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Equality and Income Security in Market Economies: What's Wrong with Insurance?

Louise Haagh

Abstract

This article critically assesses the marketization of income security, and identifies links between equality, self-reliance and welfare reform. Marketization in emergent economies is distinguished by a strong separation between the use of insurance for the mainstream economy and relief for the poor. The impact of this model on the shaping of working lives and on market rigidity is discussed through a review of implications in the areas of subsistence, integrity interests and employment transitions. The broad faith in insurance solutions is argued to derive from a highly abstract approach to welfare reform and to result in a lack of attention to uneven and unstable markets, and to self-government as a motive to work. Evidence of this emerges from a comparison of insurance in its more ideal form (in Chile) with modified models (Brazil and Korea). In the last two cases a developmental orientation has aided in the provision of broad-based security. Other factors that appear to enhance the importance of direct assistance are also discussed, including aspects of state administration and labour services that limit work opportunity and individual autonomy in uneven economies. The segregated dual approach to income security is argued to be broadly deficient, but not because insurance is inherently wrong. Countries as diverse as Barbados and Denmark show that more cohesive economies are a better foundation for integrating insurance with general welfare and for income security and individual enterprise broadly conceived.

Keywords

Equality; Income security; Marketization; Unemployment insurance

In 1980, at the zenith of the revival of pure self-reliance as an economic ideal, one of its chief proponents yet saw the need to secure its foundations:

> The negative income tax would allow for fluctuating income, as in our examples, but that is not its main purpose. Its main purpose is rather to provide a straightforward means of assuring every family a minimum amount, while at the same time avoiding a massive bureaucracy, preserving

Address for correspondence: *Louise Haagh, Department of Politics, University of York, Heslington, York, Y10 5DD. Email: lh11@york.ac.uk*

> a considerable measure of individual responsibility, and retaining an incentive for individuals to work and earn enough to pay taxes instead of receiving a subsidy. (Friedman 1980: 121)

Here Friedman implicitly makes the link between basic security and individual enterprise, but more than that perceives an inclusive social contract, a form of common membership of the economic realm, through a universal pooling of risk and reward, as its essential structure.

Introduction

Unemployment insurance has emerged as a mainstream source of income support in developing countries. A strong interest in anti-poverty schemes in recent years has concealed the way insurance has been promoted by states. Insurance has subsequently gained in the esteem of development funders. Caution, however, needs to be exercised in the use of unemployment insurance (UI) as a protection device. This article critically examines its use as a stand-alone scheme in highly insecure and uneven economies. Labour market developments may be considered to have begged a renewed examination of how core aspects of income protection relate to each other, including income security, smooth work transitions, and integrity interests. Of particular importance is the way in which a rise in work insecurity has affected the shaping of working life, understood as a vital integrity interest and a source of occupational freedom that is generally valued. UI on its own may be shown in this context to offer less flexible and stable security compared with systems where direct assistance plays an integral role. Income security, on the other hand, is commonly seen to conflict with markets, and this article therefore also considers links between income security and market rigidity. In general terms it is argued that income security potentially lowers market rigidity. This effect, however, increases in more equal economies.

The performance of UI is appraised in the context of three different designs as exemplified in Brazil, South Korea and Chile, where broadly similar problems of work instability have elicited the state creation of new institutions. In contrast with Europe, however, where UI is supplementary to direct assistance, emergent economies (EEs) typically rely on a dual segregated approach where these functions are markedly separate. Chile has gone the furthest by designing a version based predominantly on procedural equality and personal savings, where Korea and Brazil have introduced various extensions to cover vulnerable groups. The article assesses this more broad-based approach while highlighting its remaining, and some new, constraints that define the limits of unemployment insurance as a reliable source of income protection.

The discussion is organized as follows: section 1 offers a background to the introduction of UI as a more or less central, isolated and savings-based institution in different economies. The second section looks at criteria for assessing income security policies. Section 3 examines the particular considerations that pertain to UI in development settings. Section 4 reviews design variations and implications, and section 5 provides an overall assessment of unemployment insurance in emergent economies. Section 6 suggests that the optimal conditions for a voluntary system of unemployment insurance are those of social cohesion as they characterize some European economies, but few emergent economies. The conclusion brings out points for further reflection.

1. Unemployment Insurance in Europe and Developing Countries

Commencing in the 1980s unemployment insurance became a popular response in middle-income economies to a growing gap in labour protection. Up till then UI was limited, fragmented and occupationally based. A notable fall in labour security, however (Stewart 1995; Sheahan 1997), and state concerns to offer unified cover led to the introduction of national schemes in a series of countries, including Brazil (1985), South Korea (1995), and eventually Chile (2001) after a decade-long debate reinforced a liberal model (Haagh 2004a). The significant point is that unemployment insurance in all three cases began as the primary vehicle for unemployment protection, where direct assistance was becoming more prominent in the OECD.

This unexpected divergence has several roots. Strong critique of unemployment insurance in the OECD has only recently surfaced (Standing 2000). Contributory schemes, moreover, offered developing countries a measure of budget control, and reduced the role of severance pay, which had penalized small and medium-sized firms (Vodopivec 2004). The influence of economic analysis, however, also played a crucial part in the choice of insurance and in shaping different designs. The introduction of UI was more pragmatic in the early case of Brazil, and to some extent Korea, and this provenance arguably explains the greater outcome orientation and coverage of their schemes compared with Chile's, where a doctrine of non-intervention was especially dominant.[1] This doctrine reinforces a preference for protection models that are perceived to interfere the least with markets, as obtaining where unemployment risk is most individualized. Also entailed is an interpretation of self-government as equalling direct control over savings, clearly perceptible in Chile (Haagh 2004a: 185) where financing through individual accounts was defended in terms of a strong claim to property. The principal objective of a national scheme in this case is to ensure that individuals do save for themselves, whereas in the case of Brazil and Korea a specified cover is paid through social funds in the event of dismissal. Despite this important difference in administration and funding, however, schemes in EEs all generally differ from the OECD, where most individuals are in principle covered *both* by UI and income assistance (an integrated approach), where in EEs they are covered by one or the other, or neither.

The trajectory of social citizenship in Europe as compared with the recent history of emergent economies explains this divergence. To postwar welfare reformers in Europe, an outcome of social cohesion was the dynamic objective of social policy. A social good – such as health or education or social assistance – was a source of citizenship only when 'the provided service, not the purchased service, [is] the norm of welfare', according to Marshall (1950: 34). In the area of working life, Marshall's starting point was occupational differentiation on the basis of equal schooling, but with a due regard for 'second chances' for qualification (1950: 39), which he perceived as central to what we may call a sense of occupational freedom (Haagh 2002a). Public goods in training and other areas of social life like housing (rent restriction), occupation ('security of tenure'), and access to subsidized transport and leisure facilities would alleviate differences based on performance (pay), and thereby ease the pressure on the redistributive functions of income protection. 'The advantages of having a higher . . . income do not disappear', but they would, he argued, affect primary consumption less (Marshall 1950: 47). It is debatable whether Marshall's ideals were realized even in Europe, and clearly some countries fulfilled them less well. Certainly, until the 1960s direct assistance and labour services were reasonably modest. However, as European economies contracted in the decade to follow, social assistance and re-education arguably became crucial to a sense of self-government in the shaping of working life that growth in the preceding period had afforded more naturally.

The context of the (later) inception of income protection in middle-income economies could not be more different. Economic contraction meant indirect taxation was found to be a too unmanageable and redistributive tool, thereby cementing a tendency towards employment-based finance. Without a base of direct assistance UI thus stood alone in responding to rising demand. Moreover, UI emerged in countries that strongly emphasized formal employment as a qualification for goods like health (as Lloyd-Sherlock examines, this issue), thereby intensifying market vulnerability more sharply compared with Europe. Finally, though UI systems were supposedly shaped through social pacts, it is debatable to what extent these agreements were representative or even empowered. Labour was the weaker party in both Korea and Chile (less so in Brazil) and the pacts effectively bypassed informal employment (Haagh and Cook 2005).

However, UI inception in Europe and emergent economies also dovetailed with different schools of welfare analysis. Social reforms in Europe after the Second World War were supported by a Keynesian-inspired vision of the substantively broad-based conditions for growth. Arguably, this was a time when improved equality of social capacities and income security facilitated classical ideals of non-rigid markets, much as Friedman envisaged (more vaguely) in this article's introductory quote.

In EEs, however, a neutral or procedural approach grew popular in an analytical context that de-emphasized outcome-oriented designs and the social embedding of markets. A plethora of motives contributed to the rise of an abstract doctrine of non-intervention where in the West a more singular fear of communism (as otherwise denoting the writings of Friedman and Hayek, and as influential in Chile) had been more simply political. By contrast, in Latin America high inequality gave even basic universalism a radical bent and in a context of general austerity, an attractive investment climate remained the priority.[2] A trend of insecure and low domestic investment was further entrenched by the unwillingness of economic elites (and international actors) to allow a change in property rights or restrictions on capital (McKinley 2006: 6). This meant that the notion of a non-rigid market in labour became defined in terms of the ease of business to shape the terms of labour mobility. Firms faced with an insecure world should be able to displace their risks on to labour. With employment thus subsumed within this locus of dynamic change, the ease of entry and exit contracts takes primacy in the use of human resources. In turn this meant compensation should be insecure enough that individuals would be willing to work on the lowest terms relative to comparable countries, or low enough for small domestic firms to survive in insecure markets. Further reinforcing this trend was the labour surplus economy. Hence in many EEs a choice emerged of protection systems that assume social and institutional context 'out', based on the premise that unfettered contracts are naturally shaped by low rigidity and are free from coercion. In some countries this influence was stronger, such as in Chile. This should not be taken to mean, however, that welfare systems that prioritize income security are inconceivable in developing countries. Some economic strategies, for example, are clearly more conducive to a priorization of welfare and continuous working lives in compensation design. An obvious case would be the mobilization of employment outside (and alongside) capital-intensive production, as involving jobs in basic infrastructure (sewage, water, the environment) and social services (e.g. health care, education). As recently argued by Delamonica and Mehrotra (2006), such strategies offer a possible avenue for countries like Brazil and India to overcome structural poverty. In the absence of viable employment policies, however, the primary concern in designing protection is likely to remain the ease of entry and exit of contracts. The terms or the content of the contract, or its forming part of a (continuous) working life, will be considered secondary or even conflicting concerns.[3]

A clear expression of this trend is an unusually narrow emphasis in the development field on the common position that compensation systems should consider economic motives to work, in contrast with the European debate where more reliable income security (if also below-wages) is believed to lower market rigidity (Auer 2000; Haagh 2001; Kongshøj-Madsen 2003; Beskæftigelsesministeriet 2006; Atkinson 1996, 2000). Following the European debate the *Financial Times* (17 February 2006: 14) recently recognized the 'much heralded "flexicurity model" that puts the unemployed on generous dole payments (but pesters them into seeking new jobs)' to 'combine flexibility for the employer and security for the employee' in countries like Denmark. Also highlighted is a 'trend . . . to shift welfare financing from payroll to income taxes', in effect a roll-back of traditional contributory schemes in Europe and a consolidation of the dual integrated approach. The implication is a virtuous cycle in welfare whereby income security fosters employment, which in turn finances income security.[4]

By comparison, in the case of EEs economic incentives are typically expressed in more singular terms of bargaining power, suggesting that only a fear of subsistence will entice individuals to work. In other words, security and flexibility are considered bed-fellows in Europe and trade-offs in emergent economies.[5] In the latter case broad-based assistance is not only regarded as costly, but also as an impediment to the entrepreneurial behaviour of the poor and to the enhancement of labour supply. Too extensive assistance will allow individuals to shirk working (the leisure–work trade-off assumption) thereby raising wages and deterring international investors and business formation (Krueger 1983, 1988; Hayek 1980; World Bank 1992, 1995, 1997: 56, 2000/01: 80, 84). According to the World Bank, 'both the costs and impact [of compensation systems] depend . . . on the ability to monitor eligibility requirements to minimize moral hazard . . . Even where countries have the required . . . capacity, unemployment benefits should provide only a fraction of the previous wage – and they should be *short-lived* – to provide incentives for individuals to find a new job' (2005: 154; emphasis added).

