Nations Human Development Report 2006

Perú's LM is rigid, again with exception of non-wage labour costs which come close to the regional average. Special attention should be drawn to the 'difficulty of hiring'- and the 'difficulty of firing' indice that represent numerical flexibility. In Denmark both are low, with the latter being higher than the former. However, a substantial difference between Perú and Denmark can still be noticed and it must be emphasised that Perú has the highest 'difficulty of firing' index compared to all regions in the world (World Bank 2007).

Figure II: Labour market rigidities in comparison

| Region or Economy | Difficulty of Hiring Index | Rigidity of Hours Index | Difficulty of Firing Index | Rigidity of Employment Index | Nonwage labour cost (% of salary) | Firing costs (weeks of wages) |
|-------------------|----------------------------|-------------------------|----------------------------|------------------------------|-----------------------------------|-------------------------------|
| LA & Caribbean | 34 | 34.8 | 26.5 | 31.7 | 12.5 | 59 |
| Denmark | 0 | 40 | 10 | 17 | 0.7 | 10 |
| Perú | 44 | 60 | 80 | 61 | 9.8 | 52 |

Source: World Bank 2007.

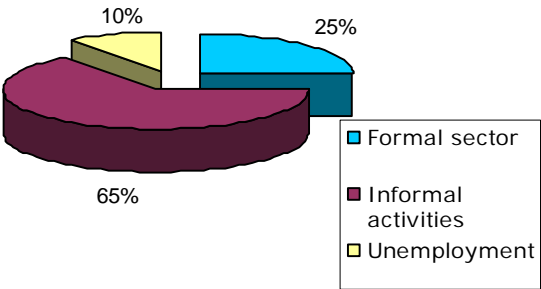
Relatively low non-wage labour costs in Denmark deserve special attention. As observed in the Flexicurity model, they do not emerge from a lack of social protection in the country. In the Danish case it is *the State* that provides a tightly knit social security net which is typical for a traditional Nordic welfare state (Madsen 2002, p. 51). In spite of the reforms there is no comparison possible between the Danish and the Peruvian LMF. Unfortunately the index does not include wage cost flexibility, which was the principle target of the Peruvian reforms (Chacaltana and García 2004). Non-wage labour costs are still significantly higher than the Danish- and other regional values. Overall, Perú exhibits labour market rigidity in comparison to the rest of LA.

With respect to the transferability of the flexicurity triangle it can be concluded that the Peruvian LM is far from being flexible (first pillar of the triangle). The second pillar of the triangle, unemployment insurance, is virtually non-existent in Perú. As for the third pillar, active labour market policies, such policies were implemented in the 90s but are extremely hard to finance. Hence, a one-to-one implementation of the flexicurity triangle will definitely not be feasible. However, we still have left out a huge part of LAn labour markets which will be studied in the following part: the informal sector.

5. The dualistic labour market

Informal employment is a common phenomenon in Perú: only 25% of the labour force had access to formal employment in 2004 (García 2004, p. 82). There was a 10% rate of open unemployment and the remaining 65% worked in low productivity jobs under unstable conditions, mostly as self-employed farm workers or in micro enterprises without contracts. Figure three visualises this significant division of a 'dualistic' labour market in Perú.

Figure III: Perú's 'dualistic' labour market



Source: Own elaboration with data based on García 2004.

Our focus will not be the formalising of the informal sector (IS) since this is a large process, treated in more extensive works. We will look at the huge IS size

from a different angle: It is proposed that informal sectors are markets on which real market forces function and supposedly create market equilibrium (Portes & Haller 2004, p. 15), an argument that is similar to the one in favour of LMF. Indeed, ISs exhibit very similar features to the ones of flexible labour markets which supposedly increase competitiveness. Rodgers (2006, p. 7) proposes that the IS is the most flexible of all LMs. We confirm this hypothesis, consulting the given definitions of *numerical-*, *functional-*, and *labour cost* flexibility. In all three categories a high degree of flexibility can be observed in the IS.

