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A Record Number of Conflicts?  
Michelle Bachelet's Inheritance of  
Unresolved Employment Issues

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## CONTENTS

1. Introduction.....	1
2. The Empirical Evidence.....	3
3. Labor Issues under the Bachelet Government: The Breakdown and Reconstruction of Consensus .....	9
4. Conclusions.....	16
References.....	21
Appendix.....	23



## 1. INTRODUCTION

On November 23, 2008, a headline from one of Chile's main daily newspapers, El Mercurio, proclaimed "*Este Gobierno ha batido todos los records de paralizaciones.*" According to this newspaper, the Bachelet government has experienced more strikes and labor demonstrations, twenty-seven to be precise, in its less than three years in office than all previous Concertación governments put together. While the right-wing newspaper was clearly engaging in manipulative fear-mongering, there have been a number of labor mobilizations under the Bachelet administration, especially during 2007, that warrant attention.<sup>1</sup>

Although the level of labor mobilization decreased during 2008, employment issues have remained high on the political agenda due to an increasing unemployment rate and the worldwide economic crisis. The process of labor mobilization during the first half of the Bachelet government should not really have come as a surprise. In every survey in which they have been asked, Chileans have voiced their concern about employment issues. Job insecurity, low incomes, and unemployment routinely rank among their biggest worries.<sup>2</sup> Before every election, politicians of every color have responded by promising labor reforms that will generate more jobs, growth with equity, and social justice.<sup>3</sup> However, once elections are over, labor policy tends to be pushed onto the back burner. This phenomenon is familiar to voters all over the world. After all, how many governments really deliver on their promise to generate enough better jobs?

Initially at least, the government of Michelle Bachelet was no exception to this rule. Her election manifesto promised "*Más y Mejores Empleos,*" but once her government took office, this promise did not translate into any immediate policy priorities.<sup>4</sup>

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<sup>1</sup> Data quoted by Ugarte shows that during 2007, supposedly a year of high labor conflict, there were fewer strikes than the average number per year between 1990 and 2006. Ugarte, 2008.

<sup>2</sup> In 1988 38.6 percent of the population named employment as their principal concern, and in 2004 the figure had diminished but little to 34.3 percent. Over 50 percent of Chileans think that people are not remunerated according to their efforts (2000) and 66.6 percent feel underpaid (2000). See CEP surveys: [www.cepchile.cl](http://www.cepchile.cl).

<sup>3</sup> All candidates promised more jobs. However, beyond promising to generate a particular number of jobs, the candidates did not engage in a debate about employment quality or how it could be improved. In particular, the links between poverty, inequality, and employment were routinely ignored. And only Michelle Bachelet even mentioned the need for decent jobs, or *trabajos dignos* as she called them.

<sup>4</sup> Except for an early reform of subcontracting regulations, which was prompted by the previous government during Bachelet's election campaign.

In fact, her administration's employment agenda, which will be discussed in more detail in section three, mainly reflected the trust of Concertación governments that economic growth will resolve employment related problems in Chile. Bachelet's own election manifesto stated that:

La principal fuente de generación de empleo es el crecimiento. No hay programa público, subsidio gubernamental o reforma laboral que pueda competir con la capacidad de una economía sana para generar empleos. El crecimiento sostenido no tiene sustitutos, es el mejor seguro contra el desempleo. Por eso el crecimiento y la estabilidad macroeconómica han sido una prioridad para los gobiernos de la Concertación.<sup>5</sup>

This quotation captures the consensus view held by most experts and policy makers in Chile since 1990. However, many Chilean workers and the union movement take issue with this view. After all, their country has been growing at relatively high rates since 1990, but although wages have increased, the employment conditions of many workers have deteriorated or at the very least not lived up to expectations, especially as far as job stability and contractual relationships are concerned.

As will be discussed below, 2007 was a year in which workers took their issues to the streets. Subcontracted workers from the forestry and copper sectors forced their employers by means of successful strikes to accept collective bargaining arrangements, which extended to the entire sector and applied to various companies and their unions. The strikes were remarkable for two reasons: intercompany collective bargaining in Chile had become almost defunct before these negotiations resurrected the concept, and subcontracted workers had never yet successfully organized across an entire sector, let alone successfully bargained collectively.

In August 2007, the national union (Central Unitaria de Trabajadores, CUT) organized a demonstration to protest the neoliberal economic outlook of the government in general, and of its finance minister, Andrés Velasco, in particular. The immediate trigger of the strike was that

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<sup>5</sup>. "The main source of employment generation is growth. There is no public policy, government subsidy or labor reform that can compete with the capacity of a healthy economy to generate employment. Sustained economic growth has no substitute; it is the best unemployment insurance. This is why growth and macroeconomic stability have been a priority for Concertación governments." Michelle Bachelet, Election Manifesto, 2005.

Velasco had not agreed to the minimum wage increase which the union had demanded. Even though the protests were no more massive than past demonstrations, they were disruptive and violent. Shortly afterwards, the president of the Episcopal Conference in Chile, Archbishop Goic, proposed that the minimum wage of 144,000 pesos a month should be replaced by an ethical salary (*salario ético*) of at least 250,000 pesos a month. These events combined to spark off an intense public debate, which involved all political actors and cut across party lines.