In general the World Bank endorses a clear division between insurance founded on savings-based, short-term and conditional payments to the majority, and finely targeted support to the poorest minority (World Bank 2000/1: 82–3; 1997: 27, 56–9). UI plays the primary role: 'Experience in developed countries suggests that unemployment insurance . . . [is] the next . . . step to pooling unemployment risks and . . . labour allocation' (World Bank 2005: 154). Moreover, personal insurance-based models like those of Colombia and Chile, where 'both job separations and hiring increased' have, with minor reservations, been regarded as well designed (Packard 2004: 3) and a model to follow (World Bank 2005: 154).

In summary, the introduction of UI in EEs has occurred in a very different context (and sense) to Europe, and has been characterized by a clear constituency separation between UI and direct assistance, a model endorsed in development writing. This segregation has been stronger where a market-neutral analysis has had primacy (as especially in Chile), and hence a purely procedural form of equality has privileged a UI design based on savings and the contingent aspects of income security that are believed to motivate individuals to work. As we examine later, less idealistic versions of UI also exist, as in South Korea, Brazil (and Barbados), where insurance is (still) the predominant form of income security (not, as in Europe, an upper tier), but where UI is modified beyond procedural equality to consider aspects of outcome equality. This, as we see later, has made insurance more accessible but not necessarily changed the fundamental conditions that constrain its performance. Having assessed the strongly circumstantial roots of insurance designs, we next consider the question of what may serve as a useful standard to evaluate income security policies broadly conceived.

2. The Basic Purposes of Income Security

In any debate about income security, differences of opinion arise as to the most appropriate means and their relationship with popular goals (like non-rigid markets). However, certain aspects of income security do inspire agreement. According to a plausible minimum, three demands must be met, and met in a way that provides for broadly inclusive protection. It is this distributive aspect, as argued above, that distinguishes a state-organized and mainstream service from private provision. Providing realistic coverage of the level and length of income loss may be considered such a system's most immediate task. Secondly, this cover must arguably facilitate the transition between one life-sustaining pursuit and the next. But conceivably of equal importance is the demand that this is done with a reasonable regard for integrity interests, understood as 'the ability to pursue a way of life', according to White (2003: 30). For our purposes, commonly recognized integrity interests may be said to comprise the autonomous shaping of working life and in this context a degree of control over employment transitions.

Understood in this sense of occupational freedom, integrity interests in working life begin with recognition of human individuality as a shared and morally significant freedom. 'He who lets the world . . . choose his plan of life for him' needs only the faculty of 'ape-like imitation' according to Mill (1947 [1859]: 58–9); right-wing libertarians (Rand 1964: 230) likewise saw 'thinking and productive work' as 'the two essentials . . . proper to a rational being', not far in some ways from the way left or real libertarians (van Parijs 1995: 9 fn.12) regard self-government and the 'formal freedom to choose . . . occupation' as fundamentally linked. Rawls on the other hand arguably expressed a similar sentiment when he rooted a kind of occupational freedom in self-respect ('perhaps the most important primary good', 1971: 386). This he defined as 'a confidence in one's ability . . . to fulfill one's intentions' which cannot be carried out 'if it fails to call upon . . . natural capacities in an interesting fashion'. Even Nozick has been credited with a view of self-government that is independent of physical property, as individuals retain 'all the key decisions about working' (White 2003: 39). Considering more applied debates we find a similar outlook shaping a sense of socialized duty, even among critics of generous welfare, to provide everyone (at least) with a realistic access to private means. Hence, according to Gutmann (1998: vii, xi), 'citizens who need income support are obligated to work if – and only if – . . . their fellow citizens . . . enact . . . policies that provide adequate employment and child support'. A similar public responsibility is expressed in what appears to be a minimal consensus on anti-poverty measures that guarantee subsistence – if in return for work (the Employment Guarantee Scheme), in emergent economies (Grinspun 2005).

Hence the value placed on self-government in occupational life is not new – or even ambitious – but its policy significance has grown as individuals enjoy a diminished sense of stability in occupation and income. Essentially, for self-government in working life to exist the individual must not merely be able to make a choice of her own, but to pursue a path of her own. Conceivably, it is this personal direction of time that makes self-government 'real'[6] in the sense that appeared significant to Solow and Gutman.

Labour market conditions in Europe after the War were generally favourable to freedom and motives to work as conceived in this way. A good supply of jobs and their occupation-based nature meant UI was merely supplementary to a market-embedded sense of security. Expansion in the 1960s of the lower tier of income support then virtually guaranteed individuals this sense of stability. The key problem in employment transitions in Europe today is arguably no longer subsistence, but unemployment and dependency traps and the adequacy of education and training (Gazier 2002). In EEs, however, more acute insecurity accentuates the connection between integrity interests and employment transitions.

The acute sense of employment insecurity in EEs may be surmised from labour market statistics. A cursory survey reveals a recent reduction in the voluntary component in job-quits, even in Korea where labour relations have been characteristically stable. Before 1997 lifetime employment practices were upheld by courts (Haagh 2001), and some suggest the voluntary component in quits was over 90 per cent (Keum 1997: 38). By 2002, however, voluntary quits represented 61.1 per cent at the most (OECD 2004: 65). In Chile, voluntary quits comprised 35 per cent of quits in 1991 compared with 19.3 per cent in 2004 (Haagh 2002a: 105; ENIA 2004). The annual official rate of dismissal is low in Korea, at 3.5 per cent (in 1999, Cheon and Kim 2004: 13), but this statistic does not cover daily and temporary employees, who constitute 52.2 per cent of the workforce, a rise since 1990 of about 20 per cent (KLSI 2001).[7] Considering only salaried workers, the four-year retention rate for males was 43 per cent in Korea against 55 per cent in the USA (Cho and Keum 2004: 11). Judging by the numbers of daily and temporary employees (Hur 2001: 29), insecurity of income in Korea is coming close to the levels in Latin America, with over 40 per cent of individuals in Korea experiencing unstable sources of income compared with over 70 per cent in Chile and nearly 50 per cent in Brazil (ILO 2004a: 91–2).

In principle, four minimal implications follow from this rise in transitions in work that give individuals diminished control. First, as unemployment is more frequent, unpredictable, and involuntary, compensation systems must offer individuals correspondingly more stable cover to protect their existing lives (e.g. housing, providing for children). Moreover, to facilitate an equal level of labour mobility income security must be more independent of markets, including of previous contributions, labour market behaviour and site of employment (formal/informal). The more unplanned nature of quits furthermore entails a greater demand for services like childcare, information and training. However, and finally, in order to protect individual autonomy, the conditional link of such services to the function of income security must also be loosened, as the role of officials in deciding on suitable jobs, and their power to draw back even minimal payments, potentially threaten integrity interests.

These requirements of compensation stand *prima facie* in some opposition to market neutrality as presented in EEs in the form of a strong preference for contingent and short-term assistance (as already examined). There are, however, conceivable ways in which a favouring of individual control through income stability may be foundational for markets in the way in which classical liberals envisaged assistance could be a 'tonic [and] not a sedative' (Rothschild 2001: 45, quoting J. S. Mill). Regard for individuals' integrity interests offers an alternative vision of motives to work to the leisure–work trade-off. The psychological law that asserts a natural preference towards learning and doing (developing working life – the Aristotelian principle as interpreted by Rawls) would suggest that the matter of receiving a form of income support would not interfere with individual effort, except perhaps as limited by weak opportunity or lack of autonomy.[8] Second, a stronger independent relationship between income security and labour markets, where labour mobility is based on planning and full information, may, in theory, move individual behaviour from a pattern of static efficiency – employment for the sake of immediate survival – towards a path more consistent with dynamic efficiency (Amsden 1989; You and Chang 1993; Palley 2004). A related consideration refers to the kind of work different individuals are likely to do. Minimal income security in this conception would give better endowed individuals time to relocate efficiently, while for unskilled individuals it may support the 'feedback loop' (Haken 1979, in Delamonica and Mehrotra 2006) between subsistence, basic health and economic activity. A relevant further question is what sort of economic activities provide realistic employment (see section 4). Also important is what *terms* of assistance encourage and discourage risk, as we examine later. However, the argument that individuals should be willing to take work they would only accept if sufficiently poor seems not only unreasonable but also contrary to a common understanding of dynamic efficiency and economic incentive. All else being equal, it seems highly unlikely that a minimal subsistence would create disincentives to work for an *additional* wage.

In summary, general economic pressures on compensation systems have grown. To a traditional function of income cover during (infrequent) transitions in working life is now attached a more complex demand to replace forms of individual control that individuals have lost. This means that both income security and labour services must be more independent of markets. This, however, clashes with contingent provision as emphasized in development literatures. Yet, as argued above, there are ways of interpreting this relationship differently. If considering a variety of motives in working life, it is possible to think of a more effective participation of labour as a plausible outcome of a scenario where individuals have control over work.

3. Unemployment Insurance and Labour Markets in Development Contexts

Four broad factors explain why stand-alone contributory schemes are unlikely to respond to contemporary needs of income security. Behind the statistics of instability listed are a series of structural conditions of labour exclusion.

First and most obvious is the fact that insurance excludes informal activities which are highly prevalent in emergent economies. In the twenty years to 2000 formal salaries fell in the case of Brazil from about 50 per cent of national income to just over a third.[9] Self-employment represented a quarter of occupational change (IBGE 2004). Such economies place individuals in between the two dominant forms of income security. Most of them are not poor enough all of the time to be eligible for direct assistance. Nor do they qualify for insurance.