However, increasing competitiveness is not enough to achieve sustainable development. Moreover, we do not believe that the neoclassical trickle down effect will compensate for the lack of social protection of IS workers. Thus, the emphasis of the following will be the reality of IS workers, in line with the conviction that state intervention is necessary for the factor of labour, which is distinct from other markets. The lack of social security in ISs is not acceptable, not even as a state of transition to increase the competitiveness of enterprises.

In the following the focus will be on one important part of social security, on health insurance. Missing health protection risks not only health but also the economic survival of families working in the IS (Wisniwski 2004, p. 20). Escobar (2000, p. 256) suggests health problems as one of the causes of family enterprise bankruptcies. Such micro enterprises are a large part of the economies of developing countries, which are thus made more vulnerable.

In the case of Perú, the Constitution (Constitución Política del Perú 1993, articles 7 and 9) does not even officially recognize health as one of the principle human rights. This is seen as the main obstacle for granting health services for the whole population (Vásquez 2007, p. 22). Demand for universal health insurance does exist: 77.7% reported that they needed medical attention because of sickness or accidents in 2001 (La Torre 2003, p. 36). In 2000, health services

were financed as follows: 36.9% by private homes, 33.5% by employees of the formal sector and 25% by the State (OPS/OMS 2002, p. 10). This relatively low percentage of state financing corresponds to an average of 1.2% of the country's GDP spent on health services (years 2000-2005)⁵, varying only slightly through the years (CEPALSTAT 2007). In this regard, Perú is one of the countries with the least amount of State support in Latin America.

Mesa-Lago (2007, p. 12) exhibits data concerning Perú's coverage of health services: 30% of the population has access to 'public services' (he notes that the effectiveness of such services is not automatically given whatsoever), 26% are covered by public social insurance and 12% pay for private insurance in 2006. Adding to the percentages and including the category 'others', he calculates a total number of 71% of Peruvians with secured access to health services independent from their economic situation (Mesa-Lago 2007, p. 8). Moreover, he finds that health insurance in Perú is not mandatory for independent workers; same as in all LAn countries except for Brasil, Colombia and Cuba.

Other sources (OPS/OMS 2002, p. 5) calculate from different angles and find that 75% of Peruvians do not have health insurance. Combining this finding with the data above, we find out that out of the 75% without health insurance, 30% use public services of doubtful quality and approximately 30- 40% cover their

⁵ Even in comparison to other Latin American countries, this is a small part of GDP spent on health services: Argentina 4.3%, México 3%, Bolivia 1.4%, Venezuela 1.7%, Chile 2.8%, for the year 2004 (CEPALSTAT 2007). In OEDC countries it is averagely above 10% (WHO 2000).

medical costs by paying 'out of their own pocket' ⁶. This estimation goes along with data from CEPAL/ INEI's Encuesta Nacional de Hogares 2004⁷ and with CISS's calculation: 70.5% of interviewees older than 18 years do not have health insurance (BADEHOG 2007) and 38% of total health expenditure was covered by private pockets in 2004 (CISS 2004, p. 166). The need for insurance becomes obvious, realising that in the same survey only 43.2% of the interviewed had not suffered any conditions that would have required medical treatment in the last four weeks of the interview (including pregnancy, accident, chronic illnesses etc.).

6. The modified flexicurity for informal sectors

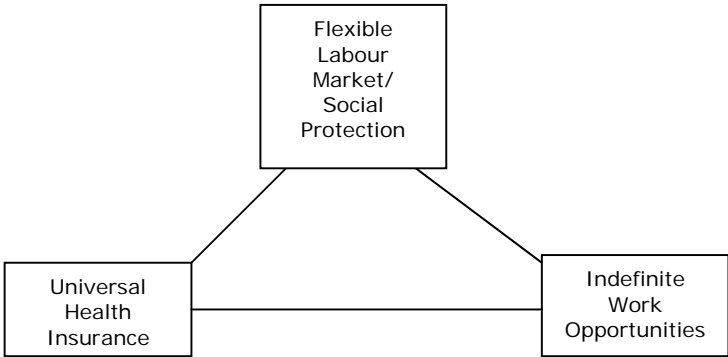
Before searching for a way to change the above described conditions with respect to health insurance coverage in Perú, we will sum up the relationship between labour market flexibility, informal sectors and social security to close the circle of theoretical investigation. It was found that it is impossible to apply the Danish flexicurity triangle to Latin America, i.e. to Perú. However, the coin could be turned around, looking at it from the perspective of the IS. Taking advantage of its flexibility, requires an increase in SP through State intervention. Instead of flexibilisation attempts in the formal LM, or formalisation attempts in the IS, the focus will be on the benefit of flexibility in the IS, seeking an increase in its social security through health insurance. Certainly, this viewpoint is transitional, up to a point where formalisation is feasible.

