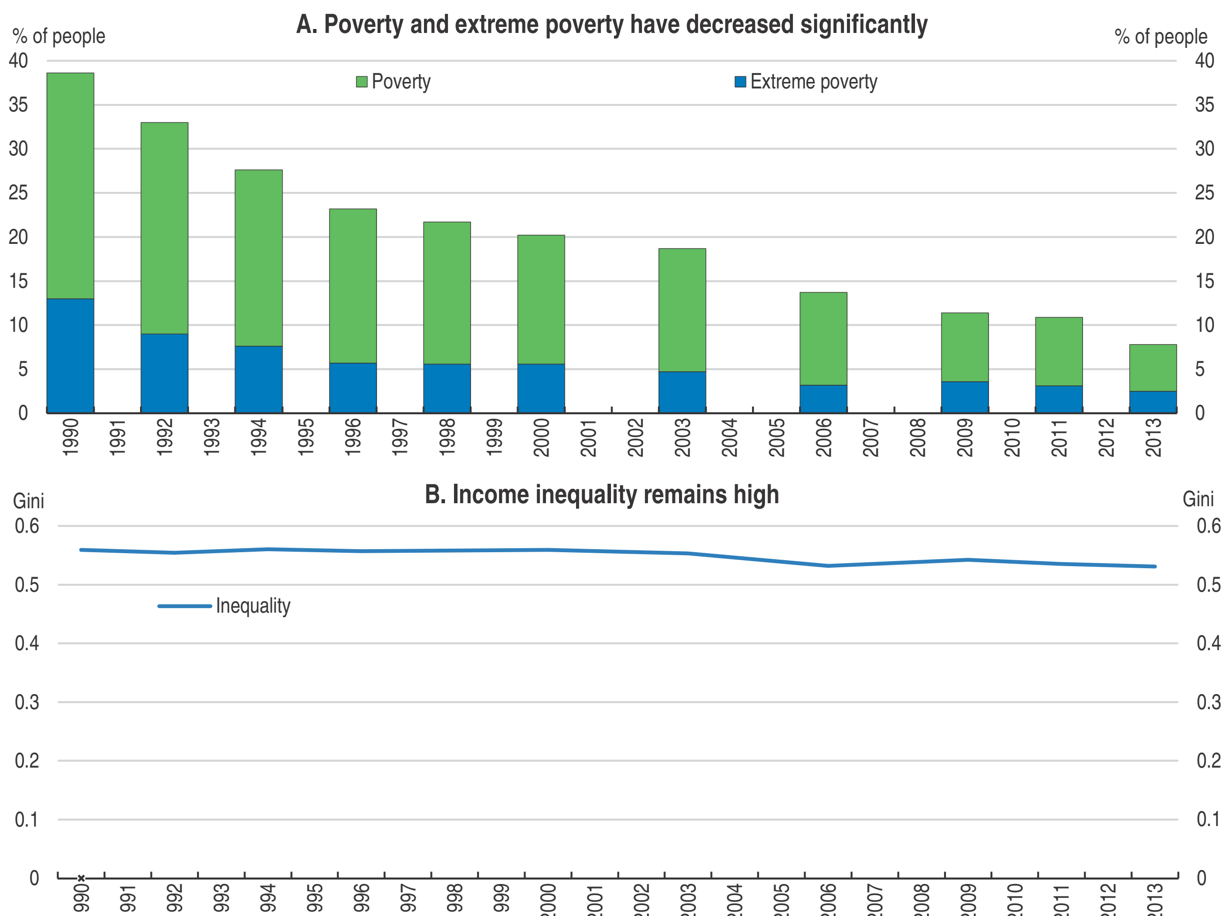
Chapter 1

Bringing all Chileans on board

The Chilean economy has had an extraordinary performance over the last decades with strong growth and declining poverty rates. However, the economy is now slowing at a time when inequality remains very high, making future social progress challenging. This chapter discusses how to achieve greater social inclusiveness against the background of weaker medium-term growth. First, it argues that Chile needs to increase income redistribution through its tax and transfer system towards levels prevailing in other OECD countries. Although existing social transfers are effective in combatting poverty, their size remains small and many households at the bottom of the ladder are not reached by them. Second, the chapter argues that labour earnings should be less disparate, as they explain around 70% of income inequality. This should be done by updating labour legislation, but also by empowering low-skill workers and enabling them to increase their productivity, through the acquisition of adequate skills. Finally, focus should be placed on closing wide gender gaps.

