

# Labor Market Dynamism in Recent Years: Quantity and Quality Improve at the Same Time

**In the last four years, Chile has shown a significant improvement in the labor market. In comparable figures, the government of President Sebastián Piñera has obtained the best results of the last five governments regarding the creation and quality of employments. The main cause of this evident improvement is the economy's dynamism, and mainly of investment.**

The government program of Sebastián Piñera had set the goal of creating 200 thousand employments on average per year, which was considered extremely optimistic by his adversaries. However, we have not only reached this goal, but we have probably exceeded it.

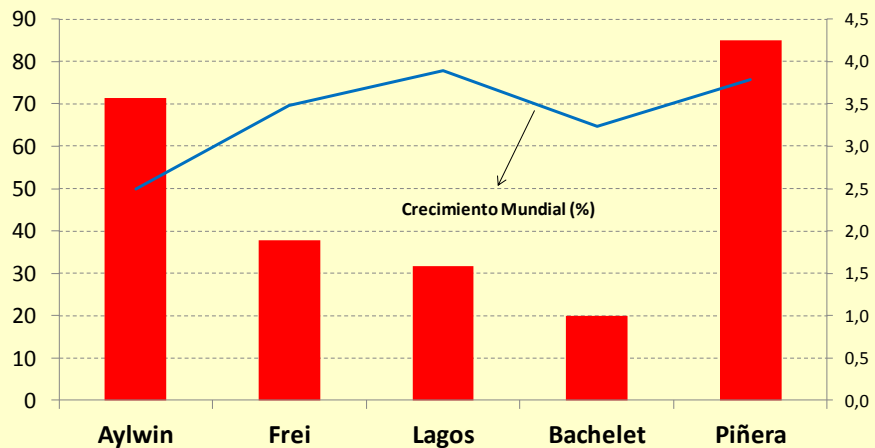
In the quarter of January-March 2010 and July-September of the present year, 833 thousand new jobs have been created in the country and, what is even better, almost 57% of these new jobs have been for women, despite the fact that they represent 40% of the labor force.

How do we compare this dynamism with that of previous governments? It is difficult to make a comparison with the employment data of the National Statistics Institute (INE, in Spanish), since the survey was modified in 2010. However, the survey of the Microdata Center of the Department of Economics of the Universidad de Chile allows comparing the last five governments, with the limitation that data belong to the Greater Santiago, which represents 36% of the country's labor force (Chart 1).

Actually, a record number of posts have been created during the current government, which is not explained by the external scenario, since global growth in this period does not significantly differ from that of previous governments. We can neither

attribute it to cyclical factors only, because the present one is not the first cycle that affects the economy, and in fact, during the first two years of Michelle Bachelet's government the world's economy registered a record growth.

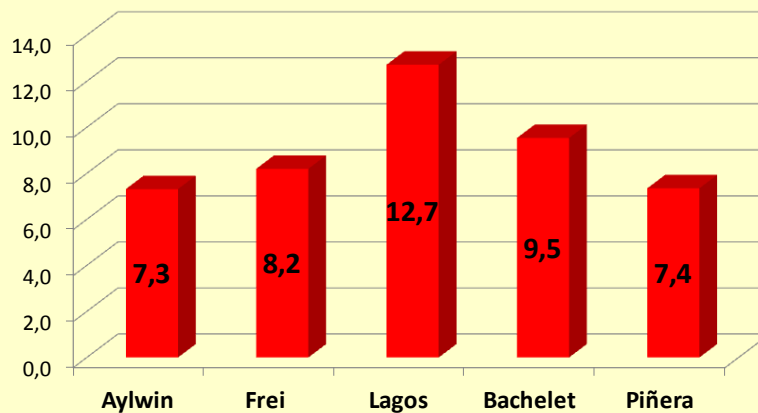
Chart 1  
CREATION OF EMPLOYMENTS IN GREATER SANTIAGO  
(THOUSANDS, ANNUAL AVERAGE)



Source: Universidad de Chile

Additionally, in this cycle the unemployment rate in the Greater Santiago has been reduced to the record levels of the economy's strong dynamism period, as shown in Chart 2.