Second, high turnover rates and a growing flexibilization of pay conditions contribute to the insecurity of coverage of formal employment. The removal of constraints on hiring and firing has meant short-term contracts are heavily used. Some 19 per cent of males and 22 per cent of salaried females in Brazil worked without contracts in 2002.[10]

The evidence that many workers transition between, or even combine, formal and informal work further undermines the chances that insurance contributions may cover employment crises, or that they truly reflect the levels of (both employer and employee) savings from income that insurance supposes. Chahad (2004) shows that many recipients of UI (44 per cent) were employed either formally or informally, 28 per cent of these in self-employment with a low formal status. This suggests that they were not 'too secure' to work (UI payments are higher than direct assistance), but also (as is likely) that UI was not quite sufficient to cover their needs. Whichever way you look at it, this evidence is an interesting indictment of the common supposition that subsistence assistance in emergent economies has moral hazard effects.

The existence of structural inequality as *ex ante* to markets is a fourth reason why segregated compensation is not very effective. The physical infrastructure of inequality and poverty (health, transport, information, education) creates complex entry barriers to markets.[11]

In summary, labour markets in EEs are not clearly structured in the form of a division between formal secure work and informal poverty. Moreover, they are unlikely to offer a condition of exchange that is socially neutral. Traditional insurance systems, however, demand continuous employment, which means most individuals are unable to build up sufficient funds to cover their risks. Moreover, given a low level of income equality, savings-based systems typically have unequal effects on individuals' ability to shape their lives: those on lower incomes spend a higher proportion on relevant subsistence leading to a regressive effect in terms of constraints on them to take any work, and hence on their prospects for planning and negotiating the employment transition.

Yet a central rationale for insurance is that more predictable and even provision has adverse incentive effects, as discussed above. The evidence that exists, however, suggests a different scenario. For example, the data on more secure income assistance is in line with the observed behaviour of UI recipients cited above and fails to support the notion that assistance induces a leisure–work trade-off. A recent study of one of the largest existing cash schemes, *Progresa* (now *Oportunidades*) in Mexico (Parker and Skoufias 2000: 4), found no evidence to support the 'conventional wisdom . . . that there are tradeoffs between providing benefits to a population in need and [the] stimulating [of] work'.[12] A similarly strong link between basic but long-term income assistance, planning, and the retention of livelihoods has been found in Brazil (Haagh 2005) and South Africa (Ardington and Lund 1996; Case and Deaton 1998; Adato *et al.* 2002: 10–16).[13] One of the more notable problems with the subsistence–fear argument is that it implicitly assumes the informal economy not to exist. Aside from the problematic position that individuals *should* work in a formal economy that cannot guarantee sustainable livelihoods (or even sufficient, if insecure, jobs) this position underestimates poor people's work ethic and entrepreneurial drive. This drive is recognized by international agencies. According to the World Bank, 'Effective enforcement [of the duty to work] is difficult in developing countries, which generally have weak public employment services or none, coupled with a large informal economy that offers many opportunities for undeclared . . . work' (2005: 154, emphasis added). Here, however, the implication is that compensation systems must make individuals work in the *formal* economy. The argument (see section 1) is that it is the very insecure nature of income assistance that will incline them to do so. However, as argued, there are several problems with this supposition: it is equally plausible that to argue that the lack of a reliable safety net is what induces a preference for informal work and indeed that the informal sector is in that sense making up for a broader public policy failure. If the state (as proposed by Delamonica and

Mehrotra 2006) or the private sector cannot provide sustainable occupations and income, poor people will find them elsewhere. The implication seems to be that income security is unlikely to result in idleness or formal sector collapse and on the contrary may be the only way to overcome poverty.

What is already known about poor people suggests that the state has several possibilities it could conceivably mix: it could either provide more stable assistance to help individuals plan and manage micro or individual enterprise or/and put human resources to more organized use through public services, as recently undertaken in India and – on a smaller scale – Brazil (see below). The conundrum is that only secure streams of income can refinance either approach. On the other hand it means society as a whole would benefit from more stable employment. Either way, it seems that broadly accessed and flexible income security is not only a relevant (and unthreatening) goal but will remain a necessity. How does UI – presently the most popular strategy – perform in this task?

4. Unemployment Insurance and Income Security in Brazil, Korea and Chile

Insurance coverage in emergent economies

The figures on UI coverage in emergent economies are not very encouraging, as may be predicted. Coverage is modest, at 6.5 per cent of the unemployed in Chile, 11 per cent in Korea and 21 per cent in Brazil (in 2002). These data refer to the officially unemployed and hence are deceptive. Comparable coverage is 41 per cent in the UK, 63 and 55 per cent for Denmark and Sweden, and 74 per cent for Austria and Germany (Standing 2000). These figures are low even for Europe, where UI (relative to assistance) has been in decline. Also noteworthy is the high level of formally involuntary quits that do not entail cover. At least one-third of quits from salaried jobs in Chile and Brazil (somewhat less in Brazil) and as many as two-thirds in Korea either disqualify UI claimants (by imputing fault) or give officials discretion in assessing the cause (see table 1). Third, whereas the declining coverage in Europe is, as noted, offset by a rise in assistance, direct assistance in EEs is weak, delinked from UI and targeted at the inactive economy. Of the working age population, it covered 0.93 per cent in Chile, 4.4 per cent in Korea and 8.6 per cent in Brazil, in 2002 (see table 2). These figures well exceed UI (at 0.48, 0.66 and 1.61 per cent, respectively) yet are too low, especially in Chile, for there to be a sense in which assistance is a support to insurance.

Procedural equality an unequal protection

Poor UI coverage is explained by low participation rates and formality, but it is also a product of the way eligibility rules filter these market conditions. This can clearly be seen if we examine the terms of eligibility and coverage in Chile's design, which, as noted, most clearly assumes social context away by following a principle of procedural equality. What makes the Chilean case interesting is that it allows us to test how a classical insurance model based

Table 1

Individual autonomy through UI and related schemes

Indicator	Chile	Korea	Brazil
(1) Extended family income condition	None	Strong	None
(2) Official discretion in interpreting dismissal clauses	Some	Strong	Some
(3) Percentage of quits that give no access to UI benefits	37 (1991) employee fault	69.5	24.8 (*sem carteira*)
(4) Work requirement	None	Strong	In practice none
(5) Conditions on offer of training	Not attached to UI	Relatively strong	Weak, but training not always offered
(6) Other personal earnings check	None	Strong	In practice none or weak
(7) Insurance savings are personal property and can be used in voluntary quits and for retirement	Personal property strong	Personal property weak	Personal property weak
(8) Realistic chance of using money for livelihood-sustaining activity	Weak, as benefits are so low in value and duration	A bit stronger due to better value, but weakened by checks on work behaviour	Strong realistic chance due to relatively liberal access and good benefits
(9) Strong redistributive element independently of savings	Weak	Quite strong	Quite strong
(10) Control over public training	Almost exclusively employer-controlled	Shared control, but directed mainly at formal market	A high share directed at individuals independently of jobs and of formal insurance

heavily on individual savings actually performs in a development setting that is closely modelled on market neutrality. Also interesting is the thin line between social insurance and individual savings in Chile's design: it is supposedly modelled on social insurance in that it is organized by the state, is compulsory and has a (minimal) redistributive element. But essentially it is a system of individual economy.

Given low and fluctuating income capacity, and pressures to keep social costs minimal, Chile's design entailed an unsustainable reliance on individual savings. To qualify for the minimum cover individuals must make 12 full and continuous (monthly) payments, compared with 6 payments in a year in Korea, and any time over three years in Brazil. To compare, one of the most stringent terms in the OECD (Standing 2000: 22) is about 6 months in the previous 12, as is the case in some US states (similarly to Korea).

Table 2

Income security through UI and related schemes, 2003–5

Indicator	Chile	Korea	Brazil
(1) Coverage of vulnerable sectors of employment	Small regressive subsidy	Subsidies for vulnerable sectors/regions	Handicraft, domestic and rural workers
(2) Coverage of vulnerable age groups	No design features	Strong design features	Some design features
(3) Maximum level of coverage (start percentage of previous wage)	50 – only if enough in individual account	70	100
(4) Minimum length of contributions	12 months continuous	6 months in previous 18	6 months in previous 36
(5) (a) % of active labour force receiving UI and (b) % of working age population receiving	(a) 0.63 (b) 0.33	(a) 0.81 (b) 0.5	(a) 2.02 (b) 1.2
Average (a, b) 2004	0.48	0.66	1.61
(6) % of unemployed receiving UI, 2003	6.46	10.6	20.98
(7) Actual average % of previous income and no. of withdrawals, 2003	29%, 1 month (1 withdrawal)	50% of previous wage, minimum 4 months	50%, 4.57 months
(8) Population covered by direct assistance programme: no. of cash grants to households and % of PEA, and of working-age population, 2005	109,966 1.79 0.93	1,540,000 7.16 4.4	11,200,000 14 8.6
(9) (a) Employment Security Index (ESI) and (b) Stability of earned income	(a) 0.406 (b) 28%	(a) 0.503 (b) 57%	(a) 0.532 (b) 52%

Notes: (3) The Korean figure was updated in 2000, from 12 months in 18 months worked, to 6 months.
(5–6) All figures are 2004 for Chile, 1999 for Korea, and 1998 for Brazil.
(8) *Bolsa Família* in Brazil and the new Livelihood Protection Scheme in Korea, and *Solidario* in Chile. Data is of budgeted coverage in the first two years of each of these schemes, which incidentally all came into being in the period 2000–3. *Sources*: For Chile: http://www.Chilesolidario.gov.cl. For Korea: Park (2001: 71). For Brazil: http://www.worldbank.org. Figures are for households and hence may be quadrupled (for individuals covered).
(9) (a) Employment Security Index. This includes employment protection laws, coverage of collective bargaining and share of (normally more secure) public sector and waged employment, and female participation. (b) Stability of earned income. Defined as percentage of respondents with regular income payments over the past year. ILO (2004: 91–2). For Korea a proxy is used of regular and temporary employees entitled to UI.
Sources: Brazil: ILO (1999: 54), and Ministerio do Trabalho Abril/1999. Korea: Abrahart (2001: 81–3), and Ministry of Labour, Korea. Chile: Administradora de Fondos de Cesantía (AFC Chile), and Ministry of Labour.

This extended contributions criterion (partly) explains the low affiliation to Chile's (obligatory) system, at 30 per cent in the Metropolitan region (in 2003). Early withdrawal suggests that only half of this population, i.e. 15 per cent of the formal sector, is effectively covered.[14]

Hence the prospects that income loss would be realistically covered were poor from the outset. Even two-thirds of the average unemployment spell of seven months would only be covered after five years of membership.[15] Indeed, Chile's design was far removed from a labour market where employment duration is generally less than a year. Even a full year of employment would produce only one month of cover at 31 per cent of the previous wage. Undoubtedly, this marks Chile's as one of the most ineffective among national schemes. Again design characteristics that enforce equal rules for unequal players are central to explain its deficiency. A modest solidarity fund with support from the state paid better benefits to higher earners, thus affirming the principle of procedural equality.[16] For beneficiaries of this scheme cover was set at a maximum of 40 per cent of the previous salary (compared with a guaranteed 90 per cent in Brazil and Korea).

