

# Poverty in Chile and the Labor Market

**If we really wish to progress in poverty uprooting in Chile, it is time to reconsider the labor legislation, not in terms of the workers with medium and high incomes, but in terms of the less productive sectors. We could not only alleviate poverty problems, but also take actions regarding other social facts, such as delinquency, drug abuse and teen pregnancy which contribute to perpetuate it.**

Labor Day, on May 1<sup>st</sup>, is a good opportunity to review the impact of the successive modifications to the labor legislation in the last 20 years.

Despite the changes made, the Chilean labor scene is still pretty uncertain, especially for the low income sectors. Therefore, it would be right to believe that the regulation proceeding picked out is not the most appropriate one to achieve an improvement, since the labor market is divided in two segments; a formal one subject to regulations, which generally corresponds to the most qualified workers with higher productivity, and an informal one

which corresponds mostly to less qualified workers, whose productivity levels are insufficient to be liable to the costs implied in formalization (minimum wages, social security contributions, privileges, indemnities and others).

Thus, labor regulations are favorable for the workers with medium and high incomes, but they are detrimental to workers from poor segments. In order to arrive to this conclusion, we divided the analysis in several aspects.

## **1) Classification by Employment Category**

We may observe that the quality of work has not changed much in 20 years, considering that paid employment is in general superior to self

employment. Paid employees represent less than 70% of the total, while self employees, more than 20%.

Table 1

### EMPLOYED BY CATEGORY (% OF THE TOTAL)

	Employers	Self Employee	Paid Employee	Service Personnel	Unpaid Family Worker
IV. 1990	4.0	23.3	62.2	6.2	3.9
IV. 2010	4.7	20.8	68.4	4.7	1.5

Source: INE (National Statistics Institute).

### 2) Labor Participation by Gender

The feminine participation rate has increased in the last 20 years from 30.9% to 45.3%, but it is still far behind the OECD average (60%), and also below the countries of the regions with similar development levels.

Table 2

### LABOR MARKET CONDITION BY GENDER (%)

	1990		2010	
	Men	Women	Men	Women
Participation Rate	75.6	30.9	72.0	45.3
Employment Rate	70.3	27.9	66.8	40.9
Unemployment Rate	6.9	9.7	7.3	9.7

Source: INE.

It is interesting to note that in the last 20 years the masculine labor participation has decreased, which is a delicate fact since it is mainly explained by the situation of less qualified work.

We observe that the feminine unemployment rate has maintained itself around 10%, while the masculine unemployment rate is higher than 20 years ago.

### 3) Labor Participation by Gender and Quintile

In this case, there are no comparable figures available for 1990, but the data divided by quintile show a very dramatic labor situation for the lower income quintiles, especially for women. In the first quintile, only 1 of 4 women participates in the labor market and, of these, a third does not find a job. Thus, it is easy to conclude that women's

poverty levels in Chile are explained because they have great difficulties in finding a job. Labor regulations are not properly dealing with this situation.

Table 3

### LABOR PARTICIPATION RATES BY QUINTILE AND GENDER

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
Men	54.6%	66.9%	73.1%	77.3%	80.4%	70.7%
Women	25.5%	35.1%	43.3%	51.7%	58.7%	42.1%
Total	38.3%	49.7%	57.5%	64.2%	69.5%	55.7%

Source: CASEN 2009.

Table 4

### EMPLOYMENT RATES BY QUINTILE AND GENDER

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
Men	41.1%	60.0%	68.1%	73.2%	77.7%	64.4%
Women	17.2%	28.9%	38.8%	48.5%	55.4%	36.9%
Total	27.7%	43.2%	52.8%	60.6%	66.5%	49.9%

Source: CASEN 2009.

Table 5

### UNEMPLOYMENT RATES BY QUINTILE AND GENDER

	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
Men	24.7%	10.3%	6.8%	5.2%	3.3%	8.9%
Women	32.6%	17.6%	10.4%	6.2%	5.6%	12.3%
Total	27.6%	13.1%	8.2%	5.6%	4.3%	10.3%

Source: CASEN 2009.

