

Minimum Wage Adjustment: A Reasonable Increase

If parameters of the proposal agreed by all members of the Labor and Minimum Wage Advisory Committee, including the CUT members, are used, a 4.4% increase of the minimum wage is obtained. This proposal reasserts that the claims of the CUT and the Concertación regarding a wages increase of approximately 10% have a clear political undertone, and it also confirms the fact that the Government's proposal is not so mean but quite the opposite.

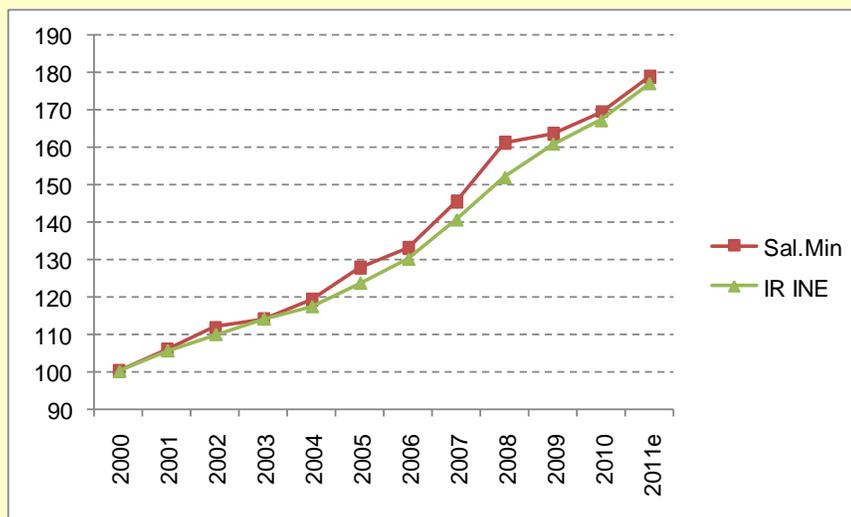
The Government sent to the Congress a proposal of 5.5% adjustment for the minimum wage which would increase it to CLP\$181,500, amount that is above the initial approach which fixed it in CLP\$180,000. The proposal has been rejected by the Central *Unitaria de Trabajadores* (CUT, Workers Trade Union) – a phenomenon that is not new in this matter-, who asked a 10.5% increase for attaining a minimum wage of CLP\$190,000.

The most attractive fact of this situation is not the CUT's rejection of a proposal that seems even a little high, but the fact that the Concertación has decided to support the CUT's position, in spite that in the last years the minimum wage adjustment proposals of the previous governments were in the same line of what is now being proposed. The current proposal implies a real increase around 2% according to the historic inflation and a little higher if we consider the expected inflation. During the past government, the minimum wage's average real increase was also 2%, slightly lower to that of Ricardo Lagos's government. So we can say that the Concertación rejects a proposal definitely equivalent to those approved before.

The official proposal, similarly to that submitted in previous years, is in line with the average wages behavior in the economy, conclusion that is deduced from comparing the evolution of the minimum wage with the salary index (IR) per hour of the INE (National Institute of Statistics).

Chart 1

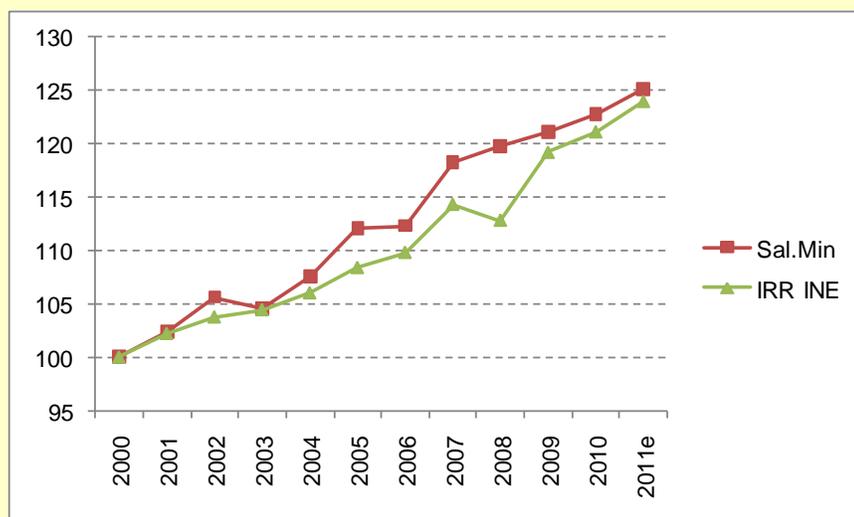
MINIMUM WAGE AND NOMINAL SALARIES (IR INE) INDEXES 2000 = 100



Source: Prepared by LyD based on figures from the INE, Labor and Minimum Wage Advisory Committee.