Moreover, the strict contributions criteria meant vulnerable groups were excluded. In 2002 the expected length of unemployment for women was nearly 8 months overall, and 9 months for women over 45 years (Selamé 2004: 56). Of the affiliates registered in October 2003, 70 per cent were men, and 83 per cent of the total between the ages of 18 and 45 years.[17] This mirrored the trend in pension and health insurance, which is concentrated heavily in the male population of prime age in formal employment.[18]

Hence Chile's system, as we would expect, provided less effective cover to more vulnerable groups, in turn exacerbating their vulnerability.[19] This regressive effect can be clearly perceived if we compare the coverage of workers with permanent and non-permanent contracts. The first group (1 per cent of affiliates) received 183 per cent of the previous wage over four-and-a-half months, whereas the second group (94 per cent of affiliates) received 29 per cent over one month.[20]

In summary, Chile's system failed entirely to meet the criteria (outlined in section 2) that the protection of income, employment transition and integrity interests must be adequate in a distributional sense for compensation systems appropriately to qualify as a social service. By 'distributional' here we are not necessarily referring to a progressive outcome, but to one that is neutral at least. For example (as is common in Europe) protection should (at least) offer an equal level of cover in relation to the previous wage. This condition would seem to be a minimal (if hardly a sufficient) criterion in a society with low levels of income equality. Hence Chile's UI is a good case for showing how social policy does not necessarily correct inequalities or alleviate (relative) poverty. The wrong social policies may make these conditions worse.

Insurance coverage in the modified models

Deviation from the individual insurance principle in Brazil and Korea has enabled UI in these cases to offer more realistic levels of cover. The finance of UI in Brazil from a general social development fund (Chahad 2004) based on a business sales tax, and in both cases, the backing of state funds, has allowed for significant flexibility in responding to markets. In Brazil the Asian crisis ushered in extensions of cover for older workers, and similar measures were taken following drought in the north (in Chile no action was taken). In Korea itself the crisis produced a radical lowering of traditional requirements of enterprise size to include firms as small as one employee (compared with the previous 50). The share of the previous wage received in UI was raised from 50 to 90 per cent, and new employment subsidies were designed to keep workers employed (Haagh 2004b).

As a direct result Korea's coverage rate of the unemployed moved from 1.3 to 15 per cent in two years, a considerable rise (Korea Labour Institute 1999). The growth of small member firms (less than five employees) exceeded 55 per cent, more than double the average. Services (at 23 per cent) experienced a similar growth to manufacturing, while female office workers saw the highest growth (39 per cent) among occupational groups (Labour Ministry 1999: 16–20).

UI inclusion was also boosted in Brazil and Korea by eligibility rules designed explicitly for heterogeneous markets. The entitlement period (as noted) was short and flexibly organized, and attempts were made to match unemployment duration. In Brazil it takes two (not, as in Chile, five) years to achieve five months of cover. One year of membership in Chile buys one month of cover compared with three in Korea.

Moreover, persons in Brazil can be covered for 5 of every 36 months in employment. Brazil actually started with a fairly rigid design, but quickly changed the system because it was found to be ill matched to unstable employment. This produced a gradual reduction of minimum contributions (from 36 in 48 months to 6 in 36 months) and more than a doubling of coverage. By 1996 this had stabilized at around 66 per cent of workers dismissed, up from 26 per cent at the system's beginning. Precarious work was considered in various ways. For example, payment in kind was accepted as wages and fifteen days of work deemed to suffice for a month. This left room for including atypical work, including handicrafts and domestic and rural employment.

Benefits in Brazil and Korea also provide more realistic levels of cover. In Brazil they start at 90 per cent of the wage (ILO 1999: 297–8), compared with Chile's 50 per cent (after four years of membership). Chile and Korea have more strict benefit bands, but Korea's is reasonably generous at 70 to 268 per cent of the minimum wage as compared with 62 to 125 per cent in the Chilean case (notably for those receiving solidarity funds). Actual average payout is 50 per cent in Brazil and Korea (both over four months), whereas in Chile (as noted) it is 31 per cent (over one month). These figures reflect the deliberate attempt in the first two cases to tailor the UI system to needs over time.

An appropriate assessment of UI systems, however, must consider the employment transition more comprehensively. Security was more extensive in Brazil and Korea, but what opportunities, and how much autonomy, did individuals have?

Labour services and control of transitions

Weak services and lack of employment generally condition the impact of compensation systems on opportunities and autonomy in emergent economies. The cases considered provide variations of, and different responses to, these two conditions.

In Brazil training is better dispersed among a cross-section of unemployed people. Untying of a conditional link with UI has increased individual autonomy while redistributive funding has made it more widely available. Brazil's UI, for example, does not (as yet) make payments conditional on training or taking available jobs. Moreover, not all training financed through UI resources (in Brazil a general sales tax) goes to UI recipients or even affiliates. A large share is channelled to other unemployed workers or training linked with micro-firm growth. By contrast, in Korea a significant share of public funds is used to help firms keep their workers employed. This means more workers in Brazil receive training during employment transitions though (slightly) more workers in Korea are trained overall (see table 3). Notably, it also suggests that the absence of a conditional link (in Brazil) has not meant fewer *unemployed* individuals are trained. This is interesting because it suggests that individuals are not less inclined to take training because it is voluntary (not channelled by public officials or firms). The strong role of public institutions in selecting beneficiaries and the wider beneficiary public – not just employees or even UI recipients – must also be considered an important factor in distributing access more progressively than market conditions would otherwise cause. It plays an important part, for example, in explaining the high ratio of female recipients of training in Brazil, at 50 per cent, compared with 34 and 21 per cent in Korea and Chile.[21]

The provision of labour market services in Chile has proceeded along an altogether different model based on market neutrality. The channelling of public funds (98 per cent) for training through tax rebate schemes allows employers in this case full discretion in selecting trainees. (In fact training plays as yet no significant role in the system of unemployment insurance.) This compromises integrity interests by making access to training dependent on jobs, and is also likely to be a cause of an exacerbation of existing vulnerabilities as firms have focused on already-skilled workers and management ranks (at 65 per cent of trainees, Haagh 1999). The unemployed, on the other hand, are left out.

The training offered by large institutions is a good indication of how and how far the state uses training as a development strategy. In both Brazil and Korea, initial and complementary vocational training played a significant role, at 98 and 81 per cent, in contrast with Chile, where such training played a much smaller part (at most 66 per cent) and training for managers was (again) unusually dominant (see table 3).

A key challenge, however, for emergent economies is to offer services that are suitable to individuals with lower levels of skill. Complex technical courses may be used to an extent. For example, in Korea the old training institution KOMA was employed very successfully for a few UI recipients (with re-employment rates of over 80 per cent). However, unless a conventional

Table 3

Work opportunity through UI and related schemes, various years

Indicator	Chile	Korea	Brazil
(1) National coordination of labour institutions	Weak	Very strong	Relatively weak
(2) Economic civil society – employers: embedded training institutions and labour market research	Very weak	Very weak between firms	Very strong in pockets
(3) Economic civil society – labour: concern with unemployed, social policy	High concern, but weak capacity	Relatively low concern and capacity	High concern and high capacity, in pockets
(4) Territorial evenness of labour institutions and services that uphold entitlements	Quite strong	Quite strong	Very weak
(5) Female as % of male in secondary gross enrolment	74	100	111
(6) Training (share of initial and complementary training by core national training institution), 1990	66%	81%	98%
(7) Estimated share of women receiving training in total training, 2000	21%	34%	50%
(8) Estimated % of regular workers (in EAP) who receive training through public subsidy, 2003	3.4	6.2	5.4
(9) Job Security Index (input only)	0.500	0.764	0.944

(1–4) See further Haagh and Cook (2005).
(5) UNDP Human Development Reports (2001/2).
(6) For Latin America, Cinterfor (1990: III.9). For Korea, Krivet (1999: 31).
(7) Sources: Brazil: PLANFOR (Leite 2004). Chile: SENCE, Labour Ministry – average of two programmes (Chile Joven and Chile Joven Especial) are taken. Figures from Korea are based on the average on-the-job and other post-schooling training years' experience for males and females (Ryan 2001: 288).
(8) The figure for Chile is the tax rebate scheme (95.7% of public funds), as UI does not finance any training or employment schemes. For Brazil and Korea, the figure is only for schemes financed through UI funds, including training or employment generation (Brazil, on PLANFOR or Proger) or employment subsidies (Korea). Figures calculated from: Chile: SENCE, Chile (2003). Korea: Ryan (2001: 287). Figure approximates. Brazil: ILO (1999: 295–300), and Sumário CODEFAT, July 2002, Ministério do Trabalho e Emprego, and ILO (1999: 309). IBGE (2004).
(9) ILO (2004), Job Security Index. Input indicators: Equality of employment opportunities, men and women (laws and regulations in recruitment and occupation), paid maternity leave.

industrial strategy could conceivably incorporate a dominant share of the workforce (which is highly unlikely), other (and less expensive) forms of support would need to emerge.

Brazil arguably hosts more relevant local knowledge compared with the other economies, given the long-standing experience of NGOs, unions and local levels of government and the way training funding has relied – rather chaotically – on them. A weak conditional link between labour services and income security arguably also boosted the inclination of such institutions to respond more directly, and in a more broad-based sense, to individual demand. A good example is the Centre of Work and Income (Central de Trabalho e Renda – CTR) run by the labour Central, CUT, in São Paulo (since 2001). In 2003 the CTR administered access to UI benefits, the public information system of employment (SINE), and the allocation of training grants to 1,500 unemployed job-seekers per day. It also did local job market research (organization of employment information, research of firms' needs), screened individuals and helped them find relevant work. Only an estimated 10 per cent of the daily job-seekers had access to insurance provision.[22] Hence the CTR is a local example of how the untying of income assistance and services has made the latter more widely available, creating the kind of unified institution that more naturally reflects the needs of unemployed people as independent of their entitlement to UI provision or other assistance.

Moreover, a tradition in Brazil of citizenship education is arguably merging with a new tendency towards labour market services that prioritize self-reliance in local economies and both self-employment, micro-businesses, collective enterprise and formal and *informal* employment (Haagh 2005). In São Paulo so-called emancipatory income assistance offered training with a view – at least in theory – towards independent livelihoods rather than (necessarily) waged work, in recognition of the constraints of the labour surplus economy. About one-third of training ensued in (mostly informal) collective enterprise, predominantly female and typically in activities like basic crafts for domestic consumption. In other districts links were forged with sub-regional government or dominant businesses in the hope of creating stable employment in regeneration or sanitation departments.