⁶ Comparisons should be treated carefully since percentages may have varied slightly throughout the years (data was given for the time period of 2002 to 2006).

⁷ Cooperative, national household survey between INEI and CEPAL. Sample 84,397 persons (total population 27,687,842).

In accordance with our findings, the IS complies with one pillar of the original triangle: the LM is extremely flexible. For the second pillar, indefinite work opportunities in the IS can be regarded as a (second best!) substitute for unemployment insurance. This can be easily misunderstood: We do not agree with the absence of state-subsidised unemployment insurance. However, since the public budget is not sufficient to cover the entire population even with access to *health* services as yet, we will settle for this 'second best unemployment insurance'. The second pillar thus would be the opportunity of the working age population to enter the informal LM at any time (entrance barriers to this sector are usually very low), earning at least enough money for survival. Universal health insurance, as third pillar of the modified flexicurity triangle, would improve welfare of workers. Connecting the new pillars, flexicurity is restructured with the following components exhibited in figure four.

Figure IV: Flexicurity for informal sectors



Source: Own elaboration.

This triangle is a **transitional** solution for increasing social security in informal sectors, without losing the advantage of flexibility. We call it **transitional** because the existence of informal sectors is certainly not the optimal long-term solution for an economy. However, this model will reduce the social risk of IS workers.

7. Social security for Perú's most flexible labour market

In order to implement universal health service coverage to meet one of the basic needs of human beings, the disposability of IS workers in Perú to cooperate with the government for the establishment of universal health insurance will be examined. Current reforms in the public health sector show the willingness from the government to improve in this field. The implementation of a voluntary insurance plan at very low costs for independent workers (within the programme Seguro Integral de Salud (SIS)) is currently being piloted throughout the country by the health ministry 'MINSA' (Ministerio de Salud). However, we asked ourselves if this model is compatible with very special features of the informal sector. To find out more about this sector, we thought it necessary to asked the IS workers themselves.

8. Practical investigation: Universal health insurance

The study aims to find out how health insurance for IS workers has to be designed and implemented in order to achieve universal coverage. For this purpose a questionnaire was elaborated and interviews were carried out⁸. Since the programme had not been fully implemented yet at the point of the interviews,

the questions were not focused on the government programme. The main questions to be answered through the practical investigation are

a) why Peruvian IS workers do not have health insurance,

⁸ The practical investigation is a *field research* using *qualitative data*. We decided on this method because specific personal needs (in this case the needs of IS workers with respect to health insurance) can best be identified in personal conversations in an ambience of confidence (Neuman 1991, p. 366). For this purpose we carried out individual, oral, face-to-face interviews. The Interviews are 'guided interviews' (not standardized) with mainly open questions, adapting to the specific interview situation. The wording of the questionnaire is simple due to the low level of education of average IS workers.

- b) what they usually do in cases of illness,
- c) under what circumstances they would agree to having health insurance,
- d) how much they could financially contribute to such insurance,
- e) if legitimate obligation to health insurance could increase coverage and
- e) what else would be important for them with respect to this matter.

The sample consists of 14 IS workers without health insurance, six women and eight men between twenty and sixty years old. Even though the sample is quite small, we do not expect very different answers if more interviews are undertaken. The voice among the *ambulantes* seemed common and a lot of times they referred to 'we' as the community of IS workers. Thus, since this is not a quantitative approach we decided that 14 interviews were sufficient to give an impression on the needs, expectations and ideas the workers had.