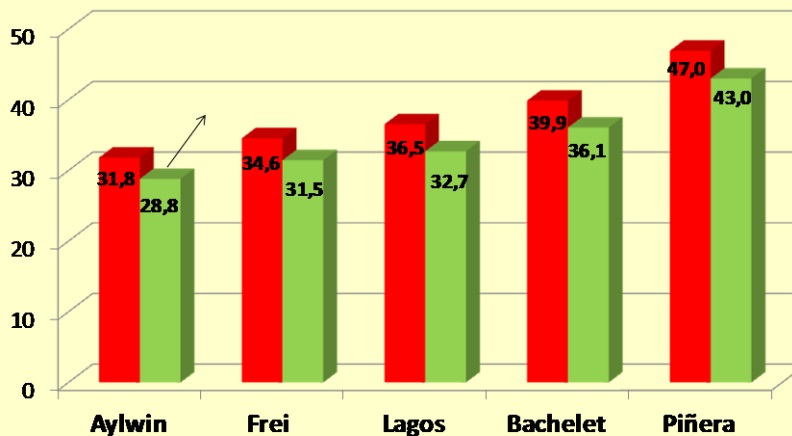
Chart 2  
UNEMPLOYMENT RATE IN GREATER SANTIAGO  
(AVERAGE % PER PERIOD)



Source: Universidad de Chile

Another relevant aspect refers to women's labor participation, which has increased in a more significant way than in former periods, as shown in Chart 3.

Chart 3  
WOMEN'S PARTICIPATION AND OCCUPATION RATES (%)



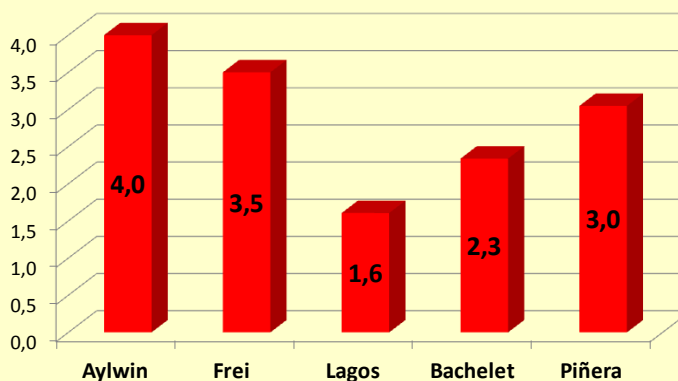
Source: National Employment Survey (ENE), New Labor Force Survey (NENE), National Statistics Institute (INE).

These figures come from two different surveys; therefore they are not directly comparable, although they allow dimensioning the magnitude of the increase, since both surveys have data for 2009. Thus, we observe that the New Labor Force Survey (NENE) showed an increase of 2.8 percentage points in women's participation rate and 1.7 points in the occupation rate, explained only by the methodology change. Even if we subtract these increases from the NENE figures, the improvement in women's participation and occupation in these four years represent the best result of the last five governments.

Being difficult to ignore this evident quantitative dynamism, criticisms have pointed out at qualitative factors, arguing an alleged insecurity of these new jobs. However, taking different indicators from diverse sources, we can affirm with no ambiguity whatsoever that a relevant quality improvement has been produced as well. In recent history, no period of time has ever shown such a clear and irrefutable improvement in the workers' condition.

A first evident variable for measuring the quality of employment is the behavior of real wages, and in this aspect the current government also shows a better performance than the two previous ones, as can be observed in Chart 4.i

Chart 4  
INDEX OF REAL WAGES  
(AVERAGE % CHANGE PER YEAR)



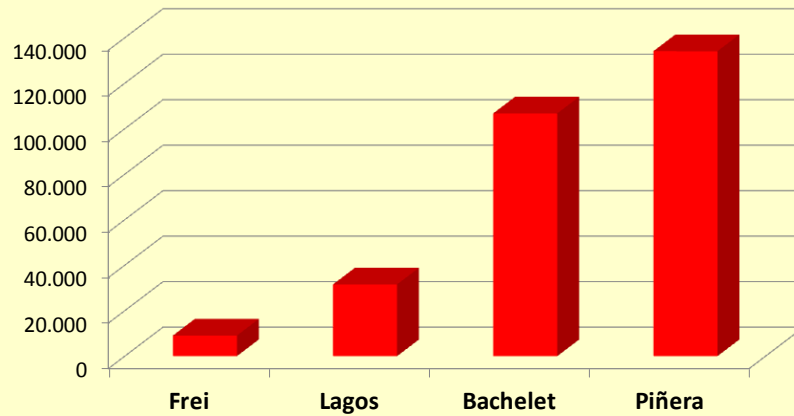
Source: INE

Data from the pension system are also a relevant source in terms of work quality, if we compare the increase in the number of contributors and their average income. These data are shown below, separated by gender (Charts 5 & 6).