Chile has made tremendous progress over past decades improving the quality of life of its citizens. Since the 1990s, economic growth and poverty reduction achieved by Chile have been among the most impressive in the OECD. However, robust growth has not delivered inclusive prosperity as limited progress has been made to reduce overall income inequality (Figure 1.1), leaving Chile as one of the most unequal countries in the OECD. Addressing this challenge would contribute to sustainable long-run growth by raising social capital and public trust, and by reducing distributional conflict and crime, leading to higher factor accumulation and productivity improvements.

Figure 1.1. **Despite strong progress reducing poverty, high levels of inequality remain**



Note: The poverty line for a family of four is a family income below CLP 361 311 per month, and the extreme poverty line is a family income below CLP 240 874 per month, both for the year 2013.
Source: Ministerio de Desarrollo Social.

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In 2014, the government adopted an ambitious and welcome policy agenda to reduce inequality. This includes a tax reform to raise more revenue and expand social programmes; an education reform to build more inclusive schools and reduce skill gaps across socio-economic groups; and a labour reform to expand the coverage and scope of collective bargaining. This chapter discusses some of these reforms (education is discussed in Chapter 2). After presenting key stylised facts, the chapter argues that reducing income inequality will contribute to social mobility and boost productivity growth. Then it discusses policies that are needed to promote income distribution. It suggests that bringing all Chileans on board requires focusing on: expanding and improving the efficiency of the tax-and-transfer systems for effective redistribution; tackling inequalities in the labour market to promote employment and good-quality jobs; and expanding women participation in the labour force to close gender gaps.

How inclusive is Chile?

Chile has experienced a remarkable decline in absolute poverty since the return to democracy in the 1990s. The share of people living below the national poverty line has fallen dramatically (see Figure 1.1). Strong economic growth, which increased labour income for all income deciles, social policies and a significant increase in educational attainment, explain in a large part the decrease in poverty rates. The development of a sophisticated system of transfers and subsidies – around 40% of the population receives cash transfers and subsidies provided by the state – has been relatively successful at lifting people out of poverty (Sunkel and Infante, 2009; Rau, 2011). However, the decline in inequality has been much more modest.

