

# Who Earns the Minimum Wage in Chile?

**In view of today's debate, it is important to highlight that, among full-time formal employees between 19 and 64 years old, only 100 thousand receive the minimum wage as a single income of the family group. However, the group that would be adversely affected by pronounced increases is significantly higher, so moderation is recommended in order to include in the labor market those presenting high vulnerability conditions.**

The minimum wage discussion is crossed by political considerations that tend to forget that we are dealing with maximum price fixing in a market which operates under a hiring freedom system; therefore, as with pricing in general, there are losers and winners with the policy, and as a result thereof, the size of the market is reduced and losses exceed benefits.

The purpose of this analysis is to show, through data, the magnitude of those positively and negatively affected, and among the first ones, to analyze their characteristics within the family group, the type of businesses where they work and if they have additional income sources or not. The base for these figures is the CASEN Survey, the most complete one for this kind of analysis, but which has the disadvantage of

depending from the information delivered by the interviewees, who normally feel encouraged to under declare their income, which is partially corrected by ECLAC when raising the household incomes in order to be consistent with the National Accounts.

A first approach to the number of employees who earn the minimum wage is the 2011 ENCLA Labor Survey<sup>i</sup>, which is applied to businesses regulated by the Labor Code, with five or more employees with written contract. Considering the data of the National Statistics Institute (INE), nearly 4.5 million employees belong to this group. From this total, 8.1% earned the minimum wage in 2011, that is, close to 370 thousand workers. Workers in the service personnel category who earn that salary should be added to this number, and although there is no precise information on this data, in total they account for 338 thousand workers in this category. According to the 2011 NESI Survey (*Nueva Encuesta Suplementaria de Ingresos*), in the first income quintile there are 38 thousand households whose head of the

household is in that occupation category. This indicates that the proportion earning the minimum wage in this group would be between 10% and 15%.

A highly relevant point for defining the universe of workers who might benefit from a minimum wage increase is to circumscribe it to formal employees, since informal workers, either earning this salary or not, are by definition not benefited by the increase, precisely because of their informality condition. Currently, nearly 780 thousand salaried workers have no written contract, but only a word agreement, although probably this word agreement does not necessarily mean that an employment with formal characteristics does not exist.

Another way of approaching the above figures is through the information from the Chilean Pensions Supervisor (*Superintendencia de Pensiones*). According to it, in last March the total number of dependent contributors was 4.8 million workers, a number similar to the sum of salaried workers with written contract plus the service personnel. These data suggest that 868 thousand have a taxable salary lower than CLP\$200,000; however, this figure cannot be used as proxy of those earning the minimum wage for three reasons: first, the cut off value is CLP\$200,000, which is higher than the current minimum wage; second, it does separate between dependent and independent contributors to the pension funds; and third and most important, it does not adjust by working time, thus including part-time workers who, adjusted by working hours, earn above the minimum.

Consequently, we will use data from the 2011 CASEN Survey to make a profile of the people who earn the minimum wage, but considering a universe of formal employees (with signed contract or about to sign it) between 19 and 64 years old, full time (and who also declare to work more than 30 hours a week). A total of 3,759,249 employees fulfill these conditions. It is important to point out that in the CASEN Survey, incomes are self-reported; therefore, interviewees feel inclined to under declare.

The first thing we have to consider for the analysis is the salary level to be used. When the CASEN Survey was carried out, the minimum wage was CLP\$182,000. To this, we have to add benefits or bonuses (not always present) and subtract the social security contributions, which in the end gives us the same figure of CLP\$182,000.<sup>ii</sup>

The following tables show the characteristics of those who earn the minimum wage in terms of their position in the family group, and if it is the single occupational income they receive. First, figures for both sexes and then separately for men and women, are shown. We observe that although almost 300 thousand workers receive the minimum wage or less, for only a third it is the only occupational income of the family group. The table shows that 199 thousand people receiving the minimum wage rely on other occupational incomes in the family group. Another equally relevant data is the fact that for those 100 thousand workers who receive the minimum

wage as the single occupational income, the latter represents only 57% on average of the total income of the family group, since the rest corresponds to subsidies, self-supply of goods and other transfers.

Table 1

NUMBER OF WORKERS OF BOTH SEXES WHO EARN UP TO 1.25  
 MINIMUM WAGES. CHARACTERIZATION BY ROLE WITHIN THE  
 FAMILY GROUP.

BOTH SEXES	Single Occupational Income		Total
	NO	YES	
Relationship to the head of the household			
Head of the household	59,194	68,262	127,456
Husband/wife/couple	55,248	9,809	65,057
Son/daughter of both	33,697	4,910	38,607
Son/daughter of the head of the household only	25,845	13,062	38,907
Son/daughter of the husband only	1,721	334	2,055
Father or mother	586	89	675
Father- or mother-in-law	720	0	720
Son-/daughter-in-law	8,732	1,042	9,774
Grandchild	3,263	1,297	4,560
Brother/sister	3,255	660	3,915
Brother-/sister-in-law	339	23	362
Other relative	3,821	1,114	4,935
Non-relative	2,048	347	2,395
Domestic help living in the home	201	0	201
<b>Total</b>	<b>198,670</b>	<b>100,949</b>	<b>299,619</b>

Source: CASEN Survey 2011.

We also appreciate that, among workers receiving the minimum wage, 52% corresponds to women and 48% to men. Within the head of the household category, 42% are women and 58% are men.

Table 2

NUMBER OF MALE WORKERS WHO EARN UP TO 1.25 MINIMUM WAGES. CHARACTERIZATION BY ROLE WITHIN THE FAMILY GROUP.