In short, employment issues have ended up figuring rather more prominently on the government's agenda than it had originally planned. In response to the August 2007 demonstrations, President Bachelet instituted a commission and charged it with looking at issues of employment and equity.<sup>6</sup>

This paper will attempt to explain why labor issues have gained a much higher profile under the Bachelet administration than was originally expected. It first presents some empirical evidence to summarize the main problems of the Chilean labor market, then discusses what the labor policy consensus in Chile has consisted of since 1990 and why this consensus is now looking decidedly fragile. The chapter concludes by discussing the response of the Bachelet government to the current crisis and reviews its attempts to generate a new consensus.

## 2. THE EMPIRICAL EVIDENCE

On the surface, the general evidence on the Chilean labor market looks relatively good compared to its Latin American peers. In a region of high average unemployment rates, Chile's strong economic growth rates during the 1990s led to a consistent decline in the country's official unemployment rate, reaching a low of 5.3 percent in 1997. Although the economic crisis that affected Latin America in 1999 and 2000 brought about a dramatic increase to 9.8 percent, this rate was still below the Latin American average of 10.5 percent at the time. Unfortunately

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<sup>6</sup> The Comisión de Trabajo y Equidad. See [www.trabajoyequidad.cl](http://www.trabajoyequidad.cl). President Bachelet instituted several commissions during her government to propose legislative changes, for example, on the pension system and education reform. For a discussion of these commissions, see Sehnbruch and Siavelis (2009) forthcoming.

though, unemployment has been slow to decrease since then, and remained relatively high at 8.0 percent in 2008.

On a more positive note, between 1990 and 2005, industrial wages in Chile increased by 53 percent, a rate beaten by only Costa Rica over the same period of time (76 percent). As for minimum wages, these almost doubled, constituting the third highest increase in Latin America after Argentina and Bolivia.<sup>7</sup>

Furthermore, on a continent where almost half of the labor force works informally (according to the ILO's definition), the proportion of informal workers in Chile constitutes just under a third of the labor force.<sup>8</sup>

Perhaps Chile's weakest indicator is its participation rate, which since 1990 has consistently remained below the Latin American average, at between 53 and 55 percent, while the continent's average is close to 60 percent. This is mainly due to the low participation rates of Chilean women.<sup>9</sup>

These are the main employment indicators, which are published by Chile's official source of labor statistics, the Instituto Nacional de Estadísticas and by international sources such as the International Labor Organization. However, a discussion of Chile's labor market focused on these basic indicators would be extremely simplistic and would give us no explanation as to why Chileans on average cite employment issues as one of the two main problems the country faces.<sup>10</sup>

National opinion polls that investigate questions of wellbeing and economic expectations are notoriously subjective. Nevertheless, the level of discontent that Chilean workers display with regard to employment issues has been consistent and persistent since the early 1990s. That is to say that even when the general economic situation is perceived to be improving, even when unemployment rates are low, Chilean workers worry about their employment situation.

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<sup>7</sup> Ibid.

<sup>8</sup> Ibid. I have criticized the ILO's definition of "informal sector" in Sehnbruch 2006a as inadequate given the reality of modern labor markets in Latin America. However, since it is still the only international definition that gives some idea of the quality of employment, I use it here for lack of a better alternative.

<sup>9</sup> Ibid.

<sup>10</sup> The other issue of major national concern is delinquency and public security.



As data on labor market variables other than the unemployment rate and a few other basic indicators is notoriously scarce and somewhat unreliable, few analysts in Chile have focused on analyzing the quality of employment since 1990.<sup>11</sup> However, based on data gathered by the Encuesta de Caracterización Socioeconómica (National Socioeconomic Characterization Survey, Casen), a few general trends can be discerned: Since 1990 there has been a gradual decline in the proportion of open-ended contracts and a marked increase in the proportion of short-term contracts. Informal workers (defined as wage-earners without contracts) have consistently made up an important proportion of the total workforce. In addition, data from the Dirección del Trabajo suggests that the proportion of employment relationships based on subcontracting arrangements has increased significantly, while real data from the unemployment insurance system surprised all analysts by showing that job rotation was much higher than most analysts had estimated.

And, although the Chilean unemployment rate is relatively low by Latin American standards, it is very high for certain groups of the population (e.g. younger workers, women, secondary earners, etc.), a fact which is compounded by relatively high levels of underemployment. Finally, levels of union representation and collective bargaining are low and relatively ineffective.

The combination of these factors can be summarized as a declining quality of employment. And if the data itself is perhaps not conclusive on this matter because the official employment survey does not ask questions about job characteristics, the perception among workers is.<sup>12</sup> For low income families, the increasing wages that Chile has recorded in recent years hardly make up for the insecurity that comes with higher job rotation and more frequent spells of unemployment. Furthermore, we have to consider that the institutional structures related to the Chilean labor market, although the best in the region, do not function well: the unemployment

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<sup>11</sup> The most detailed data on employment conditions in Chile is gathered by the National Household Survey, the Casen. This survey, however, was designed to assess the impact of the government's social policies and cannot be considered a labor market survey, especially since it only gathers data on a biannual or tri-annual basis. Furthermore, the survey's questionnaires have been through many changes, so their data is not always consistent.