We observe that during the last government both men and women contributors showed a record annual average increase. The higher number of contributors can be associated quite directly to greater formal employment, with contract and social security contributions. In the case of women contributors, there is also an important increase during Bachelet's government; however, nearly half of that increase is explained by the implementation of the bonus per child, since in order to be able to receive it, the beneficiaries have to demonstrate at least one contribution in the pension system. Close to 200 thousand women entered and exited the pension system between 2008 and 2009, this fact having no relation with obtaining a formal employment.

Chart 5

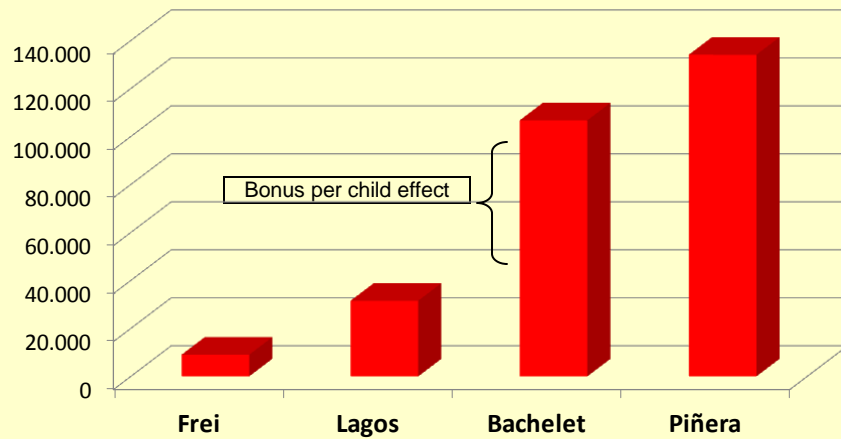
## AVERAGE ANNUAL INCREASE OF MEN CONTRIBUTORS



Source: Chilean Pensions Supervisor (*Superintendencia de Pensiones*)

Chart 6

## AVERAGE ANNUAL INCREASE OF WOMEN CONTRIBUTORS

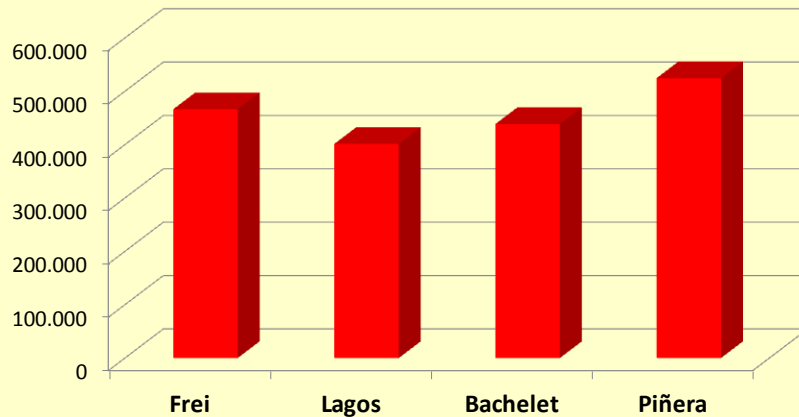


Source: Chilean Pensions Supervisor (*Superintendencia de Pensiones*)

The following charts show the taxable income data in constant currency, where we observe that there is also a higher real average increase in this government, with almost an average 20% real for men and average 17% real for women (see Charts 7 & 8).

Chart 7

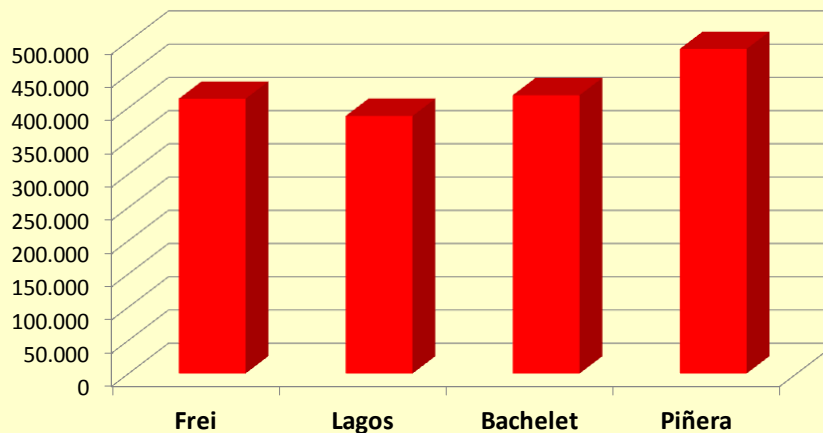
### AVERAGE REAL TAXABLE INCOME OF MEN CONTRIBUTORS (\$ OF 2013)