Partially, this could be considered a local experiment in the kind of strategy that Delamonica and Mehrotra (2006) argue is the most sustainable option of full employment in surplus economies.[23] Brazil could be argued in this sense to have more experience in, or certainly the inclination for, offering services relevant to vulnerable areas of the labour economy. Korea in comparison has less well-developed social providers even though the UI system in 1995 saw a concerted attempt at linking passive and active policies, along the lines of a conditional model as this was globally discussed at the time (Haagh 2001). Korea, unlike Brazil, quickly expanded a linked system of private training provision and UI assistance. Also unlike Brazil, the model worked on the premise that general courses would improve the chances of formal employment. However, though a notion of 'demand-based' training was very popular in Korea (as it had been in Chile), it was not clear what it meant beyond the creation of a new host of micro-firms offering notional courses. The meaning of 'demand-based' is dependent on context: in Chile employers demand, in Brazil individuals demand (voluntarily – from NGOs and the state), and in Korea state officials send UI recipients on courses. Without dismissing either strategy, though clearly the Brazilian provides greater autonomy, the key to success of either is indisputably the prospects it offers, first for lasting opportunities and second, opportunities individuals would choose to pursue.

The experience in Korea, in fact, was not dissimilar to a youth training scheme created in Chile ten years before where short computing courses and petty trades were predominant. The key problem with the strategy was the haste to create courses from non-existent providers. This highlights one among a number of concerns about making training a condition for income assistance at least at present in emergent economies, which is the market embedding of selected providers. Tender of public funds, in the absence of specific plans for employment, prompted in both cases the emergence of small providers without client bases, information systems or links to firms. A related concern about making training conditional is that this practically gives these establishments no incentive to offer courses individuals would choose. Conditionality seems more appropriate in the context of long-term occupational courses (however simple) or actual employment campaigns. However, conditionality even then could only conceivably involve the paying of an additional (not a subsistence) income lest vulnerable individuals would be unfairly excluded and the need would arise for expensive (and paternalist) control systems to ascertain who should and should not participate. In Korea re-employment rates on conditional programmes, at about 25 per cent, were no greater than rates overall (including individuals employment offices had registered when seeking employment). Hence compulsory training has not been effective.

Conditional training and even employment is, it seems, also somewhat undermined by the weakness, fragmentation and unevenness of information services that are common to large heterogeneous labour economies. In São Paulo, the municipality, state government and the CTR all operated separate computer systems and registers, none of them permanent. Another problem ensues where institutional capital is geographically skewed, as is often the case. The CTR in São Paulo is one such example, where conditionality would unevenly compromise integrity interests of individuals elsewhere without access to a similar service.

Also of concern is the insecure nature of funding for independent providers. In EEs four-to-six months' contracts are standard. Their renewal is rarely linked to performance standards, or it is linked to short-term conditions (like re-employment rates) that the very lack of a long-term strategy (such as linking with firms) makes it hard to fulfil. Worse still, contract renewal may be entirely spurious. In the case of the CTR in Brazil a federal savings initiative (linked to upcoming elections) stopped a programme of employer-led training when training funding was unexpectedly cut.[24]

Finally, training and work conditionality also potentially exacerbate other forms of conditions that make individuals vulnerable. In the Korean case (Korea Labour Institute 2002: 70–1), for example, officials had discretion to determine the will to work, relevant work, and the constraints of care responsibilities (possibly disqualifying individuals from UI support). Another important condition distinguished the schemes in Brazil and Korea. The latter involves a means test (even an extended family means test) whereas the Brazilian does not. This aspect arguably reduced the security and autonomy of benefit access (it created a trade-off between family solidarity and public security). On a more technical point it conceivably assumed a level of family solidarity that may be outdated as women have entered the labour force. In other words, the financial commitments individuals have often depend on two, not one, person's income.

The clause, used in both Brazil and Korea, that UI claimants must be dismissed without due cause also compromises individual autonomy both in work and *vis-à-vis* the social assistance bureaucracy. In 1998 some 57 per cent of quits in Korea were classed as 'voluntary dismissal' (Korea Labour Institute 1999). In Chile, conditions for UI access would have caused similar problems, as about one-third of dismissals in some years have been signed as imputing fault (in 1992 some 37 per cent of dismissals). In Brazil, workers and employers have found ways round the dismissal condition, by agreeing on clauses that guarantee access to UI funds, although frequently in return for reduced severance pay from employers.[25] In this case greater protection is gained, but it is only relative and at some cost to workers' (in-work) autonomy.

In summary, as insecurity has become a more generalized feature of markets the demands upon compensation systems have grown. Income cover has needed to be correspondingly more stable, flexible (frequent), and effective in relocating individuals in relevant work. In development contexts uneven social capacities mean the compensation system must also *redistribute* access to these goods even to provide a reasonably neutral result. A combination of factors entailed a more substantial cover and a better distribution in the Brazilian case. Access to UI benefits was deliberately extended in a way (as in Korea) that would cover more vulnerable groups. The existence of a complementary system of severance pay (FGTS), a more generous UI, an unconditional link between UI and services as well as independent access to training, gave individuals greater control. In Korea such control was compromised by the conditional link between income assistance and market behaviour and other earnings, though a greater level of income security in other ways strengthened autonomy. Chile's UI system provided the greatest formal autonomy: UI funds could be accessed independently of the cause of quits, and of behavioural conditions. However, pure procedural equality in funding meant the system exacerbated the distribution of insecurities as embedded in markets. This condition, combined with the absence of independent sources of work opportunity, gave individuals little effective control over the employment transition.

5. UI and Income Security in Emergent Economies

Despite the better performance of UI in Korea and Brazil, there are fundamental concerns as regards the suitability of UI as the main compensation system in development contexts, which include coverage and constituency base, administrative efficiency and market rigidity.

Coverage and constituency issues

UI schemes respond best to frictional unemployment in socially equal, formal and otherwise secure economic conditions. The problem in most emergent economies is that insecurity of income is chronic. The event of idleness or income loss is not only frequent but arrives unexpectedly. Yet, the segregated dual approach in EEs presupposes a distinction between (a few) structurally poor and (many) normally secure individuals. A good indication that this distinction is false is a high level of repeat claims to both unemployment insurance and income assistance: few individuals in emergent economies do no work at all, and few individuals have stable, long-lasting employment.

The overlap between the group of insured and the rest is also perceptible from the immediate extension of legitimate claims where access to UI is relaxed. In the second half of the 1990s legitimate claims in Brazil rose while unemployment stayed stable (Chahad 2004). A similar situation pertained in Korea, where claims rose in tandem with system expansion.

That formal work is becoming less formal is now a fact everywhere (see section 1) and this presents a natural limit to UI expansion. In Korea about 80 per cent of workers in firms with less than 10 employees do not have a regular status and hence do not qualify (Park 2001: 54). In all three countries self-employed or family workers represent at least 30 per cent of the workforce.[26] Attempts to cover work like construction (where 50 per cent of contracts are part-time) have been deemed all but impossible, given the subcontracted nature of this form of employment (2001: 54, 62).

This means that UI design must be made even more flexible and complemented with an easily accessed (and non-contributory) tier of direct assistance. As it stands, more than half of the workforce in EEs will never join an insurance or, if the system allows them, are unlikely to benefit. Some 29.1 per cent of the insured in Korea do not meet the entitlement period (Park 2001: 57), lower than Chile's 50 per cent, but still a notable sum.

Most UI systems are characterized by a clear deficit of user autonomy. They come with fixed coverage periods that make them too rigid. Individuals do not normally have flexible access. A natural result is that unemployment and benefits do not correspond. In Brazil resources are wasted where individuals find work, as found (above) by Chahad. In other cases UI cover is not long enough. In Korea even three years after the crisis 25 per cent were still unemployed after benefits ended. Problems of extended dependence are exacerbated by the fact that the involuntarily unemployed remain unemployed longer. This produces an interesting paradox: the less secure individuals can expect to be when out of a job, the more unlikely it is that employment transitions are voluntary, producing a vicious cycle of sticky dependence. In Korea, a sign was the automatic extension of benefit terms (Park 2001: 58), from an average of 98 to 118 days (in 1998), as coverage was lengthened.

Surprisingly, direct and stable assistance has not proved to be the most reliable tool to tackle both unforeseen crises and general need. In 1998 UI represented only 15 per cent of persons covered by unemployment relief schemes in Korea, compared with 13 per cent who did public works and

36 per cent who received Temporary Livelihood Protection (direct income support).[27] In the 1980s the public works programmes played a similar role in Chile, as does direct assistance today in Brazil (see table 2). The important (if unrecognized) role of direct assistance may be surmised from the fact that groups deemed to need longer-term direct assistance have continued to grow and remain stable in all three economies (Haagh 2005).

In fact the unexpected renewal of claims is an open admission of the methodological flaw that still underlies their existence, that the need for income security is confined to a small and changing community. Most claims (for example, on Brazil's Bolsa Família) are based on low levels of income (in reality variable incomes as well – but the scheme cannot measure this fact), a sign that assistance is less a tool of dependent exclusion than a much-needed flexible supplement to the active economy.

In summary, labour markets can be divided into three as generated by policy: first is the group that is insured (mostly inaccurately). Second is the group entitled to membership, yet who fail to contribute or apply (more than half of the insured unemployed in Korea), or whose funds are too small. Third is the group that has no access to UI at all, the largest constituency. In reality these groups overlap because all are in need of (intermittent) protection.

There is a case for unemployment insurance in EEs, to encourage individual savings *as far as possible*, thereby limiting the pressures on social resources. An upper tier of insurance in principle allows more room for an equal protection of already established lives in a context of unequal conditions. A near or pure flat rate discriminates in this case against the better-off (a consideration reflected in van Parijs's revision of leximin) or against those who have invested in the past and have debt obligations.[28] However, our examination suggests that insurance can only play a relatively limited and complementary role in relation to direct subsistence. A combination of inequality and insecurity in EEs presents a special conundrum: the more insecure labour economies are, the more flexible and well-funded UI systems must be. Where inequality also pertains, however, UI systems must be very progressive indeed to offer adequate cover. These factors mean that systems of direct assistance best cover the needs of most emergent economies. Segregated dual systems where assistance is confined to the very poor and insurance is the norm are strongly deficient.