<sup>12</sup> As evidenced by their statements in the public opinion surveys discussed above.

insurance system covers only a very small proportion of the unemployed adequately, the vocational training system is ineffective for those workers who most need to upgrade their skills, job placement services are very limited, and the enforcement of labor regulation is weak (both in terms of compliance and legal prosecution).<sup>13</sup>

The first question we have to address in the analysis of any labor market that goes beyond the discussion of the unemployment rate and wage growth is: What characteristics of employment we should look at? Latin American labor codes and the statutes governing the associated social security systems make a clear distinction between the salaried or dependent work force and the self-employed or independent work force. Then, within the category of dependent workers, a further distinction is made between different types of contracts. The variable “contract or occupational status” must be considered as fundamental to the concept of quality of employment as it determines not only the potential duration of a job but also forms the legal basis of an employees’ rights and obligations. This type of analysis is essential in the context of a modern labor market as it groups jobs together that are subject to similar legal provisions and also allows us to examine how much the legal entitlements that these jobs generate vary according to the different types of contract used today. Table 1 below and the Appendix present such a view of the Chilean labor market.<sup>14</sup>

Table 1 shows the distribution of the different types of contracts and occupational positions in the total labor force. In 2006, only 45 percent of the total labor force still had a traditional open-ended contract. The remaining wage-earners were distributed between atypical forms of

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<sup>13</sup> Most of the unemployed never actually held a formal, written contract before becoming unemployed and therefore do not qualify for benefits, while many others had short-term contracts and therefore receive only limited benefits. A detailed analysis of why the Chilean unemployment insurance system does not cover the unemployed can be found in Sehnbruch 2006a and 2006b. Additional information can be obtained from the reports of the system’s Comision de Usuarios, various years. These reports show that employment rotation in Chile is significantly higher than any analyst had assumed prior to the implementation of the system.

<sup>14</sup> The term “occupational status” is used to differentiate this variable from the variable “occupational position” that is used by many analysts in Chile and which divides the labor force into blue collar employees, white collar employees, employers, domestic workers, self-employed and non-remunerated family workers. Since this variable does not make distinctions between different types of contracts it leads to very little useful analysis.

contracts (12 percent) and workers without written contracts (17 percent). In the independent sector, the proportions of self-employed, professional self-employed, and employers were roughly stable at around 24 percent.

**Table 1: Developments in Occupational Status**

<b>Occupational Status</b>	<b>1996</b>	<b>1998</b>	<b>2000</b>	<b>2003</b>	<b>2006</b>
Open Ended Contracts	49.5	48.4	47.7	45.2	43.5
Atypical Contracts	8.7	8.5	9.3	12.4	13.9
No Contract	17.0	18.0	17.8	17.0	18.9
<b>Total wage-earners</b>	<b>75.2</b>	<b>74.9</b>	<b>74.8</b>	<b>74.7</b>	<b>76.3</b>
Employer/Prof. Self-employed	5.9	7.0	7.0	7.0	6.3
Self-employed	18.9	18.2	18.2	18.3	17.4
<b>Total Independent Sector</b>	<b>24.8</b>	<b>25.1</b>	<b>25.2</b>	<b>25.3</b>	<b>23.7</b>
<b>Total Labor Force</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

*Note: My own calculations based on Casen data. For the purposes of this calculation, “atypical contracts” refers to fixed-term, project based, or temporary contracts. In this calculation, the issue of whether workers were employed on a freelance basis was not considered, as it would have complicated the comparison of data from 2003 and previous years.*

An analysis of other employment characteristics based on this basic breakdown of the labor force shows that the most precarious category of employment in terms of a worker’s employment conditions is the wage-earner without a formal written contract.<sup>15</sup> They are the workers with the lowest wages; they do not pay social security contributions; they generally receive no vocational training whatsoever; they have the shortest tenures and rotate frequently between low quality jobs; they cannot unionize; they can obviously be hired and fired at will; and they are not entitled to severance pay or unemployment insurance. Their only legal recourse is to sue their employer for having employed them illegally, but the steps involved in this procedure are time consuming and complex.<sup>16</sup> Most Chilean workers do not even consider this option. Any analysis of labor market data that does not specifically look at the employment conditions of workers without formal written contracts is thus ignoring one of the most important problems of the Chilean labor market. (See data in Appendix)<sup>17</sup>

<sup>15</sup> See Sehnbruch, 2006a for an extensive analysis of this point. See Appendix 1 of this paper for 2006 Casen data on this point.

<sup>16</sup> A judicial reform of the labor tribunals was legislated by the Lagos government. However, it is too soon to tell what effect it will have on the practical functioning of the Chilean labor market. See Gazmuri Riveros, 2004 for details on the reform.

<sup>17</sup> Approximately a quarter of the self-employed earn one minimum wage or less. See Sehnbruch, 2006a, Chapter 4 for detailed calculations.

The importance of looking at the Chilean labor market from this perspective cannot be overemphasized. Any other breakdown of the data according to different categories would miss the crucial distinction between the different types of contract.

Three very important results from this analysis should be highlighted: First, only 43.5 percent of the labor force works under contractual relationships that are covered by traditional labor legislation of the kind that presumes continuous employment with the same employer, i.e. an open-ended contract.

Second, while some public policy concern has focused on wage-earners working under atypical forms of contract (e.g. temporary work, tele-work, piecework from home, etc.) the category of employment that should cause the greatest level of concern are wage-earners *without* formal written contracts since they are often employed under some of the most precarious conditions.