Source: Chilean Pensions Supervisor (*Superintendencia de Pensiones*)

Chart 8

### AVERAGE REAL TAXABLE INCOME OF WOMEN CONTRIBUTORS (\$ OF 2013)



Source: Chilean Pensions Supervisor (*Superintendencia de Pensiones*)

Additionally, the INE's New Labor Force Survey (NENE) contains abundant information about the quality of employment, which although it does not allow making comparisons with previous periods, it does offer plenty of detail of what has happened in the last four years in relation to the labor market dynamism. A first aspect refers to the existence of written contracts, and through the comparison of the respective flows we are able to maintain that from the 833 thousand jobs created since the first quarter of 2010, 92% has a written contract and social security benefits.

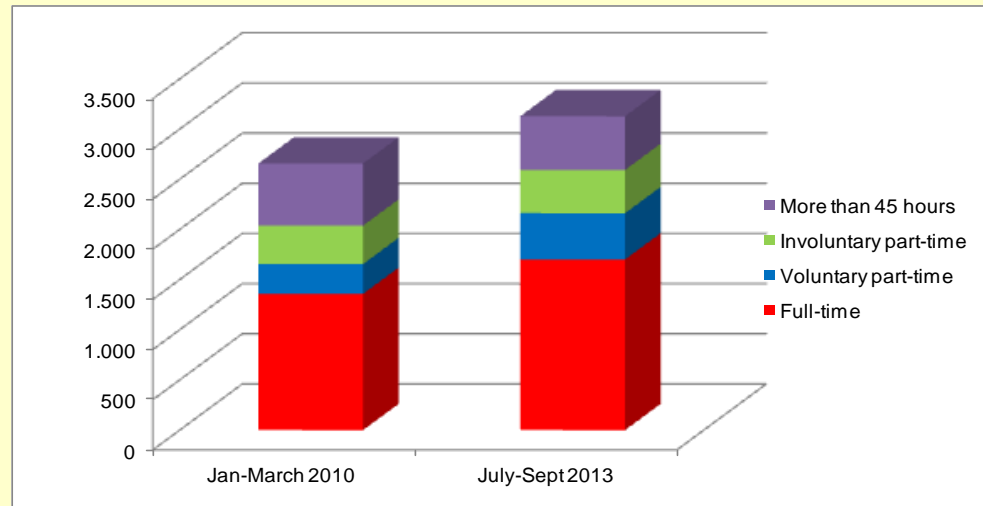
This improvement has allowed increasing the total number of salaried workers with contract from 80% for that period to 86% for the third quarter of this year, which means a relevant improvement. Nevertheless, we cannot overlook that there are somewhat more than 800 thousand workers under a dependence condition without contract and approximately 940 thousand who do not have social security benefits. In other words, they are informal workers. These figures forces us to carefully consider the labor proposals that discourage formality, while making it more rigid and expensive, because instead of improving the situation of low income workers they can lead to the inverse result by bringing them to informality.

A further aspect related to the quality of employment refers to the duration of the contracts. From the NENE data we can deduce that 75% of the 833 thousand created jobs have indefinite contracts, which has allowed the percentage of dependent workers with indefinite contract to go from 68% of the total in the first quarter of 2010 to 73% in the third quarter of this year.

Another relevant feature worth analyzing is subemployment, referred to the percentage of people who involuntarily work part-time and who would be willing to work more hours. In the case of men, the percentage of occupied persons who involuntarily work part-time drops from 8.2% in the first quarter of 2010 to 7.9% in the third quarter of this year. In terms of flow, only 4.8% of the 362 thousand employments created for men fall into this condition. A positive aspect is that the percentage of men who voluntarily work part-time grows from 4.2% to 5.8% of total occupied men. In the case of women, the subemployment rate drops from 14.4% to 13.8% in the period, and the percentage of women who voluntarily work part-time significantly increases from 11% to 15%, which speaks of greater labor flexibility and this is something that working women long and look for. It is also important to highlight that the entire society benefits from greater compatibility between work and family for both parents. Chart 9 illustrates this condition.