Chart 2

MINIMUM WAGE AND REAL SALARIES (IRR INE) INDEXES 2000 = 100



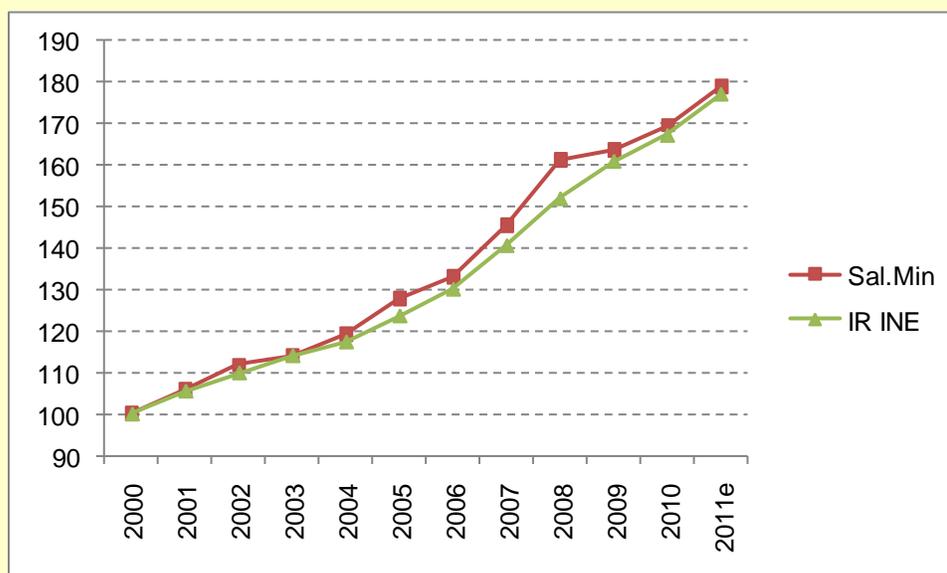
Source: Prepared by LyD based on figures from the INE, Labor and Minimum Wage Advisory Committee.

Additionally, Chart 2 shows that the minimum wage tends to rise above the average salaries, which means that employment problems that may arise from an excessive adjustment shall not be left aside.

The current government, aware that this subject normally generates unnecessary political noise, called a committee of experts, in April 2010, to propose a stable adjustment mechanism. The Committee also included representatives of the labor world. The Committee members delivered the report on June 2010, and later they added a specific adjustment formula. It is interesting to observe the Committee's main conclusions.

Chart 3

MINIMUM WAGES IN DOLLARS, ADJUSTED BY PPP



Source: Labor and Minimum Wage Advisory Committee.

In the first place, we should mention that under different parameters, the minimum wage in Chile is not low, but on the contrary, so there are no reasons for adjustments higher than the general situation of salaries in the country. In relation to the region, and considering the 2008 figures, in Chile the minimum wage covers 2.9 poverty lines, only exceeded by Panama, and quite higher than the Latin America average, of 1.8 times. Within the OCDE, and in relation to the average salary, the minimum wage in Chile seems also high. In Chile, the minimum wage equals to 61.5% of the average salary in comparison with the 45.6% average for the OCDE. This means that there is a greater probability that the minimum wage affects the employment possibilities of less qualified people. Finally, if we compare the minimum wages in dollars, adjusted by the Purchasing Parity Power (PPP) within the region, the country is also ranked in a high position.

Another important issue refers to the impact that minimum wage may have on employment, affecting the employment possibilities of less qualified people. This constitutes a key factor, since minimum wage fixing must reconcile the objectives of avoiding abuses and improving the poverty situation of workers with higher autonomous incomes, otherwise, the most impaired are precisely the poorest, only because they cannot find work or because they end up accepting an employment under precarious conditions, that is, without any type of social protection. The Committee has found statistical evidence that this problem is now occurring in Chile, so it is advisable to be very cautious when fixing adjustments.

In our opinion, the results from the CASEN survey 2009 with regard to the labor situation of lower income quintiles, show strong evidence that formal employment costs in Chile are seriously affecting the employment possibilities of less qualified people. There is no doubt that the best social policy is formal employment, even if salaries are insufficient for covering the needs of the family group, for two reasons: first, it increases the probability that more members of the family may work, with a substantial income increase, and second, because the best way of increasing productivity is working ("*learning by doing*"), so the possibility of entering into the labor market improves future perspectives.

The problem does not end in the lack of work, since these unemployed groups of lowest income frequently fall into delinquency and drug consumption; therefore, boosting employment in these groups involves not only an income increase policy but also public security and social peace.

The Government intends to cope with the situation through a subsidy for young people, which until now has had rather insignificant results, probably due to unfamiliarity problems in relation to the policy. It would be more effective to establish a policy for a separate minimum wage according to the number of social security contributions of a worker, since it allows promoting women's employmentⁱ. It is not clear why the Committee has not proposed amendments in this sense, probably due to the opposition that the CUT has always demonstrated in this matter. It would certainly be the most effective way to obtain the benefits of a minimum income policy, without the employment costs it generates.