Third, if we consider the relatively short job durations found even among workers with open-ended contracts,<sup>18</sup> add to this those workers with atypical contracts or without any contracts and the low income self-employed, we can estimate that *approximately two thirds of the Chilean labor force works under employment conditions that are either short-term or precarious in some way*. If we add the very high proportion of subcontracted workers into this equation, it becomes obvious why Chileans, despite increasing wage levels and a declining unemployment rate, feel so strongly that the country's problems with regard to employment are not being addressed.<sup>19</sup>

The empirical data and the survey data cited above coincides very strongly with the extensive qualitative and quantitative fieldwork that I have undertaken in Chile. In approximately 200 interviews, workers complained again and again about the insecurity they feel with regard to their jobs. Low incomes, fear of being fired or becoming ill, or the knowledge that a contract will

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<sup>18</sup> Data from Chile's unemployment insurance system shows that job rotation among workers with open-ended contracts is extremely high. See Comisión de Usuarios del Seguro de Cesantía and Sehnbruch 2009 for an analysis of the data.

<sup>19</sup> Unfortunately, the available data does not allow us to calculate the exact proportion of the workers that would fall into this category of precarious employment, as the different variables I refer to here are gleaned from different sources of information: subcontracting is calculated based on the Dirección del Trabajo's Encla survey, job rotation is estimated based on the data from the unemployment insurance system, while the type of contract and occupational status can only be calculated based on Casen data.

expire create a widespread sensation that poverty lurks just around the corner. Indeed, a study of social mobility in Chile proves this point by showing that only workers from the *top* income decile are unlikely to fall into poverty (Contreras et al, 2004).

However, perhaps the most important conclusion that the data leads to is that despite relatively high economic growth, employment conditions have not improved in Chile. The informal sector has not decreased, while atypical forms of work and precariousness seem to have increased. In addition, the positive effects of Chile's wage growth are wiped out in the public consciousness by the high levels of inequality which cause the widespread perception that no matter how hard the poor or even the not-so-poor work, most of the country's wealth accrues to the rich.<sup>20</sup> If we add to this the struggle to make ends meet, the widespread fear of losing employment, and the fact that unions in Chile tend to be weak while collective bargaining levels are extremely low by international standards, we can begin to understand why Chileans list employment issues as one of their priority policy concerns.<sup>21</sup>

### 3. LABOR ISSUES UNDER THE BACHELET GOVERNMENT: THE BREAKDOWN AND RECONSTRUCTION OF CONSENSUS

The quotation from Michelle Bachelet's election manifesto cited in the introduction to this chapter essentially captures the consensus that has formed around employment policy in Chile. It reflects the assumption that economic growth generates employment, which leads to a tighter labor market and, in turn, to a lower unemployment rate, increased wages, higher labor market participation, and improved employment conditions. The data discussed in the previous section illustrates that this consensus is only partially true: while some of these variables have improved somewhat, these gains are probably offset by changes in employment conditions. Chile is,

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<sup>20</sup> See Huneus, 2003.

<sup>21</sup> A survey carried out by the Comisión de Trabajo y Equidad on the perceptions of labor relations and equity in 2007 showed that even though employment relationships in Chile appear to be relatively comfortable and the appreciation of the workplace is broadly positive, 32 percent of workers think they could lose their job within the next six months, and 86 percent are struggling with low income levels. Specifically, 40 percent of workers in Chile say that their income is not enough to cover their needs, while another 46 percent state that they can just about make ends meet. Only 14 percent say that they can afford to save. Consejo Asesor Presidencial Trabajo y Equidad, 2007.

therefore, still far removed from the objective of a tight labor market. In addition, high income inequality compounds the sense of insecurity that workers with precarious working conditions have to contend with.

Since the Bachelet government took office, increased labor mobilization, strikes, and protests have demonstrated further that important sectors of the Chilean labor force do not agree with the consensus described above. The election of Michelle Bachelet, who seemed to have a genuine connection with the people (and who also has an actively militant socialist past), undoubtedly raised hopes among workers that their issues and concerns would receive a more sympathetic hearing. However, a closer look at her election manifesto reveals that her labor policy agenda represented nothing but a continuation of the labor policy of the previous Concertación governments. Specifically, her election manifesto listed the following as the objectives of her future government's labor policy:

- to reform the unemployment insurance system in order to expand its coverage and increase its payouts;
- to increase the participation rate of young people and women in the labor force (by encouraging flexible and part-time work, providing more child care facilities, and implementing additional vocational training programs for women);
- to institute a “Fondo de Contingencia contra el Desempleo” to finance emergency employment programs during economic downturns;
- to increase vocational training through the existing channels (Sence and Franquicia Tributaria);
- to reverse the decline of unions and collective bargaining.<sup>22</sup>

In practical terms, these policies fit neatly into the consensus view of employment policy held by most experts and policy makers in Chile described above. The policies essentially

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<sup>22</sup> Bachelet, 2005.

amount to using existing institutions and further subsidized employment programs to attempt to reverse the trends observed over the last decade with regard to working conditions. The last point of the above list regarding unions has also figured on the political manifestos of previous Concertación governments, but as I have discussed extensively elsewhere, such a statement merely pays lip service to the union movement rather than constituting any real policy objective.<sup>23</sup>

Thus, the outlook for genuine labor reform that would have a practical impact on employment conditions initially looked bleak. However, employment issues soon moved up the political agenda of priorities as circumstances took over: Once it became clear during the presidential election of 2005 that Michelle Bachelet could not count on an easy victory over her opponent Sebastián Piñera, the outgoing government proposed the reform of subcontracting legislation in order to call the bluff of the opposition and demonstrate that it would not legislate in favor of workers.<sup>24</sup> New legislation ended up being passed soon after the Bachelet administration took office.<sup>25</sup> Subcontracting has in fact become a widespread phenomenon in Chile. The Ministry of Labor estimates that over 40 percent of companies in Chile subcontract out part of their production. While small companies tend to use subcontractors less (just under 30 percent), larger companies do so more extensively (just under 70 percent).<sup>26</sup> Subcontracting is one of the classic employment mechanisms used in Chile in order to flexibilize a company's labor force. In practice, subcontracting has led to very different employment conditions among workers who ultimately work for the same employer and perform the same tasks. Subcontracted workers often not only have different contractual relationships (atypical contracts versus open-ended contracts), but can earn less and work under conditions that are less safe or otherwise inferior to workers directly hired by the main business.<sup>27</sup>

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<sup>23</sup> See Sehnbruch 2006a.