9. Interview findings

With respect to question a), the main reason why Peruvian IS workers do not have health insurance, there was one clear-cut answer. All of the interviewees responded that this was due to financial problems. More than half of them also mentioned great variations of income, which aggravated the monthly payment for health insurance. Family income depends on daily sales that increase or decrease with weather conditions, social events in town etc. An estimation of monthly income or expenditures was almost impossible for most of the interviewed participants.

There have been various answers to what *ambulantes* do in case of illness. Among others, they cure themselves with herbal medicines, try to prevent illness through a healthy lifestyle or they simply abide without complaining. If there is money available medical bills are paid out of private pockets. Generally, the interviewee estimated the risk of illness and accidents as rather high, recognizing the necessity of health insurance.

To find out more about the conditions under which an implementation of cooperative health insurance (government and IS workers) would be possible, a variety of questions were asked. All except one⁹ confirmed that they definitely would participate in a cooperative insurance programme in which the government paid half of the total costs. The concept of assistance from the government was so unfamiliar to them that they responded to the proposal with incredibility and surprise. At this point a slight sense of distrust emerged for the first time and doubts about trusting a state organised insurance system were mentioned in several cases. Some workers feared that their monthly payments would not be used for health treatment at all.

However, all interviewees shared the opinion that paperwork, necessary for insurance, would not be a problem, organising it with the monthly payments for gas and electricity at the Banco Nacional. Finally, they acknowledged the benefits of such a programme and expressed willingness to accept the offer from the government. We asked this question assuming that bureaucracy was an obstacle to universal coverage, having formerly observed complaining citizens in (European) state offices. The interviewed Peruvians however appreciated governmental assistance, were willing to cooperate, to complete paperwork and to visit public authorities.

For specification, and since everybody was very determined to get health insurance if the state paid a part of it, we asked about the possible monthly rate of contribution (question d)). With one exception the budget lay between 15 and 50 soles (about 3.50- 11.70 Euro), whereas the majority estimated being able to contribute about 20 soles (4.70 Euro). Five persons emphasised the importance of coverage for the whole family and were disposed to pay substantially more for such insurance. In general the workers hesitated to appoint a fixed amount of

⁹ The person that disagreed with government cooperation (intervention) did so due to ideological reasons. He suggested that government intervention in social security led to a moral hazard and preferred private systems of insurance. At the time of the interview he had no insurance at all.

contribution, referring to the instability of their income as a serious problem, which made a regular and equal monthly contribution almost impossible.

Answers concerning the legitimate obligation to health insurance (point e)) were manifold. At first thought, workers supposed that one had to obey the law. After a moment, they added that this would certainly only be possible if the amount of contribution was payable. Reminding them that being a part of the IS was a violation to the law and that the purpose of my interview was not the enforcement of the state law, some workers (six out of twelve) changed their mind. They then decided that there was no difference whether insurance was mandatory or not. The bottom line was that the key incentive for having insurance was governmental assistance instead of its legitimacy. In conclusion, with a payable contribution rate, the disposition of the workers to participate is explicit, while in some cases a legitimate obligation could increase participation even further.

An important point that trickled through in various answers was a great degree of distrust towards the government. Interviewees doubt the credibility of any state-organised programme and are extremely sceptical about leaving their money in the hands of the government. According to some of the interviewees, this is due to a long history of corruption and governmental robbery, especially during the dictatorship of Fujimori. One proposal was to implement the suggested insurance but with the guidance of a non-governmental organisation (NGO) or international organisation such as the United Nations. Proposing this to a second person during an interview, the idea was confirmed as being helpful and likely to increase participation in such a programme.

10 Policy recommendations

As a condition for the successful implementation of the insurance model we recommend a substantial political change. Since the constitution does not recognize health as fundamental right, health services are legally not

demandable by the population. We thus go along with the recommendation made by Enrique Vásquez¹⁰ at the workshop ‘Taller sobre garantías explícitas en la implementación de los derechos económicos, sociales y culturales en América Latina y el Caribe’¹¹, organized by the UN/ ECLAC in Santiago de Chile on April fourth 2007: “La recomendación en este sentido es mejorar la Constitución Política donde el Estado Peruano ratifique ante los países de Latinoamérica su interés por reconocer el derecho fundamental de la persona a vivir saludablemente”.¹² Such constitutional change will be the basis for universal coverage.