Administrative inefficiencies

Segregated dual systems appear to have one of two flaws. The type where UI is based on procedural equality provides a highly inadequate cover; the socialized type provides better (if ultimately insufficient) coverage but at the cost of a number of administrative hazards. The socialized as opposed to individual nature of funds entails a standardization of cover for two reasons: first, general informalization combined with poor computerized information means that unemployment periods cannot be inexpensively tracked. Second, the absence of a lower tier of protection tends to blur the role of poverty relief and insurance. The result is a mismatch between the actual period of the employment transition and payments. In Brazil this is not addressed because individual insurance entitlements are regarded as property (though without flexible drawing rights) (Haagh 2005). On the other hand, to avoid an undesirable wastage of social funds there is a tendency to increase *post hoc* administrative checks on behaviour (as in Korea). These are costly to police, ultimately imprecise and, because claimants are *involuntarily* unemployed, less effective and at the same time more compromising of individual autonomy.

Labour market rigidity

The dual segregated approach may also be argued to contribute to the rigidity of labour contracts by tying individuals to undesirable states of both employment and idleness. Let us first consider employment.

We observed that having control over the employment transition entailed a kind of overview as concerns both leaving a previous employment and finding a new one. Insecure coverage increased the barriers to voluntary quits. Moreover, the greater the control by employers over training and other resources the more unable individuals become to leave their place of employment. The importance of a lower tier of income assistance also resides in the many flaws in dismissal regimes which lead to loss of entitlement (see section 4). In Chile it further exacerbates the weakness of UI cover and the impact of employer control over training. Individuals in Brazil are more free to move jobs, due to the combined security of UI funds and the FGTS. Indeed, the greater level of control over movement may explain why unemployment spells (see table 4) are shorter in the case of Brazil. The point of a lower tier of income security here would be to complement or substitute the informal security of the FGTS for the formal security of a basic subsistence.

Let us now consider states of unemployment from a similar angle. In this case, the greater the costs involved in entering and exiting income support, both UI and direct assistance, the higher the barriers to the market in labour. Studies from the United States have shown that fear of losing a new-found job may discourage early employment (as Alstott, 1999, found for the USA). This is the essential point behind Friedman's support of the negative income tax (as expressed in the epigraph to this article), which has been equated to a form of guaranteed income. Friedman rightly perceived this effect in labour markets of insecure income (the United States), and hence his point is particularly valid for development contexts. The upshot is the need for systems that are somehow unconditional or easily accessed. The cost of controls (means tests and other) must be set against their effectiveness. In Korea only 14.3 per cent of money spent on UI represents the actual benefit (Park and Lee 1999: 40). Means tests, on the other hand, while as argued above they discourage formalization, also have high administrative costs (in the region of 20 to 30 per cent) in EEs, due in part to weak administration and reliance on interviews. Estimated at less then 10 per cent, the administrative costs of self-selection programmes are lower (though such schemes are dogged by problems of take-up).[29]

This finally leads us to consider the efficacy of forms of compulsion. There is a general question whether using the compensation system itself to place

Table 4

Participation, security and stability in employment: Chile, Brazil, Korea, 2003

Indicator	Chile	Korea	Brazil
(1) Open unemployment (%)	9.7	3.7	11.8
(2) Unemployment in working-age population (WAP) (%)	5.1	4.7	5.9
(3) Economically active population (as percentage of WAP)	52	61.9	63.5
(4) Average duration of unemployment (months)	7	5.3	4.8
(5) Proportion of long-term unemployed (mt 12 months) (%)	25	18.6	21
(6) Youth unemployment (%)	33.9	11.2	
15–19 years	20.9	7.1	
20–24 years average	27.4	9.15	32.7
(7) Female activity (% in economically active population)	38.5	54.1	43.7
(8) Labour market security index	0.544	0.625	0.754
(9) Seasonal unemployment proxy (unemployment in most vulnerable quarter)	11.4%	8.5%	12.4%
(10) Job Security Index	0.465	0.561	0.616

Notes: (8) ILO (2004a), Labour market security Index: 131, 397–8, including employment measures and their gender dimension, as well as existence of public protection institutions, and growth and investment rates as proxies for market (employment) opportunities.
(9) The crisis year of 1999 is deliberately taken to demonstrate vulnerability to external shocks.
(10) ILO (2004a), Job Security Index. This incorporates laws on paid maternity leave and protecting equality between men and women, literacy and completed post-secondary schooling, and proportion of professional occupations.
Sources: Brazil: DIEESE-Seade surveys. Chile: Selamé (2004) and Labour Ministry, various. Korea: Ministry of Labour, various, Lee and Cho (2001), Kang and Lee (2001), World Bank (2001), UNDP Human Development Reports (2001/2).

individuals in work is putting the cart before the horse in EEs. The costs of personalized job services will only be substantially lowered after information systems, market-embedded training and opportunities for sustainable jobs have improved. Work compulsion is least effective and hence most compromising of integrity interests at the lower end of the labour market and among those with the lowest capacities. Moreover, it is likely to be the case for EEs, as it is for most of the OECD, that compulsion to work can be exercised only in the form of *incentives*: the threat of a complete removal of social support is unrealistic. In Korea, the threat of removal of benefits is not commonly carried out, despite the time-consuming exercise of personal checks.[30]

In summary, there is a strong case for placing more emphasis on the voluntary aspect of labour mobility in emergent economies through a combination of job opportunities and services and a basic tier of direct assistance.

Measures like these form a good basis for reducing the rigidity of labour contracts (for both parties), for making UI systems more flexible and more appropriately under individual control, and even, conceivably, improving the distribution of protection of integrity interests. However, it is appropriate to point to broader factors that constrain this type of outcome. The most important of these, inequality, may be appreciated with reference to UI systems with very different roots.

6. Compensation Systems and Social Cohesion

What we need to consider is the complex redistributive role of income support. What lessons can we learn from the role of compensation in socially more cohesive societies in terms of the problems discussed? Let us take the case of a more socially equal, yet market-based context. In this case labour market insecurity is reasonably high for everyone, but social capacities still fairly equal. What role should the compensation system play then? In this case the two-tier (integrated) system remains necessary to support the aspects of voluntary mobility that we have argued contribute to an effective employment transition. On the other hand, it is possible to administer such a system without undue complexity and unequal or ineffective paternalism on the basis of three related conditions of (i) reasonable social equality, (ii) market-embedded services, and (iii) state provision of welfare goods that helps sustain these conditions, and of administrative tools to facilitate policy. In this context less redistribution between groups is required to ensure that the system responds effectively to the three criteria discussed.

The Danish case is a relevant one which, as noted, is considered a high performer in the OECD. Notably, it has one of the highest affiliation rates to unemployment insurance and the least relative reliance on direct assistance. UI recipients account for about 46 per cent of transfer programmes (not counting pensions and early retirement, Statistikbanken Danmark 2006) compared with about 29 per cent for the OECD (where sickness and disability account for about half of expenditures, OECD 2005: 13). In this case a flat direct contribution rate combined with a non-means-tested payout system provides membership incentives for more affluent strata. In recent years such incentives have been boosted by legislation that allows the private associations that administer access to national funds to offer top-up insurance (through outside insurers). Of interest here is the way new financial instruments have been incorporated within the structure, with the state and private associations retaining control. This is indicative of the broader system of welfare goods and redistribution of which UI forms part, and of the broad-based political role of labour unions historically (these still administer UI funds, if under state regulation). Despite a more differentiated structure today, the UI system remains broadly inclusive. A reasonably flat payout rate, on the other hand, based on the lower tier of the labour market (where the maximum 90 per cent replacement rate takes effect) redistributes to individuals at this end, as does significant state support of the system.[31] The affiliation rate to the voluntary system was about 88 per cent in 2003. Arguably, UI is a balanced system in the Marshallian sense: a low level of market-based inequality (access to education in the employment transition and a lower wage spread) means that effective redistribution *through* the UI system is reasonably low. This contributes to scheme legitimacy among higher earners, yet without this detrimentally affecting the coverage of poorer contributors. This is the more so as contributions and benefits are delinked over time. A relatively long mandatory contributions period – of 12 months – inspires a degree of company loyalty and cautions against abuse, as does a tightened activation programme aimed at getting the unemployed into education, training or jobs. Neither of these measures, on the other hand, detrimentally affect the income security of poorer members or a reasonable distribution of individual autonomy: first because the UI system is backed up by a lower tier of direct assistance, and second because labour market services are strongly embedded in occupation-based training. More than half of the Danish population undergo training each year, the highest rate of training to population of the 15 EU countries surveyed (Beskæftigelsesministeriet 2006: 76). In Denmark no less than 41 per cent of young people sign a long-term apprenticeship contract (in 2002), 25 per cent of such contracts by individuals over 25 years (and 13 per cent over 31 years, the majority of them through receipt of income security, 2006: 123).[32] Hence labour market services are likely to be relevant at various levels of the employment scale, without prejudicing the weak. These two conditions combined strengthen an equally distributed protection of integrity interests.

The UI system in Denmark also provides access to UI funds for those voluntarily leaving employment, though only after one year of membership and after a waiting period of several weeks to discourage abuse. This protects more vulnerable citizens who without this measure would be less likely to exit in favour of more suitable jobs. The principal difference with respect to Chile, where UI members can also use funds for voluntary quits, is that the Chilean system entails no pooling of risk and hence the ability of most citizens to exercise this liberty is not realistic.

An equally flexible *insurance*-based system can only be envisaged in emergent economies with higher levels of social equality, economic stability and higher welfare standards in general. A relevant case is Barbados, a relatively more wealthy small-island economy, that benefits from a Labour Party legacy of strong welfare goods within the context of a successful open economy. The UI programme is voluntary, has a reasonably high compensation rate of 60 per cent (through the full unemployment period) and features no means test or effective behavioural conditions (except representation to avoid fraudulent claims from abroad). After the first minimum of 32 weekly contributions, withdrawals of up to 26 weeks per year can be made *non-continuously*, allowing recipients to plan their working life independently and in relation to the flexible tourist economy. The UI in Barbados creates minimal barriers to formal employment, by allowing a 'freezing' of contributions and entitlement for persons receiving sick pay or other benefits (UI contributions are not lost), and allowing for flexible drawing rights. Individuals can even draw for a week at a time, return to work for two weeks and then re-claim UI, as long as workers draw no more than 26 weeks per year overall. The inclusion of part-time and domestic workers, and a high composition of tourism workers

(40 per cent of recipients – though this sector accounts for only 23 per cent of the workforce of 144,800 persons) is argued to explain the high rate (49 per cent) of female inclusion (Mazza 2000: 23–5). In contrast with Brazil, demand for UI is strongly cyclical, which suggests that the system's flexible conditions have improved efficiency (payout in relation to need) and lessened dependence (claim periods are on average 10 weeks, marginally lower than Brazil and Korea). As in Denmark the unemployment rate and yearly claims correspond closely. Yearly claims represented 4.9 per cent of the workforce in Denmark and 21.8 per cent in Barbados (Carrington 2005; NIAR 2001). Assuming an unemployment rate of around 10 per cent in the early 2000s and two claims per year per insured person, the Barbadian system provides a reasonably effective cover.