<sup>24</sup> This electoral tactic had also been used during the election campaign of Ricardo Lagos. In 1999, it was also labor reform that was used to call the bluff of the opposition. For details on this measure, see Sehnbruch 2006a.

<sup>25</sup> Although the new law was passed in October 2006, it was not enacted until January 2007 in order to give businesses time to adapt to the new legislation. See Law No. 20.123 on "Trabajo en Régimen de Subcontratación y Empresas de Servicios Transitorios."

<sup>26</sup> Data on subcontracting is notoriously unreliable and difficult to find. These statistics were taken from Dirección del Trabajo, 2007.

<sup>27</sup> For details on this, see Echeverría and Uribe (1998) and Lopez 2007a and 2007b.

The new legislation has theoretically put an end to the ability of companies to subcontract away responsibility for their workers. The main company is now ultimately responsible for all its workers, whether they are subcontracted or not. However, the new legislation does not resolve the issue of unequal pay or of employment conditions that are otherwise unequal. This means that one year after this legislation was passed, many subcontracted workers still noted the inequality of their employment conditions. Widespread discontent over this issue first erupted in the forestry sector in the Bío Bío region of southern Chile, where subcontracted workers from the paper and pulp manufacturing company Grupo Arauco successfully organized, went on strike, and forced their employer to bargain collectively with them.

The process of subcontracting on a massive scale that some industries have engaged in has backfired. Companies used to subcontract in order to weaken their unions. However, by subcontracting out such a large proportion of their workforce, they have laid themselves open to another problem: if the subcontracted workers organize, they can paralyze these industries.<sup>28</sup>

The strike of the Arauco workers has probably been the most successful strike in Chile in many years. Its success rests not only on the fact that the company eventually had to give in to the demands of the workers, but even more importantly other companies in the sector immediately sat down and negotiated favorable deals with their workers in order to avoid a similar debacle. This success clearly empowered the Chilean union movement as a whole during 2007 and led to similar strikes in other economic sectors.<sup>29</sup>

Another important issue arose with regard to subcontracting after the Dirección del Trabajo ordered the state owned copper company Codelco to reinstate 5,000 currently subcontracted workers as plant workers. When the company refused, arguing that this would increase its labor costs by too much, the workers organized a strike. The matter dragged on between June and October of 2007. It was during this period that the Central Workers Union (CUT) organized its August strike in support of the increased worker mobilizations that were being seen all over the country.

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<sup>28</sup> According to Chilean labor market legislation, it is illegal for unions to form a sector-wide union. However, this does not prevent individual unions from coordinating their actions collectively.

<sup>29</sup> For a detailed discussion of these events, see López 2008.



These developments culminated in a statement by Archbishop Goic, currently president of Chile's Episcopal conference, which called for the institution of an ethical wage instead of a minimum wage. He expressed the sentiments of millions of Chilean workers when he said:

La idea es ponerme en el lugar del más necesitado, y preguntarme si yo podría vivir con mi esposa y mi hijo, con 120 mil pesos. Yo no digo que todos vamos a ser iguales, porque eso es una utopía que no se puede dar, pero no cabe duda que hay grandes empresas que ganan mucho, ¿como no hacer participar mejor a sus trabajadores?, que son los que le ayudan a generar la riqueza para el país.<sup>30</sup>

The amount Archbishop Goic proposed as a fair ethical salary was 250,000 pesos, which represents a 40 percent increase relative to Chile's current minimum wage.<sup>31</sup>

The pronouncement of the archbishop on such a matter represents a political bombshell as the Catholic Church in Chile rarely becomes involved so explicitly in public policy debates. It also caught the Bachelet government off guard. However, the political storm that followed was relatively silent, since few politicians dared disagree with the archbishop openly.<sup>32</sup>

The archbishop's assertions not only contradict the beliefs of Chile's policy making experts, who believe that the country's employment conditions need to be as flexible and cheap as possible for the country to compete in globalized markets, but also strike at the heart of the political consensus that has shaped employment policy in Chile. The parties of the political right

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<sup>30</sup> The idea is to put myself into the shoes of the most needy, and to ask myself if I could live with my wife and my son on 120,000 pesos. [Approximately USD\$200 in January 2009]. I'm not saying that we're all going to be equal, because that would be a utopia that cannot occur, but there can be no doubt that there are large firms, which make a lot of profit. How can they not let their workers participate more? Workers, who help generate the wealth of this country.

<sup>31</sup> Approximately USD\$420 in January 2009.

<sup>32</sup> The response of Finance Minister Andrés Velasco, who has a reputation for being among the most neoliberal policy makers in the cabinet of Michelle Bachelet and can thus be safely assumed to be in absolute personal disagreement with the Archbishop, perfectly sums up the dilemma of the political establishment. He cannot openly disagree with him and therefore has to circumvent the issue as carefully (and as vaguely) as possible: "Creo que el obispo Goic ha hecho un llamado muy importante a no cejar en los esfuerzos permanentes para luchar contra la pobreza, contra las dificultades, un llamado absolutamente central, hay que ver los instrumentos, hay que estar siempre muy atento a lo que ocurre con el empleo, la productividad de las personas, con la educación, hay una serie de temas que son prioridad para el país y que ciertamente en el Gobierno estamos impulsando." La Nacion, 10th August 2007.

