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BOOK REVIEWS

Reassembling social security: A survey of pensions and health care reforms in Latin America. By Carmelo MESA-LAGO. Oxford, Oxford University Press, 2007. xxvi + 453 pp. ISBN 978-0-19-923377.9.

This book is particularly welcome at a time when the global impact of the recent international financial meltdown on the real economy is still unclear as regards its extent, duration and implications for state social expenditure (particularly social assistance for poverty alleviation, pensions and health care). With its didactic presentation and quasi-encyclopaedic coverage of over two-and-a-half decades of pensions and health-care reforms in Latin America and the Caribbean, it provides a precious tool for policy-makers and the social partners. The book highlights the achievements and shortcomings of the reforms, examines the limits and opportunities offered by the policies that underpinned them, and assesses what remains to be done in 20 countries at different stages of development and having adopted different reform modalities.

The lessons drawn from the experience of this region are important worldwide because its pension reforms – which started in Chile in 1981 – brought about a sea change in the perception of the role of social protection, producing a model that was to be promoted by the World Bank and the International Monetary Fund in other regions without much questioning until recently. Indeed, only since 2003 has the World Bank acknowledged some of the shortcomings and adverse effects of the reforms implemented in Latin America,[1] ordering an evaluation of their outcomes that led to adjustments in its policy advice, including partial rehabilitation of some of the basic principles that should underpin social security systems, notably pensions.[2]

Against this backdrop, the author offers a systematic comparison of pension and health-care reforms across all Latin American and several Caribbean countries. In particular, he analyses the different reform models and evaluates their impact on conventional social security principles by using data from a wide variety of sources, noting the gaps in the data and the action needed at national, regional and international levels to improve data collection. He also assesses the actual outcomes of reforms in the light of their declared basic assumptions and goals.

[1] Indermit S. Gill, Truman Packard and Juan Yermo: *Keeping the promise of social security in Latin America*, Washington, DC, World Bank, 2005.

[2] World Bank: *Pension reform and the development of pension systems: An evaluation of World Bank assistance*, Washington, DC, 2006.

The author recalls from the outset that Latin American countries were continental pioneers in introducing social security programmes in the first two decades of the twentieth century, providing for old-age, disability and survivors' pensions and health care. Such programmes were gradually implemented in all 20 countries of the region, though with significant differences in coverage and benefits, reflecting major differences in social security expenditure as a percentage of gross domestic product. The countries are divided into three groups, namely, the pioneer group, which introduced the reforms earlier on and have a high GDP percentage of related expenditure; the "latecomer-low" group that developed their welfare systems more recently and whose social expenditure is the lowest; and an intermediate group. The basic tenets of such programmes were the conventional social security principles of preventing poverty and promoting universal coverage, as advocated by the ILO and incorporated into its Social Security (Minimum Standards) Convention, 1952 (No. 102), which sets minimum requirements related to risks, benefits, entitlements and coverage.[3] But since the early 1980s, the author notes, these tenets were challenged by the structural pension reform which "privatized" pensions in Chile in 1981 and which gradually influenced other countries in the region and in central and eastern Europe, while also changing the design of the policies promoted by the international financial institutions. Health-care reforms were started earlier (1970s and 1980s) and were less radical and more diverse than the pension reforms but, taken together, they transformed several key principles and goals of social protection by putting greater emphasis on economic – rather than social – objectives, including financial-actuarial sustainability to cope with demographic ageing, a closer link between pension contributions and benefits, partial or total replacement of state social insurance by private insurance, freedom of choice between public and private providers, development of capital markets and promotion of national savings, etc.

The book consists of four parts. The first draws a broad picture of the state of pensions and health care in the region prior to the reforms – notably showing the extent to which the basic social security principles upheld by the ILO had been implemented, and how they were to be affected by the reforms. These principles include: universal coverage; equal treatment; solidarity and income redistribution; comprehensiveness and adequacy of benefits; unification of state responsibility, its efficiency and the extent of social participation in social security administration; and financial sustainability. The author critically questions the reform assumptions and goals of promoting national savings and capital markets, while providing immunity to state and political interference. The evidence shows that these goals were not attained.