Three factors, however, should induce caution in terms of the applicability of the Barbadian experience for other EEs, to do with social cohesion, other services and state capability. Certain aspects of Barbadian development point to a high level of social and economic cohesion as an important precondition of the good coverage of the country's UI that are in principle similar to the factors noted for Denmark. A low, and since the mid-1980s a falling, gini coefficient (now at about 0.31) combined with a robust and fast-growing per capita income based on labour integration within a dynamic, small and stable tourist economy has made it easier to tailor UI to specific conditions and to consolidate funding. UI contributions have been raised to as much as 5 per cent during economic downturns, and the state supports administration as well as complementary benefits of sick pay and health care.

Second, though the National Insurance Fund does not offer income assistance for unemployment as known in the OECD (the flexible unemployment insurance is designed to do that), the administrative apparatus is there to provide such assistance. Already the fund pays pension benefits on a non-contributory basis. In 2001, nearly 50 per cent of the workforce (72,780 persons) was in receipt of some non-UI benefit (including primarily sick pay). By comparison, although Korea has a similar gini coefficient to Barbados, its safety net is (as yet) weakly developed (Brazil's coverage of direct assistance is comparably wider). Third, the flexible drawing rights system in Barbados arguably would be more difficult to administer in a complex economy, and certainly if more behavioural conditions were attached. Few states have the capacity. Administration has not been faultless: UI has sometimes been used as holiday pay (ministerial presentation). In fact what is striking is the degree to which the Barbadian system is tending towards an integrated public assistance programme, in the principle of its delivery a form of negative income tax (individuals contribute when working and draw flexibly when incomes diminish). Individuals can even draw on UI when on 'short wages', that is, when the employer keeps workers on shorter hours for a period of time.

Hence the Barbadian, like the Danish, compensation system is based on a strong principle of public administration and pooling of funds, and on horizontal as opposed to vertical redistribution, both of which would be difficult to envisage in contexts characterized by greater levels of heterogeneity in state capacity and social conditions.

The point of the Danish and Barbadian examples is not to use these as a detailed model for emergent economies, but to underline the difficult distributional questions facing UI systems in contexts of much lower levels of labour market and income equality, compounded further by informality and low income security. The two examples seem to show how system inclusiveness and funding can be sustained without very high levels of redistribution *within* UI in contexts of higher social equality: through a lower wage spread, embedded labour market services, and in Denmark through the tax system broadly conceived (that is, both the progressive wage-linked contributions and state subsidy, and progressive income taxation). The redistributive effect of UI in these cases in terms of the complex distribution criterion, that is the Marshallian condition of protecting the lower tier while including the higher, derives, then, partly from direct redistribution within the scheme. But more important is the indirect distribution effect from a more cohesive labour market and income structure, and the principle of a broadly national pooling of funds.

It is important to point out that the pooling of funds is not necessarily the same as redistribution. The pooling of funds is a sharing of risk. An element of redistribution occurs, of course, in any social insurance system, but there is a difference between redistribution that occurs by chance (all are equally likely to be affected by a calamitous event and receive adequate cover – a Dworkinian principle) and one that entails a predictable transfer of resources from one group to another. Hence there is a philosophical, financial and political difference between the kind of redistribution entailed in the pooling of funds in a more cohesive and a less cohesive society. Both entail organized forms of redistribution. However, in the former redistribution is horizontal and random, in the latter it is structural and vertical. The Danish case is one of a high degree of pooling of funds on the basis of a small degree of structural redistribution. (One may even argue that the degree of social cohesion is what has allowed for a high and sustainable level of pooling of risk.) The relevant counter-example is the United States, which spends a similar ratio of GDP on social expenditures (24.5 per cent compared with Denmark's 26.4 per cent, OECD 2005: 32), but which has the highest ratio of direct private to pooled public spending on income support, at 21.7 per cent, compared with 2.3 per cent in Denmark at the other extreme (author's calculations, 2005: 14).

On the other hand, the USA has the lowest public spending on labour market services in kind (0.5 per cent of GDP), and Denmark the highest (at 6.6 per cent), as accounted for by training, information and childcare. The high ratio of privatized spending in the USA co-exists with a high degree of inequality, in part because upper tiers derive little benefit from joining a truly socialized system. Creating incentives to do so would be likely to make the system regressive, as in the Chilean case.

In other words, the relatively greater role of insurance in relation to direct assistance in the Danish (and also the Barbadian) case is compatible with broad-based cover only because of a context of considerable social equality as linked to other social services related to labour mobility.

Both the Danish and Barbadian economies are also characterized, in different ways, by low levels of market rigidity. The UI in Barbados supports economic flexibility by offering seasonal benefits. The Danish, on the other hand, is possibly the case in the OECD that most approximates the conditions of a non-rigid market, and does so in several aspects. These include the nature of the UI system itself (for example its voluntary nature) and the way this interacts with labour mobility, including a strong emphasis on active policy, and a high level (about 25 per cent) of job openings year-on-year. In return for a very flexible firing system (procedural barriers are as low as in Britain and three times lower than in Sweden or Germany, Beskæftigelsesministeriet 2006: 73), employers provide a measure of stable security. Mandatory notice periods are longer than in any of the countries in the OECD (effectively a form of severance pay), though compared with many EEs prior to labour reforms in the 1980s and 1990s these are quite low. For example, in Denmark 12 years of service still provides only four months' severance pay (after six months' employment), whereas many EEs would offer ten months' cover or more. Reasonable notice periods, however, combined with UI give individuals in Denmark an edge compared with other OECD countries in terms of planning employment transitions. This is evidence of a kind of interest and power equilibrium between individuals and firms: the Danish labour market has one of the highest rates of quits per year in Europe: an employee has a 50 per cent chance of leaving a new employment within three years (2006: 119), but also (Ahn and García 2004: 6) the highest rate of job satisfaction. The high level and flexible form of protection is what makes this low rigidity compatible with integrity interests because it allows job matches and quits to be based on reasonably effective information and balanced control.

Conclusion

The same considerations that favour a dual integrated approach in more cohesive societies pertain to more stratified contexts, if in a more acute and somewhat modified sense. In these cases there is far more pressure on the compensation system to satisfy the complex distributional criterion, that is, to produce a cover that is both meaningful along the three criteria for the most vulnerable groups (at least as meaningful to them as to the more advantaged), *and* at a level that is likely to entice the more affluent or secure to join in. This complex distributional problem is surely what has enticed policy-makers to pursue a segregated dual approach in the first place, which is supposed to provide insurance for more secure market players, and direct assistance to the (supposedly) small minority that is left out. This system evades immediate political and technical problems of redistribution, but it is not realistic for the reasons discussed: UI is unlikely to provide effective cover except to a small group of workers due to the greater frequency, uncertainty and duration of employment transitions. This is clearly borne out in the Chilean case. The attempt, on the other hand, to widen insurance-based coverage to cover artificially for this reality either results in resources wastage (Brazil) or a high level of administrative costs and/or control in relation to individuals' behaviour and personal property. The more rigid and unequal markets are, the more this is the case. In turn, the compensation system further exacerbates labour market rigidity.

What are the implications for the design of a dual integrated system whereby the majority constituency are members of both insurance and assistance funds, at least formally, in development contexts? There are two principal concerns: the organization of funding and behavioural terms. Together these affect the level and distribution of income cover, the transition to work and integrity interests.

The organization of funding

A stronger level of redistribution in UI systems is required in emergent economies to make coverage meaningful. There are three implications: first, an individual savings principle as practised most evidently in Chile is altogether deficient. It would be inadequate even in more cohesive societies. In such societies individual savings-based systems are typically the third, upper tier of protection, used only by more affluent groups. However, such systems perform a progressive function by reducing upper income earners' reliance on social resources *only* because they are supported by the two lower tiers of income security. It is indeed paradoxical that a country characterized by low social cohesion like Chile should have chosen the upper, third tier of protection to cover the vulnerable. The unattractive features of the system explain the need to make this type of system compulsory.

Second, a significant degree of state subsidy of a UI system is necessary in emergent economies, given the low earnings capacity of affiliates and the policy priority of protecting smaller firms in particular from excessive expense. The present contributions base of protection systems in most emergent economies (at between 2 and 4 per cent of payroll, set against an estimated average – with state subsidy – of 8 per cent in the Danish case, ILO 2004b: 71) is inadequate, especially where no contributions from state funds or other taxes (as in Chile) are added. Strong state support and a horizontally based redistributive principle have allowed for (reasonably) flexible drawing rights in the case of the Danish and Barbadian UI. The Danish UI demands continuous membership (you can only draw as long as you are a full and active member). This factor encourages formal employment considering the flexible drawing rights, but payout is unrelated to the length of employment (after the initial first year), as in Barbados. Individuals who voluntarily leave their employment are also entitled (as in Chile), though the waiting period in this case is longer. The case for flexible drawing rights, as noted, is especially strong in emergent economies.

Third, the fact that the task of creating flexible drawing rights with good security is at present a difficult one in emergent economies, given low administrative capacity and market complexity (yet that such rights are needed for precisely those reasons), makes a compelling case for a complementary, direct form of income support. There is a strong administrative argument that such a system should not be means-tested (as it is in the OECD). Yet there are also strong fiscal pressures in emergent economies that make means tests attractive. On the other hand, arguments have been presented in favour of a basic income on administrative grounds (checks would be limited to residence), and certainly this argument is stronger in development contexts.[33]

A basic income would also, it is argued, diffuse political problems associated with such a system's legitimacy and financial base: only a non-means-tested system would include more wealthy contributors, thus meeting the complex distribution criterion. Certainly, there is no doubt that where means-testing needs to be used, either transitionally or permanently, for political or financial reasons, such means-testing needs to be more crude at least (Medeiros 2004) than is presently common. This is necessary so as not to discriminate in detail about small sources of income, given their high instability (especially at the lower end), which raises administrative barriers and increases the loss of control over the employment transition that means-testing brings.

Conditionality on market behaviour

A second consideration related to a dual integrated system concerns the use of conditionality as attached to behaviour. Of conditionality as attached to means and to behaviour, the latter is almost beyond doubt the least effective in development contexts. We have already noted why administrative measures to control behaviour may be especially ineffective in this kind of setting: the motivation to work tends to be high, and labour market services are poor and uneven. Information inherent to individuals is cost-free and a more accurate guide to job-matches in this context than forms of compulsion: the labour market offers few formal jobs to individuals whose barriers of entry are high. The use of immediate compulsion is for this reason also likely to infringe more on integrity interests than, say, in OECD countries with higher levels of labour market and social cohesion, and to do so unevenly.