The most important insight that we achieved during the interviews is that cooperation with IS workers in establishing health insurance *is* possible. The interviewed workers were willing to contribute financially and fulfil paperwork requirements. However, economic contributions should be facilitated by implementing flexible rates, considering the instability of incomes. The pilot SIS programme calculates the same amount of contributions that were considered payable by the *ambulantes*. According to an interview with SIS Chief Julio Espinoza in March 2007, contribution rates for SIS insurance are fixed at ten soles for persons earning less than 700 soles a month, and 20 soles a month for the ones that earn up to 1000 soles (PRAES 2007, p. 11). We approve the Ministry’s method of means tested contributions. However, it does not address the problem of income instability. Our proposal is to leave space for adjusting contributions each month, summing up the amounts every half year.

10 Chief investigator on health issues at Centro de Investigación de la Universidad del Pacífico Perú.

11 Own translation: Workshop on explicit guarantees in the implementation of economic, social and cultural rights in Latin America and the Caribbean.

12 Own translation: “The recommendation in this sense is to improve the political Constitution in which the Peruvian State should ratify, in the presence of Latin-American countries, its interest in recognizing the fundamental right of a person to live healthy”.

This way the possibility of losing insurance, e.g. caused by a month of low sales, is minimized. It will be easier to achieve the payment throughout the half-year than to keep up with the pressure of contributing the same amount every single month. Certainly, this method will not take away the worker's responsibility to contribute and this is not its purpose. Rather, it leaves space for flexibility, adjusting the payments in accordance to income. It will be important to keep the workers informed regularly about their 'account' of contributions.

Since the state's contribution to social security seemed to be a great incentive for IS workers to participate, we propose publication of state subsidisation. Even though it is not promoted as such, SIS *is* subsidised by the government and the population should be aware of that. Clear indications, including how much the state contributes for each worker's insurance would motivate the population to keep up with their payments and maintain their insurance coverage. Vásquez (2007, p. 43) identifies the population's lack of awareness of government programmes in general as the principle problem to achieving universal coverage once public economic resources are liberated. Our recommendation therefore is to increase public awareness through governmental marketing campaigns. The best health insurance system will not be successful if nobody uses it. The spread of information will have the most impact through radio and television promotions since 83.7% of Peruvian households own a radio and 69% own television (OSILAC 2007). Utilisation of the internet will not be effective as of yet. Only 4.7% had access in their houses while 11.61% of all Peruvians were internet users in 2004 (BADEINSO 2007). This still does not mean that they searched for health information on the net.

Ultimately, we approve the suggestion of one of the workers to include an NGO or an international organisation in the insurance programme. If this increases the worker's trust and therefore the participation rate, a three-fold cooperation will be beneficial. In addition, international institutions can share their experiences from other countries.

Conclusion

It has been confirmed that flexible LMs are globally more competitive, applying modern production patterns instead of traditional Fordist ones. This is especially true for economies trading in innovative or technological products that need quick adoption to changing demand structures. However, *functional-* and *numerical* flexibility are more relevant than *labour cost* flexibility in this context. While the former does not risk social security of workers, *numerical* flexibility provokes the substantial risk of losing employment and thus, in some cases health insurance or even economic existence. To achieve sustainable socio-economic development workers have to be compensated for this extra burden through state intervention.

The Danish flexicurity triangle is an option to combine flexibility in the LM with SP. However, a one-to one adoption of the model to Perú is not possible due to substantial differences between the two economies. Perú's large IS, as most obvious difference, presents a highly flexible LM that serves as a substitute for unemployment insurance. This is a common phenomenon in developing countries. With the application of the modified flexicurity triangle in the IS, the gap between formal- and informal sectors is expected to decline. Overall welfare will increase through an aumentation of health insurance coverage, which will allow further economic development and therefore long term formalisation of the IS. Rather than through direct formalisation attempts and legal forces, this should happen through increased trust of IS workers in governmental institutions triggered by the provision of SP.

Generally, the from employment decoupled financing of SP will allow for flexible LMs, adjusting to the needs of global competition in trade, without risking social security of workers. This is a starting point to make globalisation less risky and more equal.

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