I think that Archbishop Goic has made an important call to press on in the permanent efforts to fight against poverty, against the difficulties, a call, which is absolutely vital, the means will have to be looked at, one always has to be very aware of what is going on with employment, the productivity of people, with education, there is a series of issues that are priorities for the country and that this government is definitely pushing for.

actively opposed any legislation that decreased labor flexibility, supported union strength, or increased labor cost. The 40 percent wage increase proposed by the archbishop would normally be resisted by all the political elites who have shaped the current consensus but especially by the right. However, it is also the right-wing parties, together with the Christian Democrats, who are most closely associated with the Catholic Church in Chile.<sup>33</sup> If it had been a union leader who had proposed such an ethical salary, these parties would have immediately rubbished the suggestion, but since it came from an archbishop, they could not ignore or ridicule it.

Together with the increased labor mobilizations and successful strikes, the pronouncement of the archbishop constitutes a breakdown of the delicate policy making consensus over labor market issues that Concertación governments had so carefully constructed and preserved since 1990.

The government therefore took the combination of these events to heart. Soon after the CUT demonstration, President Bachelet instituted a commission to examine issues of employment and equity. Like the other commissions her government instituted, it brought together experts in the field with representatives from all three social actors and politicians from all segments of the political spectrum. The commission's work was divided into three principal policy areas: equity, labor market institutions, and labor market policies.<sup>34</sup> To these three sub-commissions (each headed by a different and prominent economist) a fourth was later added to examine issues specifically related to small companies.<sup>35</sup>

Given the rupture in the consensus surrounding labor market issues that became apparent in 2007, the institution of these commissions constituted an attempt by the government to establish a new consensus on employment issues (and new policy options). The commission proposed

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<sup>33</sup> Even so, UDI Senator Evelyn Matthei responded: "Archbishop Goic doesn't understand anything about economics and is meddling in very difficult issues ... with his words he is increasing the pressure for this type of mobilization. There is an atmosphere of lack of prudence and of irresponsibility in this country which is very worrying, and I believe that the consequences of this can be very serious."

"Monseñor Goic ... no tiene idea de economía y se está metiendo en cosas muy difíciles. ... con sus dichos aumenta las presiones para este tipo de movilizaciones. Hay un ambiente de falta de prudencia y de irresponsabilidad muy preocupante en nuestro país, y creo que las consecuencias pueden ser gravísimas."

<sup>34</sup> The commission is constituted by forty-eight experts in total and is presided over by one of Chile's most well known economists, Patricio Meller. The sub-commissions are headed by Andrea Repetto (Labor Market and Policies), Dante Contreras (Equity), and Humberto Vega (Labor Market Institutions). For details on the commissions and a dedicated website, see: [www.trabajoyequidad.cl](http://www.trabajoyequidad.cl).

<sup>35</sup> Comision Mixta de Emprendimiento Social y Empresas de Menor Tamaño, headed by Mario Astorga.

several specific measures that would have an immediate impact, for example the institution of an earned income tax credit for low income families and the increase of benefit payments through the unemployment insurance system.

However, most of the proposals that the commission made relate to more long-term measures that would improve existing labor market institutions in Chile, such as job placement services, vocational training programs, subsidies for the employment of workers who are difficult to employ, and the removal of barriers to increase female labor market participation.

These were all policies that the commission could agree on and thus forge a new consensus for the future. The main sticking points that the commission encountered were precisely those issues that have remained unresolved since 1990. While there appears to have been some agreement that collective bargaining arrangements in Chile should be strengthened, there is also widespread disagreement as to how this should be achieved. Extending collective bargaining to sector-wide unions has been proposed during previous attempts at labor reform but has always been resisted (even by sectors of the Concertación).<sup>36</sup>

The real question, however, is whether the proposals of the commission really respond to the latent issues that cause so much discontent. Undoubtedly, the most practical measure the commission proposed that would have an immediate and significant impact is the institution of an earned income tax credit. This would help a large proportion of the 86 percent of Chilean workers who have difficulty covering their basic needs with their income or can only just about make ends meet. An earned income tax credit could encourage the formalization of working relationships and would undoubtedly have a positive impact on income distribution in Chile. Unfortunately though, by the time this proposal had made its way through the Ministry of Finance, it was limited to young people between the ages of eighteen and twenty-four. Although this still constitutes a group of 300,000 potential beneficiaries, such a restriction obviously limits the impact of the policy.

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<sup>36</sup> Sehnbruch 2006a discusses the historical background to this resistance and the respective reform attempts in detail.

#### 4. CONCLUSIONS

The combination of events described above certainly gave employment issues a higher priority on the Bachelet administration's agenda than originally planned. As with education reform, it was an increase of social mobilizations, in this case a re-empowered union movement, which achieved this.