An additional reason why behavioural conditions are more unsuitable in development contexts is the high level of informal work and the policy priority in developing countries to encourage formalization. Compensation systems may strongly affect informality. The barriers that the poor who receive basic subsistence perceive against taking formal, yet often insecure, jobs may be lowered by the assurance of a stable basic subsistence, with minimum administrative and paternalist hassles and means tests (low, direct and stable assistance). On the other hand, the prospects of a supplementary insurance system attached to formal jobs (as in Barbados) may *encourage* formal employment in a context where informality often pays better (if more insecurely). This effect, however, as noted, is dependent on appropriate state or/and redistributive funding, where either the state or larger firms play a strong role, both to reduce employment disincentives to small and medium-sized firms and to ensure a sufficient financial base to create reasonably flexible drawing rights and adequate cover.

The existence of a lower tier eases the direct linking of UI benefits to the period of the employment transition, so as to discourage wastage of funds. It also strengthens the horizontal redistributive principle by moving resources from those who find jobs early to those who remain unemployed. Moreover, concerns may exist about perverse incentives to remain on UI benefits that may lead policy-makers to prefer to shift surplus resources to the lower-tier system. However, in order to manipulate labour market incentives in this way, a lower tier does need to exist. The existence of a lower tier actually gives policy-makers more room to manipulate market incentives, not less.

In summary, what is clear is that there is a trade-off between the level of insecurity of labour markets and the flexible layering and level of security demanded of income support. Furthermore, this is compounded by the low levels of social cohesion that typically exist in development contexts. EEs, given their low level of social cohesion, cannot expect to have the same ratio of insurance to direct assistance as in the OECD, let alone Denmark, where UI constitutes nearly half of claims, or Barbados, where it is just over a third.[34] Only Brazil and Korea had the kind of level you would expect, at 16 and 13 per cent, whereas Chile had a rate of 34 per cent, similar to the OECD. This is ironic, given that Chile also had the lowest UI coverage rate of the systems examined. Although it is difficult to draw a direct causal link between compensation and labour market performance, it is noteworthy that Chile had both the least secure labour market in terms of variable incomes, and the most rigid unemployment (the longest unemployment spells, see table 4) of the three countries examined. Brazil, on the other hand, with higher levels of UI and direct assistance coverage, appeared to have the least insecurity and unemployment rigidity.

From this follow two final reflections that deserve further analysis. The first concerns the implications for present funding arrangements for income security. Though recipients of direct assistance, including long-term repeats, have steadily grown and overtake UI in a number of countries, there is no formal acknowledgement of the central and permanent role of direct assistance. Both direct assistance and UI are promoted on highly conditional terms. Moreover, whereas UI is nationally funded and administratively supported by states, direct income assistance is often justified on a temporary basis. Donor contracts that evaluate performance in terms of the removal of the causes of the system's existence are not uncommon, and they may even envisage success in terms of its end. Market insecurity is mistaken for temporary poverty.

A final consideration relates to the way stratified labour markets and social capacities put pressures on systems of income support. The extent to which minimally adequate schemes rely on vertical redistributive measures and fiscal support is a political burden. This seriously curtails the prospects that compensation systems can offer the kind of broad-based cover that makes them effective and that supports a lowering of market rigidity. At present it is even possible to argue that UI systems (particularly where relying on procedural equality) further exacerbate the unequal distribution of social capacities. Marshall's observation as regards the mutually reinforcing links between the constituency base of social policy and its effectiveness and quality remain as pertinent to developing countries today as it was to Europe (in a different sense) after the War. There is an inherent limit to the level of social inequality that is compatible with retaining the (essential) participation of upper tiers: how much room is it possible to create for differential benefits to upper tiers (relaxed leximin) without undermining sufficient redistribution to ensure an effective (leximin) coverage for all? Marshall was also right that such an efficacious link, as based on a social context of broadly equal capacities, is the most realistic basis for legitimate difference (in work) and a reasonably equal protection of individual autonomy. The main challenge in developing countries is still to address the structural causes of inequality of means and labour market capacities.

In conclusion, it is beyond doubt that the pooling of funds is an important underlying principle in any dynamic society. Without an element of shared risk no individual risks will be taken (Bates 2001). The pooling of funds, however, and the redistribution it entails is difficult to sustain in societies with low levels of social cohesion because of the linked problems of legitimacy and control. It is because the *chance* that individuals will use the system is uneven (not that the actual use is uneven) that problems of affiliation and legitimacy arise, and it is because of these and because of the undesirable prospects of the worst-off that there is a tendency to regard those who need the system most as abusing it, and consequently a tendency towards undesirable levels of infringement of these persons' freedom. States may improve its performance, but income protection will remain overly complicated, inefficacious, socially stratifying and contentious in unequal economies.

Notes

1. On neo-classical development economics as a particularly abstracted wing of neo-classical economics, see Lall (1995), and on its intertwinement with neo-libertarianism, see Chang (2002) and Haagh (2002b).
2. Hayek and Friedman's non-interventionist position in relation to developed economies is arguably compatible with their acceptance of an unconditional safety net here due to a social context of greater cohesion.
3. Chang (2002) has defined this analytical position in similar terms (in reference to goods markets) by an analytical cancelling out of the element of production (*within* organizations) that occurs prior to or outside of exchange. Stiglitz (2002: 252) in a related way has cautioned against the way a singular focus on free exchange draws insufficient attention to the problem of development as about 'transforming societies'.
4. Despite a common practical and moral association of workfare with the neo-liberal school and societies like the USA and Britain, research shows that active measures and state responsibility to guarantee that individuals find work have a longer tradition of funding and political emphasis in the 'activist corner' (Hvinden 1999) of Scandinavian countries.
5. In this article the term 'non-rigid' is preferred to the term 'flexible', because the latter has become associated with a narrowly firm-centred vision of labour mobility (Haagh 2001). 'Non-rigid' here, in contrast, could also incorporate movement that is under an individual's control.
6. On 'real freedom', see van Parijs (1995).
7. In Brazil and Chile annual rates of dismissal can be estimated as at least 20 per cent (based on turnover of over 30 per cent, Camargo 1997: 31; Haagh 1999: 435).
8. It is possible to interpret that Rawls had in mind a sense of control over time, where in his interpretation of the Aristotelian principle (1971: 375) he refers to a natural human desire to be 'constantly exerting an influence over the flow of our activity'. 'That we should follow our natural bent and the lessons of our past experience seems inevitable if we are to find our way at all.'
9. Pochman (2004) and IBGE Censos demográficos.

10. People's Security Surveys, ILO (2004a: 151).
11. In surveys on work among the poor in South Africa (Adato *et al.* 2002: 21) some 58 per cent of respondents cited the cost of transport and communications infrastructure as the most significant barrier to work after family relationships. Similar findings have been reported from São Paulo. Interviews with the secretary of employment of São Paulo, Marcio Pochmann (2002).
12. One of the reasons cited for the continued high labour market participation rates was the fact that benefits were *not* reduced with income.
13. The grants did not involve official job mediation or job-search control (because the grants themselves were intended for other purposes, such as keeping children in school).
14. In the last nine months to October 2003, some 691,828 UI members stopped contributing, which represented almost half of the population of new contributors of 2003. A further 81,378 workers were faced with delays or non-payment.
15. On the basis of data from the unemployment insurance.
16. Access to the solidarity fund is only in the case of unjustified firings (in Chile these represent a very small fraction).
17. All these figures are from Comités Paritarios de Chile: El Punto de Encuentro de los Comités Paritarios, 'Seguro de cesantía ya cuenta con 1.5 mio. de afiliados'. Dated 3 October 2003. Data published by the Superintendencia de AFP.
18. Barrientos (2002).
19. The political reasoning behind Chile's design (Haagh 2004a) included individual responsibility (and property), costs to the state or employers, and the prerogative to make assistance seem unattractive (according to the assumption of a leisure–work trade-off).
20. The remaining 5.3 per cent of covered workers (with permanent contracts but without access to the solidarity fund), received 37 per cent of their previous wage over one month.
21. This in part reflects a higher female participation rate in Brazil, but also a high rate of female unemployment in Korea (33 per cent of the unemployed). Hence in Korea training did cover an equal number of female unemployed to men. In Chile low training of females is a strong evidence of bias as the training measured is mainly for young people (see table 3) and hence should in principle be unbiased by gender.
22. The CTR's experience also shows the small distinction in the labour market predicament between those without and those with insurance coverage. Author's interviews with workers at the Central de Trabalho e Renda, August 2002.
23. Marcio Pochmann, Secretary of Labour in São Paulo municipality under the Labour Party (PT) held a similar view, but also thought income assistance could usefully withdraw individuals from the market in labour. Author's interviews, 2002.
24. Author's interviews with workers at the Central de Trabalho e Renda, August 2002.
25. Surveys show that 61 per cent of UI recipients also receive FGTS (Chahad 2004).
26. In Korea they represent 28.8 and 9.5 per cent of total employment.
27. The livelihood protection scheme was estimated to cover 50 per cent of those deemed below the poverty line, about 8 per cent of the population. Park and Lee (1999).
28. Van Parijs (1995: 252 n. 52) makes the qualification to leximin (whereby more opportunities for some must not reduce opportunities of those with less) that, 'a negligible, or hardly noticeable . . . improvement of the opportunities of the worst off does not justify a massive worsening of the situation of many or all higher up on the scale'.

29. On the first, I point to discussions with Le Roux after presentation of Le Roux (2002), who estimated 30–35 per cent and Bhorat (2002: 36), who estimated 19 per cent (a conservative estimate). Information on São Paulo municipality derives from interviews with employment secretary Marcio Pochmann (2001), and Pochmann (2003).
30. In addition, officials who generally feel sympathetic to claimants tend to interpret 'voluntary dismissal' as entailing a rightful claim to benefits. I am grateful to Huck-ju Kwon for pointing this out.
31. In 2004 some 22.7 per cent of this fund's resources went to UI payments, and 15.2 per cent of the fund is financed by UI contributions, with wage-related contributions financing 66.4 per cent to the overall fund, and the state 18.9 per cent. The private associations paying out UI benefits pay their own administration costs through earmarked membership fees. This means that UI flat-rate contributions pay about two-thirds of UI payments, with progressive wage-related contributions paying about 25 per cent and state subsidy about 7 per cent. Calculated from: Oekonomistyrelsen, Forslag til Finanslov for 2006 (anm.) – 34.11. Denmark (link: www.oes-st.dk/bevillingslove/doctopic?book=BEVPUBL.FFL06A).
32. This compares with zero per cent in this age group in 1974, and 3 per cent in 1984, showing how the compensation system's expansion has been linked to a growing integration with established labour market practices.
33. On basic income as a citizen's right to a guaranteed income regardless of other income or economic behaviour, see the BIEN website (Basic Income Earth Network), www.bien.org, and Walter (1989), Atkinson (1996), van Parijs (1995, 2001), Standing (2004). This idea has strongly influenced policy debates in Brazil (Suplicy 2002), which has now legislated for its introduction when feasible (www.senado.gov.br/eduardosuplicy/frm_rendadecidadania.htm) and South Africa (Standing, 2002).
34. UI constitutes 48 and 36 per cent of claims in Denmark and Barbados, respectively.

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