Chart 9

### DURATION OF WOMEN'S WORKING DAY (THOUSANDS OF OCCUPIED PERSONS)

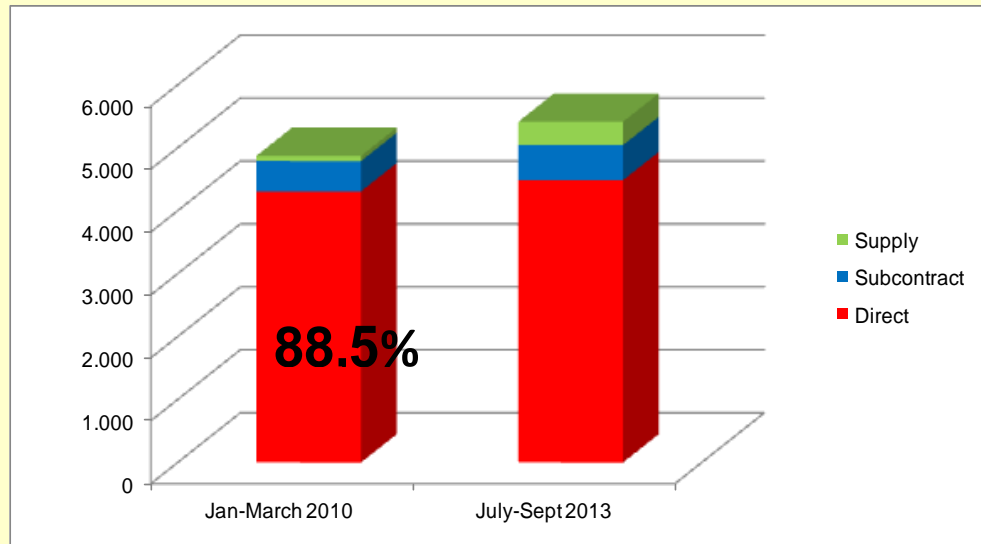


Source: NENE, INE

Considering the above, it calls our attention that some people speak of “insecure jobs”. What are the elements supporting such statement? In these years, we have seen that the percentage of direct employment has dropped and outsourcing has increased. From the 833 thousand jobs created throughout these years, 44% corresponds to indirect contractual relationships. However, if this phenomenon includes wage increases, social security benefits and indefinite contracts, rather than dealing with insecurity it deals with structural changes in the productive organization. The outsourcing of work tells more of productive efficiency than insecurity in the context of the generalized improvement that we have seen. Anyhow, direct hiring still represents 83% of salaried work, as shown in Chart 10.



Chart 10  
TYPE OF WORK RELATIONSHIP  
(THOUSAND OF SALARIED WORKERS)



Source: NENE, INE

### Conclusions

The charts above illustrate quite clearly that a significant improvement in the market labor has actually occurred in these years, both in terms of quality and quantity and that, in comparable figures, it is the best result of the last governments. However, from the legislative point of view, no labor reforms have been implemented during this period to which we can attribute these good results.

What is then the reason for this improvement? It is obvious that the main cause is the economy's dynamism, mainly of investment. In fact, during the government of Patricio Aylwin the GDP increased 7.7%, better than the result of the present government, which is estimated around 5.5%. Nevertheless, investment grew 12% average per year during the period 2010-2012, higher than the 11% growth between 1990 and 1993. Investment is probably the main driving force of labor improvement; therefore it would be an absolute nonsense to implement policies that hinder investment for the sake of decreasing inequality. Finally, workers are better off in a scenario where capital is better off too.

### In brief...

- A record number of posts have been created during the current government, which is not explained by the external scenario, since global growth in this period does not significantly differ from that of previous governments.
- We can neither attribute it to cyclical factors only, because the present one is not the first cycle that affects the economy, and in fact, during the first two years of Michelle Bachelet's government the world's economy registered a record growth.
- The main cause of this improvement is the economy's dynamism, and mainly of investment.

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<sup>i</sup> Its preparation took variations in twelve months of indexes that changed over the period.