It seems that the union movement in Chile has gained momentum under this government. Two thousand eight was a year of further labor mobilizations. It began with a sector-wide agreement between fruit exporters and temporary workers in the Copiapó valley that established a minimum wage of 251,000 pesos for all workers in the sector.<sup>37</sup> And at the end of January 2008, workers in the fisheries sector of the Los Lagos region began to strike, paralyzing four plants belonging to Aguas Claras, one of Chile's principle fisheries companies, after collective bargaining negotiations failed. By mid February, the strike was causing projected losses of US\$20 million to the company.<sup>38</sup> Meanwhile, labor unrest continued in some of the Codelco plants, a situation which pitched different state and government institutions against each other for months on end.<sup>39</sup>

Whether these mobilizations represent a permanent shift in the development of Chilean policy making or whether they represent a temporary blip that is more a sign of the weakness of the Bachelet government than a sign of any real recovery of strength by the union movement is difficult to say at this point. It is also possible that the increased union activity is simply part of a process of post-transition political developments in which citizens are no longer wary of mobilizing against the Concertación on a massive scale.<sup>40</sup>

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<sup>37</sup> This wage represents 1.7 times the national minimum wage in Chile for 2007 of 144,000 pesos. For details on the agreement see *Diario Financiero*, January 7, 2008.

<sup>38</sup> *El Mercurio*: Jueves 14 de febrero de 2008.

<sup>39</sup> For details on the complex conflict regarding Codelco's subcontracted workers, see López, 2008.

<sup>40</sup> The student protests of 2006 were a case in point. In Sehnbruch and Siavelis (2009) this process is discussed as the "normalization of democracy."

It is not too early to say, however, that the year 2007 marked the breakdown of the consensus around labor market issues that the Concertación had so carefully constructed and nurtured since 1990. At the same time, the institution of a commission with representatives from the entire political spectrum and all social actors clearly constitutes an attempt to forge a new consensus.

However, we should note the limitations of this consensus. It is revealing to examine which labor market concerns the commission did not make specific proposals for. Perhaps the most salient silence is on the issue of redundancy costs. The maximum of eleven months severance pay that Chilean labor legislation mandates is a historically acquired right to unions that they are not willing to give up, while to employers it is the symbol of labor market rigidity and the legislation that they would most like to abolish. In practice, given the empirical evidence on the Chilean labor market, which shows that only a few workers actually become eligible for high amounts of severance pay, it would make sense to replace this legislation with a combination of lower redundancy costs and a more equitable unemployment insurance system that covers all workers (preferably including those who did not have formal written contracts).

Similarly, the commission's report does not focus much on conditions that are related to the quality of employment. In particular, short-term hiring practices are ignored. The international evidence shows that short-term contracts do not lead to increased employment generation but merely to a segmentation of the labor market.<sup>41</sup> In Chile, the system of severance pay probably acts as a disincentive to long-term hiring and generates more short-term jobs as employers attempt to circumvent severance pay legislation. There are further costs to short-term hiring practices in the shape of lower long-term investment in human capital and thus lower productivity as well as social costs (for example, lower contributions to the pension system). United States labor legislation recognizes this cost by establishing disincentives to short-term hiring and firing practices. Employers whose workers make more frequent use of the unemployment insurance scheme, for example, are charged for the extra social cost that

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<sup>41</sup> Blanchard and Tirole, 2001.

their job rotation generates through higher contributions to the system. At present, there are no disincentives in Chile to hiring workers on a short-term basis, to outsourcing work or to replacing wage-earners with free-lance workers (despite the fact that the latter strategy is technically illegal). Similarly, there are insufficient incentives at present for either workers or employers to formalize their working relationships, a situation which also leads to lower investment in productivity and human capital. Much could be done in Chile to refocus legislative priorities on the generation of more stable and more formal jobs.

Most of the policies that the commission proposed are still based on the consensus view that economic growth and increased spending on social policies will resolve Chile's employment problems. This is a consensus that essentially proposes more of the same rather than any change in direction. In turn, this means that although more people in Chile are now prepared to admit that current levels of inequality are unsustainable in the long term, few are prepared to rethink the economic model that has generated these inequalities, even though it should be clear by now that long-term growth rates have declined and that employment conditions in Chile are not improving, while the unemployment rate remains significantly higher than during the 1990s. Chile has simply not fulfilled the development potential that it seemed to promise in the early nineties.

To outsiders, however, the matter is obvious. At a conference held by the employment and equity commission in early January 2008, the Nobel Prize-winning economist Robert Solow argued that Chile needed to generate higher economic growth rates by moving its exports further down the value chain. However, he conceded that such a move would have little impact on equity if employers insisted on using new markets to further exploit their workers. He warned that: "In Chile, there's a real danger of this." Solow also highlighted the role that unions could play in insisting on the generation of new jobs rather than defending obsolete jobs in order to move the population out of low productivity employment.<sup>42</sup>

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<sup>42</sup> Solow's conference speech can be downloaded from: <http://www.trabajoyequidad.cl/view/conferencia-internacional-presentaciones.asp>.

Solow's words imply three paradigm shifts for Chile's social actors: his appeal is for a fundamental change in the attitudes of employers, who should begin investing more in workers. He also exhorts unions to move away from insisting on rights and entitlements that may no longer be compatible with a modern labor market into policy areas that focus on employment generation and increased productivity. This in turn would focus Chilean unions on the subject of investment in human capital, an issue, which is almost completely absent from their political agenda. And last, but not least, Solow's arguments encourage the Chilean government to consider the kind of concerted policy making effort that would be required to move Chilean economic production further up the value chain and into new markets. This would require a coordinated policy of investment in both human capital and infrastructure, with an industrial policy that incentivizes the production of high value added goods.<sup>43</sup>

We have clear evidence that some economic sectors generate more stable, more formal, and better-paying jobs than others. Equally, some sectors foster skills, while others require the least skilled labor available in order to keep costs down. Despite its history of neoliberal reforms, Chile is no stranger to industrial policy. The Pinochet administration deliberately fostered new economic sectors in order to diversify the country's exports. Forestry, non-traditional agriculture (especially wine), and fisheries were all sectors that were deliberately developed during the dictatorship. These are not sectors that generate high quality jobs, but there were a sensible first step in the right direction.

