

MINIMUM WAGE, DECELERATION AND LABOR REFORM: AN EXPLOSIVE MIX

- Statistics of the labor market seem to evidence that the deceleration of the economy has not had the same impact on all workers. The socially vulnerable groups are the most damaged ones.
- The probable cause is that the minimum wage, which represents the cost of the least qualified labor force, is increasing quite above the productivity growth.
- The Labor Reform, while making formal work more expensive without a clear productivity counterpart, is another element in this complex mix. It is highly important to try to correct the most damaging aspects during its discussion in the Senate.

During the present month, the minimum wage should increase from CLP\$225,000 to CLP\$241,000¹, that is, a nominal increase of 7.1%, and 2.6% real, as a consequence of the triannual adjustment agreed in 2014 between the former Minister of Finance, Alberto Arenas, and the Central Workers' Union (CUT, in Spanish).

At that time, we criticized this adjustment formula, because although it avoids the political discussion on the matter, it does not acknowledge that the minimum wage is a highly relevant price in the economy, and therefore, it should not be alien to the surrounding macro context. Already in 2014, a real adjustment of 2.7% was made, in a scenario of strong deceleration of the economic activity, a situation which repeats itself this year. The labor market figures show the effects of this minimum wage increase, which is reflected by the fact that the most vulnerable groups with lower productivity have been most affected by the strong activity deceleration.

One of the probable consequences of the escalating cost of non-qualified labor force is obtained from the categorization of occupied persons by educational level. During the period 2010-2013, with high dynamism in the economic activity, and the creation of 804 thousand new jobs, 44% of these positions were for workers without higher education. In the last year, when 92 thousand jobs were created, 90 thousand employments for workers without higher education (technical and university) were destroyed and 182 employments were created for the rest, that is, all the employment has reached the groups with lower social vulnerability. It seems that the deceleration of the economic activity has more adversely affected the most vulnerable workers. In any case, it should be noted that these results are partially influenced by the increase in the workers' average schooling years;

thus, the labor force in the groups with less schooling tends to decrease over time. It is complex to estimate the effect of the minimum wage increase on this situation, but there is no doubt that it has been a factor that enables the access of lower income groups to the market. Table 1 shows these data.

IN THE LAST YEAR, 90 THOUSAND JOBS FOR WORKERS WITHOUT HIGHER EDUCATION WERE DESTROYED

Table 1: Variation of occupied persons by educational level (thousands)

Period		Variation 2013/2010 January-March (thousands)	Variation 2015/2014 March-May (thousands)	
Total Occupied Persons		804.0	92.3	
	Never studied	5.7	-6.5	
	Preschool Ed. (level 0)	Preschool Education	3.0	-0.2
	Primary education or first cycle of primary education (level 1)	Primary Education	31.5	-52.0
	Second cycle of primary education or first cycle of secondary education (level 2)	Primary Education	61.4	-37.2
	Second cycle of secondary education (level 3)	Secondary Education	254.0	9.8
	First cycle of tertiary education (level 5)	Technical Education (Non-university Higher Education)	209.5	73.4
		University Education	186.9	105.9
		Postgraduate Studies and MBA	59.1	-0.5
	Second cycle of tertiary education (level 6)	Doctorate Studies	8.8	3.2
Level Ignored		-16.0	-3.7	

Source: New National Employment Survey (NENE), INE.

On the other hand, if we analyze the composition of employment by gender, we observe that the low economic dynamism has also affected women in a greater proportion than men, while the former

have more precarious employment conditions. So, from 92 thousand jobs created in the last 12 months, 92% corresponds to male employment and only 8% to female employment. This represents a sharp contrast with the period 2010-2013, when 55% of new jobs was female employment. In the trade sector, 55 female jobs have been lost in the last year, together with a drop of 21 thousand jobs for domestic workers. Both workers' categories have a higher probability of representing groups who earn the minimum wage.

The occupation by age segment also shows a more complex situation for young persons. In the March-May quarter, compared with the same period of 2014, the unemployment in the country increased by 32 thousand persons, entirely explained by the age segment between 20 and 29 years old. Again, it cannot be attributed only to the minimum wage increase, but it is certainly an aspect that affects mostly the younger groups.

OCCUPATION BY SEGMENT SHOWS A MORE COMPLEX SITUATION FOR YOUNG PERSONS

Table 2: Variation of unemployed by age segment (2015/2014, March-May quarter, thousands)

	2014	2015	Change
15 years and over	528.5	560.5	32.0
15-19	46.1	44.3	-1.9
20-24	115.2	123.6	8.4
25-29	86.5	110.8	24.3
30-34	50.6	55.7	5.1
35-39	46.2	46.3	0.1
40-44	42.0	48.7	6.7
45-49	37.8	37.7	-0.1
50-54	42.8	41.2	-1.7
55-59	28.0	23.9	-4.1
60-64	19.0	13.8	-5.2
65-69	10.6	11.4	0.8
70 years and over	3.6	3.1	-0.5

Source: New National Employment Survey (NENE), INE.