The figures above clearly show that the feminine unemployment problem is in the first two quintiles. The masculine unemployment is also very high for the lowest quintiles, while in the highest quintile there is practically no unemployment problem. The conclusion is evident: today's most efficient social policy is to improve the employability of the poorer sectors.

#### 4) Reasons for the Labor Inactivity

The labor participation figures indicated above show that a relatively high percentage of men (28%) and a very high percentage of women

(54.7%) who have the capacity to work remain inactive. Table 6 shows the inactivity reasons for men and women.

Table 6

REASONS FOR LABOR INACTIVITY, DEC-FEB 2011  
(% OF TOTAL INACTIVES)

	Men	Women
Inactive Total (thousands)	1,744.8	3,653.2
Seeking employment	2.1	1.0
Not seeking employment because of:		
Permanent family reasons	1.6	37.8
Education or training	39.9	18.5
Retirement	21.6	6.5
Pension fund and widow pension fund	8.2	11.9
Illness or disability	11.8	9.9
Temporary personal reasons	2.3	2.7
Does not want to work	6.4	7.3
Seasonal reasons	1.5	0.9
Discouragement	2.2	2.0
Other reasons (potential)	2.4	1.4

Source: INE.

It is possible to conclude that there are a total of 782 individuals who have the capacity to work (last five reasons mentioned) but are not working. Likewise, in the case of women, a high percentage does not work for permanent family reasons (child and elderly care), a fact that could be reduced with appropriate public policies. We also observe that a positive way of increasing the labor participation rates is to allow a better compatibility between work and study, considering that 25.5% of the inactive people do not work for educational reasons.

### 5) Employment by Size of Business

Businesses with less than 5 employees account for one third of the workers (Table 7); therefore, policies which favor these small businesses are finally attractive policies for the labor market. For this size of businesses the main cost is labor cost, so if it is artificially increased through regulations, in the end it affects the workers themselves, since they can lose their labor source.

Table 7

EMPLOYED BY SIZE OF BUSINESS AND SEX  
NATIONAL TOTAL, DEC-FEB 2011 (% OF THE TOTAL)

Size of Business	Total	Women	Men
<b>Total (thousands)</b>	<b>7,059.32</b>	<b>2,553.46</b>	<b>4,505.86</b>
Less than 5	32.7	33.6	32.1
Between 5 and 10 employees	7.7	6.5	8.5
Between 11 and 49	14.4	12.7	15.3
Between 50 and 199	11.9	10.5	12.6
200 and more employees	33.3	36.7	31.4

Source: INE. \*Domestic service is not included.

**6) Inactivity according to CASEN 2009, by Age Groups**

Table 8

ACTIVITY CONDITION BY QUINTILES (19-30 YEARS)  
NUMBER OF INDIVIDUALS

MAN

Quintile	Works	Studies	Does not study nor work	Total
i	92,974	45,235	116,377	254,586
ii	195,810	61,114	70,242	327,166
iii	230,245	66,096	50,451	346,792
iv	233,057	82,683	42,780	358,520
v	204,057	101,617	24,934	330,608
total	956,143	356,745	304,784	1,617,672

Source: CASEN 2009.

WOMAN

Quintile	Works	Studies	Does not study nor work	Total
i	59,993	54,750	208,426	323,169
ii	118,999	72,697	166,585	358,281
iii	149,661	73,907	114,391	337,959
iv	158,784	75,467	74,907	309,158
v	160,286	116,791	42,007	319,084
total	647,723	393,612	606,316	1,647,651

Source: CASEN 2009.

The CASEN Survey shows very high figures for individuals not studying nor working among young people, and also very high

inactivity figures for the low quintiles. These facts demonstrate the labor market rigidities which do not allow the access to these groups. Additionally, these high inactivity percentages have an impact on the delinquency and drug abuse problems which affect low income people stronger. Therefore, to favor employability of the low income sectors is also a policy which favors the control of delinquency and drug abuse.