The second part of the book is devoted to a comprehensive analysis of the pension reforms' taxonomy, goals and actors, highlighting the diversity of measures adopted and the major factors that influenced and limited the potential of the reforms. These include macro-economic, demographic, ethnic and political economic factors, i.e. extent of urbanization, rural sector, urban/rural informality, self-employment, educational attainment, ethnicity, gender inequality, poverty, solidarity and income distribution, administrative centralization or decentralization. Also examined here are the relative performances of public and private schemes.

The third part deals with health-care reforms and their effects, again looking in great detail at the taxonomy, objectives and actors of the reforms. Shortfalls in coverage

[3] See ILO: *Social security: A new consensus*, Geneva, 2001.

are analysed by highlighting the urban-rural, ethnic, gender and poverty divides, noting the low degree of social participation.

In the fourth part of the book, which draws on the lessons of past experience of the performance and gaps of the public and private sectors and of social participation, the author concludes with a set of pension and health-care policy recommendations intended to help policy-makers and other stakeholders achieve more effective, equitable and sustainable social security coverage in future. This concluding part also suggests areas in which research is badly needed to improve local and international capacity to formulate and implement such policies. The author must be commended for providing this forward-looking contribution rather then dwelling only on the failures of the past.

Among the numerous conclusions drawn from the different sections and parts of the book, it is worth noting that the reform goals of security, adequate capital returns and liquidity were not achieved for two main reasons: the first was the absence of capital markets regulated and supervised by the state, capable of offering sufficient, diversified and relatively secure instruments for investment of social security reserves; and the second was the state's use of such reserves for financing its fiscal deficits. The author recalls that the World Bank actually acknowledged already in 1994 that better protection of the privatized system depended on the proper behaviour of the state, which must stop interfering and properly assume its new functions of regulating, supervising and funding the transition to the new system (arguably a costly and long-term process, as seen over the past decade in central and eastern Europe).

As regards improved coverage, the author notes that the record is mixed. Thus, while regional average coverage did improve over the period 1970–1990, despite a severe economic crisis in the 1980s, there are major differences among the three groups of countries. The pioneer-high group improved pension and health-care coverage up to, or above, the ILO's minimum standards, while the "latecomer-low" group is mostly below those standards. The principle of equal treatment was eroded by stratified systems that introduced unjustified inequalities in coverage, entitlement conditions, benefits and financing among various occupational groups, though they have been somewhat reduced by unification and standardization processes. Also, the lower ages of retirement for women than men, combined with women's longer life expectancy and lower contribution density, resulted in lower pensions for women, though this effect was somewhat mitigated by equal minimum pensions and unisex mortality tables. Urban/rural and regional inequalities in access to health care and coverage also persist. Although the principle of solidarity had been legally proclaimed in all of the countries surveyed, its application was undermined by low coverage in half of the countries, contribution ceilings in most of them, and skewed allocation of health-care resources.

Overlapping and lack of coordination between social insurance and the public health-care sector persisted in most countries. State responsibility ranged from total to very restricted, but, with few exceptions, the author notes, the role of government was negative. Indeed, while administrative costs were low in countries with the highest coverage, they were high in those with the lowest coverage. Although programmes in all countries were managed on a tripartite basis, government either had a majority on the tripartite councils or controlled the selection of workers' representatives. Financial sustainability was variously enforced, with the majority of countries enduring actuarial imbalances or major deficits in their public pay-as-you-go pensions. The general trend was one of growing social security costs as a share of GDP and a greater share of pensions in social security expenditures, while the share of health care declined.

These are but a few pointers to the numerous and highly policy-pertinent conclusions in the book, which should encourage the reader to go to the source. The book contains very useful synoptic tables that help the reader through the maze of policy measures, as well as an extensive bibliography (of several hundred entries) and a 41-page index.

The author, Professor Carmelo Mesa-Lago, is not only a distinguished academic (University of Pittsburgh, PA), who has an impressive record of publications on social security issues, but he has also worked in most countries of the region as an adviser or consultant for various regional and international organizations (ECLAC, ILO, ISSA, PAHO, UNRISD, UNDP, the World Bank and the Inter-American Development Bank). In 2007, he received the ILO Decent Work Research Prize in recognition of his outstanding contributions to the advancement of knowledge of social security over the past half century.

In sum, given the importance of pensions and health care on the social policy agenda in Latin America (and beyond) and the balanced and clear presentation of different reform models in their socio-economic and historic contexts and future potential, this book is an indispensable tool for understanding the basic and highly complex issues of welfare reform.

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