Finally, concerning labor formality, although we do not observe a significant deterioration, the favorable trend of the high growth period, between 2010 and 2013, has been interrupted. Thus, from the 130 thousand new salaried jobs in the past year, 82% has a written contract, and the rest just an oral contract. Between 2010 and 2013, jobs with written contract increased more than the salaried employment, which accounted for an important improvement in labor formality.

Something similar occurs with labor benefits. From the 130 thousand new salaried jobs in the last 12 months, only 57% has, on average, benefits like vacations, leaves and social security. In the period 2010-2013, this percentage was 114%ⁱⁱ.

The conclusion is quite obvious; in a context of increasingly expensive non-qualified labor force, the deceleration has jeopardized the labor market, thereby affecting the most vulnerable groups in a larger proportion.

This concerning scenario is further complemented by the Labor Reform, which tends to make formal hiring more rigid and expensive. The government's discourse in relation to this reform has focused lately on the positive impact of adaptability agreements on productivity, which would neutralize possible higher salary costs. However, in the bill approved in the Chamber of Deputies, the regulation regarding these agreements is already quite rigid; and additionally, it has been announced that the Senate would reinstall its gradual implementation. In practice, the potential and necessary productivity growth, in the current stagnation context of the private sector, would be postponed for the great majority of companies; instead, the elements of the reform that prevail are those that rigidize the formal market, complicate rewards for personal effort, and incentivize strikes, which can additionally turn into violent ones.

Several aspects of the Labor Reform have been signaled as concerning, even by experts close to the government, especially at a moment when recovering the economy's growth capacity is highly necessary. One of these is the end of strike replacement, since it means that this right is absolutized in relation to other equally important rights. A recent report of the Universidad Alberto Hurtado (UAH), by Andrea Butelmann and Lucas Navarroⁱⁱⁱ, indicates that "with the law currently in force, the replacement of workers on strike is already very much restricted and it is neither possible to propose going back to labor rigidities from 40 years ago, when wage increases meant in the end price increases. This does not lead to improve the living conditions of workers, because international competition simply annuls the possibility of transferring these higher salary costs to the prices and, therefore, the business becomes inviable".

In the same line, Oscar Guillermo Garretón has indicated several times that this Labor Reform is intended for an inexistent business reality.

René Cortázar^{iv} has spoken in similar terms, indicating that there would be serious practical problems in the definition and effects of unions being the sole authorized negotiator in companies having more than one trade union, and/or companies whose business areas and functions are significantly different from each other. Both the definition of unions being the sole authorized negotiator and the adaptability agreements seem to assume that companies have one single business and one single trade union, which is obviously not consistent with reality.

Andrea Repetto^v also points out the weaknesses of the bill on this matter. Although she endorses the need to modify the Labor Code in relation to collective rights, she considers that the reform requires to generate a labor productivity increase, and allow workers –ideally represented by trade unions–

and their employers to agree upon conditions that are better adapted to their own reality. Repetto questions a highly relevant aspect, which is that the bill does not make any distinction based on the unions' representativeness. This is a relevant point, because it should be possible to differentiate by section or facility, since the existence of a trade union in one function or facility should not limit the workers' negotiating capacity in other functions or facilities within the same company. The bill as it is creates incentives for having a single union, which is highly distorting in companies with very different areas.

In brief, it is evident that the labor Reform endangers the objective of recovering economic growth. As we have indicated in several previous reports, although this reform contains many questionable aspects, the key to the discussion in the Senate would be to establish at least some sort of replacement and the possibility of workers to pull away from the strike, to establish again the need for peaceful strikes, to better define the figure of the union being the sole authorized negotiator and the adaptability agreements, to extend the matters to be considered in the latter, and to include benefit extension mechanisms. It is also important for the approved legislation to provide sustainability mechanisms for the companies, which are normally subject to highly variable economic cycles and circumstances. This is a Labor Reform whose essence considers as valid and prevailing the business reality that prevailed half a century ago.

If the reform is approved as it is, it will stand in the way of recovering the private economic activity, and at the same, it will mostly affect the most vulnerable workers. If formality becomes more expensive, there will be incentives for informality, which in the end puts at risk the government's objective of greater equity.

ⁱ This means a business cost close to CLP\$310,000, by concept of bonus, unemployment subsidy, and other social security costs.

ⁱⁱ Being greater than 100% means that it goes beyond the newly created jobs.

ⁱⁱⁱ *"Flexibilidad y reforma laboral: lo bueno, lo malo y lo que no está"*, Andrea Butelmann, Lucas Navarro Economic Observatory, Universidad Alberto Hurtado, Faculty of Economy and Business.

^{iv} Presentation at ICARE, "The Third Reform", Roundtable.

^v Presentation in the Work Commission of the Chamber of Deputies.