Table 9

ACTIVITY CONDITION BY DECILES (31-60 YEARS)  
NUMBER OF INDIVIDUALS

MEN

Decile	Does not Work	Works	Total
i	101,711	104,305	206,016
ii	59,660	226,987	286,647
iii	45,920	237,241	283,161
iv	35,466	247,766	283,232
v	27,480	266,305	293,785
vi	28,305	288,336	316,641
vii	23,966	298,419	322,385
viii	18,499	304,675	323,174
ix	13,048	296,233	309,281
x	7,262	280,255	287,517
Total	361,317	2,550,522	2,911,839

WOMAN

Decile	Does not Work	Works	Total
i	233,938	62,519	296,457
ii	247,040	106,309	353,349
iii	214,263	129,945	344,208
iv	191,555	148,819	340,374
v	164,214	169,984	334,198
vi	150,831	192,778	343,609
vii	127,550	213,415	340,965
viii	119,256	224,951	344,207
ix	94,607	219,218	313,825
x	72,300	204,288	276,588
Total	1,615,554	1,672,226	3,287,780

Source: CASEN 2009.

We can observe that for the first and second income quintile, almost half the youngsters between 19 and 30 years old does not study nor work, which constitutes a serious social problem. For women, the figure is more than half. Thus, it is very important to implement policies which improve the employability of these groups. This situation could be partially alleviated by the implementation of differentiated minimum wages according to the labor experience level, which would foster the hiring of young people. We must not forget that “learning by doing” is an excellent tool to generate labor productivity increases.

Low income adults also show very high inactivity percentages, especially for women, where only 21% of the total works. On the other hand, with regard to the highest feminine decile, 74% works; a figure equivalent to that of developed countries.

### 7) Degree of Labor Formality

The degree of labor formality, partially provided by the signature of a written contract, is also reduced for the lowest income levels, as shown in Table 10.

Table 10

#### DEGREE OF LABOR FORMALITY BY DECILE

Decile	Signed Contract	Non-signed Contract	No Contract	Does not Know	Total
i	50%	3%	43%	4%	100%
ii	66%	3%	29%	2%	100%
iii	70%	2%	26%	2%	100%
iv	76%	2%	20%	3%	100%
v	77%	2%	19%	2%	100%
vi	80%	2%	16%	2%	100%
vii	81%	2%	15%	1%	100%
viii	85%	2%	12%	1%	100%
ix	86%	2%	12%	1%	100%
x	86%	3%	10%	1%	100%
Total	78%	2%	18%	2%	100%

Source: CASEN 2009.

### Conclusions

The analysis above clearly demonstrates that the poverty problem in Chile has an important labor component. This situation has shown very little improvement in the last years; instead of favoring the labor insertion of low income sectors, a handout approach has been preferred to solve the poverty problems. But this approach has the inconvenient that it does not promote work. Why do the low income sectors participate in such reduced levels in the labor market? Reasons can be divided in two types: demand reasons and offer reasons. Among the first ones are no doubt included the formality costs. The current regulatory scheme raises the cost of labor force hiring, which specially harms the less qualified workers.

It is important to point out that these workers are not represented by the *Central Unitaria de Trabajadores (CUT – Central Workers' Union)*, which in general defends the rights of the medium income workers. How can we improve the employability of these sectors? Obviously the best way to improve labor productivity is through quality education and training. Besides formal education, the training of the so called “soft capabilities” (discipline, hardworking, punctuality, honesty, perseverance, etc.) is very important. For this purpose, a favorable policy would be to improve and to focus the existing training systems. Another approach mentioned above is through minimum wages differentiated by work experience, incentives in the payment of social contributions and others.

Concerning the work offer of these sectors, social policies should avoid the handout approach. The design of the future ethical family income is a key issue in this matter.

If we really wish to progress in poverty uprooting in Chile, it is time to reconsider the labor legislation, not in terms of the workers with medium and high incomes, but in terms of the less productive sectors. We could not only alleviate poverty problems, but also take actions regarding other social facts, such as delinquency, drug abuse and teen pregnancy which contribute to perpetuate it.