MEN	Single Occupational Income		Total
	NO	YES	
Relationship to the head of the household			
Head of the household	33,175	40,043	73,218
Husband/wife/couple	7,663	6,416	14,079
Son/daughter of both	17,381	2,634	20,015
Son/daughter of the head of the household only	12,517	7,842	20,359
Son/daughter of the husband only	1,032	18	1,050
Father or mother	63	0	63
Son-/daughter-in-law	5,207	934	6,141
Grandchild	1,752	949	2,701
Brother/sister	1,835	175	2,010
Brother-/sister-in-law	124	0	124
Other relative	2,111	585	2,696
Non-relative	1,182	263	1,445
<b>Total</b>	<b>84,042</b>	<b>59,859</b>	<b>143,901</b>

Source: CASEN Survey 2011.

Other relevant information is the type of business where workers receiving the minimum wage work. Although in this question the results are not too reliable, we can see that around 47% works in businesses which have between 2 and 49 workers, 32% in businesses with more than 50 workers, and only 15% in what is considered large businesses. In order to give more solidity to this data, the figures from the 2011 NESI Survey show that 54% of the heads of the household of the first income quintile works in businesses with less than 10 workers, and only 17% does it in large businesses. This means that small businesses are potentially affected by an important increase of the minimum wage, and it should also be considered that, in general, they face disadvantageous conditions in relation to the larger ones. A very significant adjustment can actually impair the viability of these firms.

Not only small businesses are adversely affected by a very high minimum wage, but also all the workers who are left out of the market. The CASEN data also allow dimensioning this group.

Although the unemployment rate is close to 6%, the unemployment rate for young people between 15 and 24 years old is 17%, and contrary to the average rate, it does not show a decreasing trend in the last two years.

Table 3

NUMBER OF FEMALE WORKERS WHO EARN UP TO 1.25 MINIMUM WAGES. CHARACTERIZATION BY ROLE WITHIN THE FAMILY GROUP.

WOMEN	Single Occupational Income		Total
	NO	YES	
Relationship to the head of the household			
Head of the household	26,019	28,219	54,238
Husband/wife/couple	47,585	3,393	50,978
Son/daughter of both	16,316	2,276	18,592
Son/daughter of the head of the household only	13,328	5,220	18,548
Son/daughter of the husband only	689	316	1,005
Father or mother	523	89	612
Father- or mother-in-law	720	0	720
Son-/daughter-in-law	3,525	108	3,633
Grandchild	1,511	348	1,859
Brother/sister	1,420	485	1,905
Brother-/sister-in-law	215	23	238
Other relative	1,710	529	2,239
Non-relative	866	84	950
Domestic help living in the home	201	0	201
<b>Total</b>	<b>114,628</b>	<b>41,090</b>	<b>155,718</b>

Source: CASEN Survey 2011.

Additionally, if we measure the juvenile unemployment rate in the first income quintile, the 2011 CASEN data account for 45%. In other words, nearly half of the young belonging to the poorest 20% who wish to work do not find a job. We are talking about more than 70 thousand young people and 125 thousand if we incorporate the second quintile. Furthermore, these unemployed rates conceal part of the problem, since there are many young people from the lowest strata who do not participate in the labor market, they do not either study nor work, and consequently they fall into social risk situations. There are over 300 thousand young in the first quintile who are in this condition, and in view of the current minimum wage they are less attractive than the more experienced workers. A very high minimum wage would further increase these numbers.

We observe a rather similar situation for women in the first two income quintiles. According to the 2011 CASEN, there are 209 thousand unemployed women in the first two income quintiles (25%) and more than 2 million inactive women in this segment, with a labor participation rate of only 30%.

Thus, we can conclude that, although there is a group who benefits from a greater minimum wage, only 100 thousand formal employees obtain the minimum wage as single income, while the group who is adversely affected is significantly larger, so moderation is recommended in order to include in the labor market those actually presenting high vulnerability conditions. For many years this has been the predominating criteria in the country when it comes to fix this price, and it does not seem reasonable that the same people who acted earlier in a responsible manner, now search to obtain political dividends with proposals that do not seem very judicious.

In the context of a possibly new institutional framework in the minimum wage adjustment policy, we could propose the alternative of differentiated minimum wages according to the density of the worker's social security contributions. A policy in this direction would simultaneously foster the hiring of young people and women with no work experience, along with the encouragement to contribute to the pension funds, a very necessary issue today.

### In brief...

#### TRUE FACTS OF THE CHILEAN MINIMUM WAGE IN FIGURES:

- Data from the 2011 CASEN Survey are used to make a profile of the people who earn the minimum wage, considering a universe of formal employees (with signed contract or about to sign it) between 19 and 64 years old, full time (and who also declare to work more than 30 hours a week).
- Although almost 300 thousand workers receive the minimum wage or less, for only a third it is the single occupational income of the family group.
- Additionally, for those 100 thousand workers, the minimum wage represents 57% on average of the total income of the family group, since the rest corresponds to subsidies, self-supply of goods and other transfers.
- On the other hand, not only small businesses are adversely affected by a very high minimum wage, but also all the workers who are left out of the market, especially women and young people.
- In the context of a possibly new institutional framework in the minimum wage adjustment policy, we could propose the alternative of differentiated minimum wages according to the density of the worker's social security contributions.

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<sup>i</sup> The surveys previous to 2011 did not include information on workers earning the minimum wage.

<sup>ii</sup> For all the calculations made in the 2011CASEN Survey, the variable “Income of the Main Occupation” was used, according to the recommendations of the survey’s “User Manual”.