Unfortunately, the Concertación governments, in their endeavor to prove that they are responsible custodians of a model that theoretically rejects any state intervention in free markets, have not continued these policies, let alone expanded them to other more labor-intensive sectors. The concept of a far reaching industrial policy continues to be dismissed to the point of almost constituting a taboo among most of Chile's economists and policy makers.

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<sup>43</sup> Ironically, Chile's right-wing press came up with the extraordinarily manipulative and out-of-context headline the next day: "Solow says Chilean labor markets not flexible enough." *La Tercera*, January 8, 2008.

A recent report commissioned by the Ministry of Finance from the Director of the International Development Institute at Harvard University, Ricardo Hausmann, however, argues that precisely such a policy is necessary in Chile. “I think that this negative attitude towards industrial policy has been essential. The country has probably lost enormous opportunities. Why is Chile not a software power? I would say that this is to be blamed on the ideology that underlies the fears that are expressed with regard to industrial policy.”<sup>44</sup>

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<sup>44</sup> La Tercera, February 9, 2008.



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Health Insurance	Wage-earners			Employers and Self-employed			Total Work-Force
	Open-ended	Atypical	No Contract	Employer	Prof Self	Self	
FONASA, Group A	4.7	16.9	37.2	12.9	13.8	47.6	21.3
FONASA, Group B	25.4	39.4	20.7	18.7	17.6	21.7	25.1
FONASA, Group C	21.0	16.9	9.4	8.6	0.0	6.0	14.3
FONASA, Group D	17.0	10.8	5.5	8.1	8.4	3.3	10.8
Another public system	2.2	2.0	2.1	2.3	1.7	1.5	2.0
Armed Forces	1.1	0.6	1.6	1.7	4.4	1.6	1.3
Private insurance (ISAPRE)	25.7	8.3	9.4	29.6	31.4	3.2	16.3
No insurance	0.9	2.8	10.9	16.3	20.5	13.2	6.5
Other	0.3	0.3	0.6	0.5	0.7	0.5	0.4
No Information	1.8	2.0	2.6	1.2	1.5	1.4	1.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Pension System	Wage-earners			Employers and Self-employed			Total Work-Force
	Open-ended	Atypical	No Contract	Employer	Prof Self	Self	
Contributes	97.0	92.7	29.4	50.5	32.3	18.7	64.8
Does not contribute	2.1	5.7	66.8	45.9	63.4	77.7	32.9
Does not know	0.9	1.6	3.8	3.6	4.3	3.5	2.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Professional Training	Wage-earners			Employers and Self-employed			Total Work-Force
	Open-ended	Atypical	No Contract	Employer	Prof Self	Self	
Employer financed	21.6	13.2	5.5	4.2	2.9	1.1	12.4
Publicly financed	1.2	1.8	1.6	1.7	1.5	2.6	1.6
Other	1.7	1.1	1.0	3.9	4.2	0.7	1.4
No training	75.3	83.6	91.5	89.4	90.2	94.3	84.1
No Information	0.2	0.3	0.5	0.9	1.1	1.3	0.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Situación de pobreza	Wage-earners			Employers and Self-employed			Total Work-Force
	Open-ended	Atypical	No Contract	Employer	Prof Self	Self	
Indigente	0.4	1.6	2.8	0.5	1.1	1.3	1.2
Pobre no indigente	3.6	9.0	10.6	0.8	1.4	6.0	6.1
No pobre	95.0	89.2	86.0	98.6	97.5	92.7	92.1
Sin dato	0.9	0.2	0.6	0.0	0.0	0.0	0.6
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Duration of Employment	Wage-earners			Employers and Self-employed			Total Work-Force
	Open-ended	Atypical	No Contract	Employer	Prof Self	Self	
0-11 Months	14.1	56.7	46.5	7.9	16.4	15.9	26.8
1-3 years	29.1	22.0	24.6	17.3	26.9	18.1	24.9
4-5 years	11.4	5.5	6.5	10.8	9.8	8.2	8.9
6-11 years	21.6	9.0	11.5	25.0	23.8	20.3	17.7
más de 12 years	23.1	6.3	9.9	37.7	20.3	35.5	20.6
No Information	0.6	0.5	1.0	1.2	2.8	2.0	1.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Size of Company (number of employees)	Wage-earners			Employers and Self-employed			Total Work-Force
	Open-ended	Atypical	No Contract	Employer	Prof Self	Self	
1	3.8	1.3	14.9	0.0	67.1	71.3	19.5
2 - 5	8.5	5.0	23.9	55.5	27.8	25.3	16.3
6 - 10	5.4	4.0	8.0	16.8	0.0	0.0	5.0
11 - 49	21.0	23.3	18.0	16.5	0.0	0.0	16.2
50 - 199	16.8	22.7	9.8	3.9	0.0	0.0	12.2
200 or more	34.2	30.6	14.0	2.2	0.0	0.0	21.4
No Information	10.4	13.0	11.4	5.1	5.0	3.4	9.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source: All tables based on author's own calculations, Casen 2006.

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