The following Tables show the CASEN figures of employment for the different quintiles.

Table 1

WORKING SHARE RATE BY QUINTILE AND AGE
(EMPLOYED AND UNEMPLOYED / TOTAL)

Age	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
15 - 18	10%	13%	13%	16%	11%	12%
19 - 24	42%	54%	60%	58%	47%	53%
25 - 34	57%	70%	80%	84%	89%	77%
35 - 50	57%	70%	77%	84%	89%	75%
More than 50	22%	32%	40%	50%	61%	41%
Total	38%	50%	58%	64%	70%	56%

Source: CASEN.

Table 2

EMPLOYMENT RATE BY QUINTILE AND GENDER
(EMPLOYED / LABOR FORCE)

Age	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
15 - 18	40%	60%	69%	67%	69%	60%
19 - 24	49%	76%	82%	87%	86%	77%
25 - 34	68%	86%	91%	94%	94%	89%
35 - 50	82%	91%	95%	97%	98%	93%
More than 50	81%	93%	95%	97%	98%	95%
Total	72%	87%	92%	94%	96%	90%

Source: CASEN.

Table 3

UNEMPLOYMENT RATE BY QUINTILE AND GENDER
(UNEMPLOYED / LABOR FORCE)

Age	Quintile 1	Quintile 2	Quintile 3	Quintile 4	Quintile 5	Total
15 - 18	60%	40%	31%	33%	31%	40%
19 - 24	51%	24%	18%	13%	14%	23%
25 - 34	32%	14%	9%	6%	6%	11%
35 - 50	18%	9%	5%	3%	2%	7%
More than 50	19%	7%	5%	3%	2%	5%
Total	28%	13%	8%	6%	4%	10%

Source: CASEN.

The figures above clearly show the labor problem of the poorest quintile, where only 38% participates in the labor market, with an unemployment rate of 19%. In this quintile, young people between 19 and 24 years old report an unemployment rate of 51%, so it seems evident that the minimum wage level is restrictive for these groups. The CASEN survey also shows that in 2009 there were a total of 561 thousand people between 19 and 30 years old of the first two quintiles that did not study nor work. Obviously, this situation cannot be explained by the fact that they do not need to work but are prevented from working for some reason. From this number, 187 thousand are men, so the reason is not baby care. Similarly to the information delivered by previous Public Issues, we may conclude that the poverty problem in Chile is mainly explained by a problem in the labor market which obliges us to be very attentive to the minimum wage policy.

On the other hand, we cannot ignore the fact that very high minimum wages affect development of small companies in Chile, which are the ones that hire more workers from the first quintiles. Table 4 describes this situation.

Table 4

COMPANY SIZE WHERE EMPLOYED PEOPLE WORK, IN PERCENTAGE ABOVE THE DECILE'S TOTAL

Decile	Alone	With 2-5 people	With 6 - 9	With 10 - 49	With 50 - 199	With 200 and more	Does not know
i	30%	17%	6%	13%	7%	10%	17%
ii	21%	16%	7%	16%	10%	13%	17%
iii	21%	13%	6%	16%	11%	17%	17%
iv	18%	11%	6%	16%	13%	19%	18%
v	21%	12%	5%	15%	11%	18%	18%
vi	19%	12%	6%	15%	12%	21%	15%
vii	19%	13%	5%	15%	12%	21%	14%
viii	19%	13%	4%	15%	11%	26%	13%
ix	20%	15%	4%	16%	11%	25%	10%
x	14%	15%	6%	15%	13%	31%	6%
Total	19%	14%	5%	15%	11%	22%	14%

Source: CASEN.

We may observe that in the first quintile, employed people work on their own account and in companies of 2 to 5 workers. Higher deciles, which are not affected by the minimum wage, work mainly in big companies, since it is easier for them to support the labor cost increases. We observe that an exaggerated increase of the minimum wage affects smaller companies, where differentiation between employer and worker is rather blurred.

The Committee's Adjustment Proposal

In general, the Labor and Minimum Wage Advisory Committee proposed to change first the date of the adjustment, from July to January, which seems reasonable. Second, it proposed an increase according to the historic inflation, plus an increase by productivity; the last one, measured as an increase of the GDP minus the employment increase. In addition, the formula has an escape clause when unemployment exceeds a reference rate (established in 8%) plus two percentage points.

This formula seems reasonable and it fits very well to the minimum wage policy of previous years. It also has a bullish tendency due to the way of considering the productivity factor, since it assumes that all the productivity increase comes from the labor factor, without considering the capital productivity increase.

If the parameters of this proposal, agreed by all the Committee's members, including the CUT members, were used, a 4.4% increase of the minimum wage is obtained. This proposal reasserts that the claims of the CUT and the Concertación regarding a wages increase of approximately 10% have a clear political undertone, and it also confirms the fact that the Government's proposal is not so mean but quite the opposite.

ⁱ Today there is a lower minimum wage, but only for people under 18 years old.