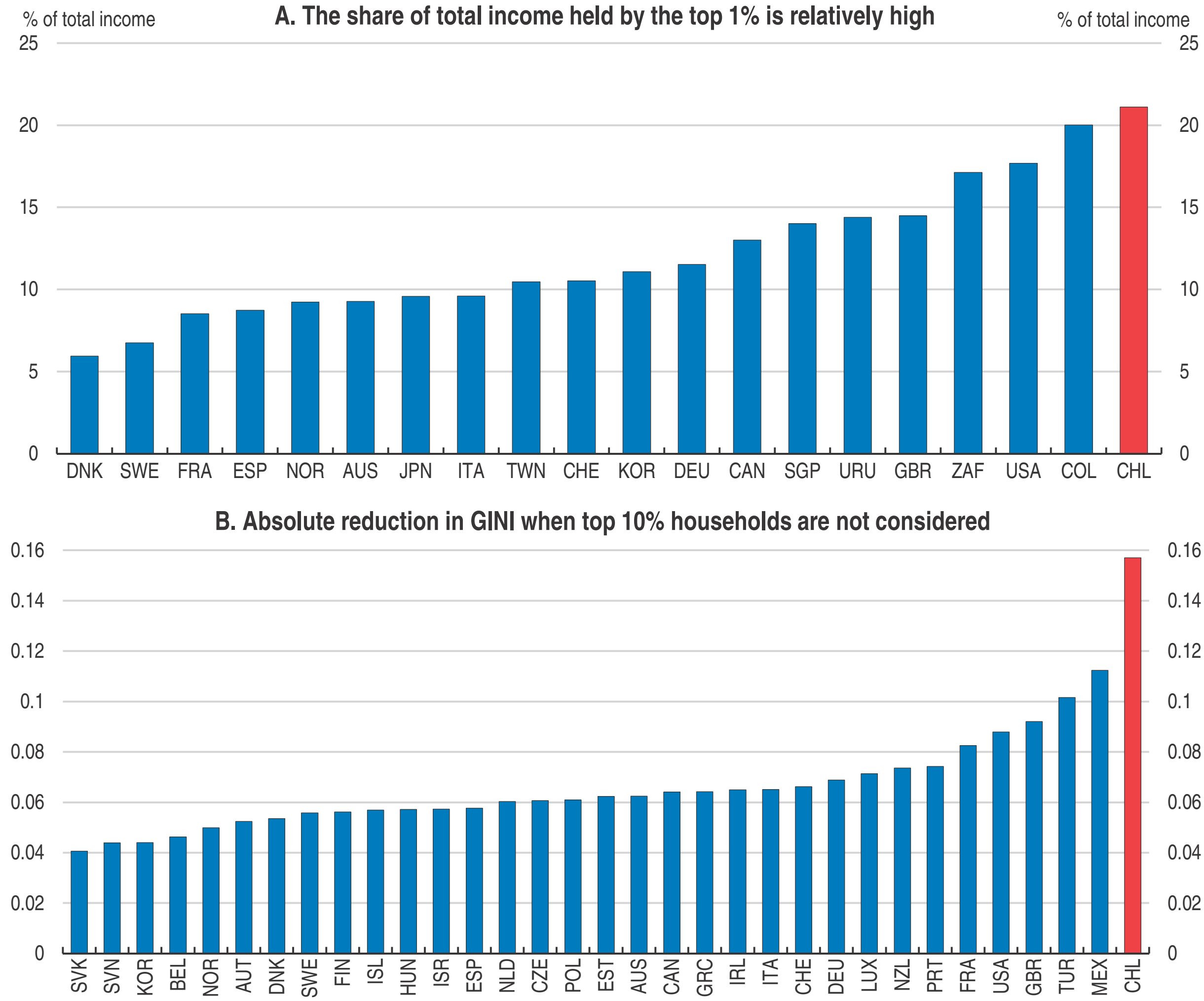
Chile continues to be one of the most unequal OECD countries (Figure 1.2). High inequality is mostly explained by the concentration of income at the top of the ladder: when the richest 10% of the population are excluded, the GINI index drops by 0.16 points, compared to a reduction of 0.06 points in the average OECD country. Households at the top of the income distribution get a large share of national income: the top 10% earns 26.5 times the average income of the bottom 10%, compared to an OECD average of 9.6 times. Similarly, wealth is concentrated at the top: while the bottom 40% holds only 1.65% of total income, the top 1% holds 21% (Lopez et al., 2013).

Another feature of Chile's inequality is the strong correlation between social class and the degree of indigenous ancestry. Evidence shows that 73-91% of the upper class has Caucasian genes, while 68-70% have this characteristic and only 40-45% of the lowest class (Diaz Vidal, 2014). Therefore, the major indigenous populations in Chile are overrepresented in the lowest deciles of the income distribution. And although in the past they used to be a rural population, today half of the indigenous population reside in Santiago (Diaz Vidal, 2014).

Reducing income inequality can help increase growth and promote social mobility

High inequality raises major economic concerns. It reduces trust (Uslaner and Brown, 2005), which is an important driver of long-term growth (Horváth, 2012); it also increases the probability of rent-seeking and political and economic "capture" by the economic elite (OECD, 2015a). Furthermore, inequality reduces the capacity of the poorer segments of the population to invest in their skills and education (OECD, 2015b). For instance, OECD estimates show that an increase in inequality of around 6 Gini points lowers the probability of poorer people

Figure 1.2. **Income inequality is especially high at the top of the distribution**



Source: Panel A: Lopez et al. (2013) for Chile and WTID for the rest of countries. Panel B: OECD estimations based on household surveys.

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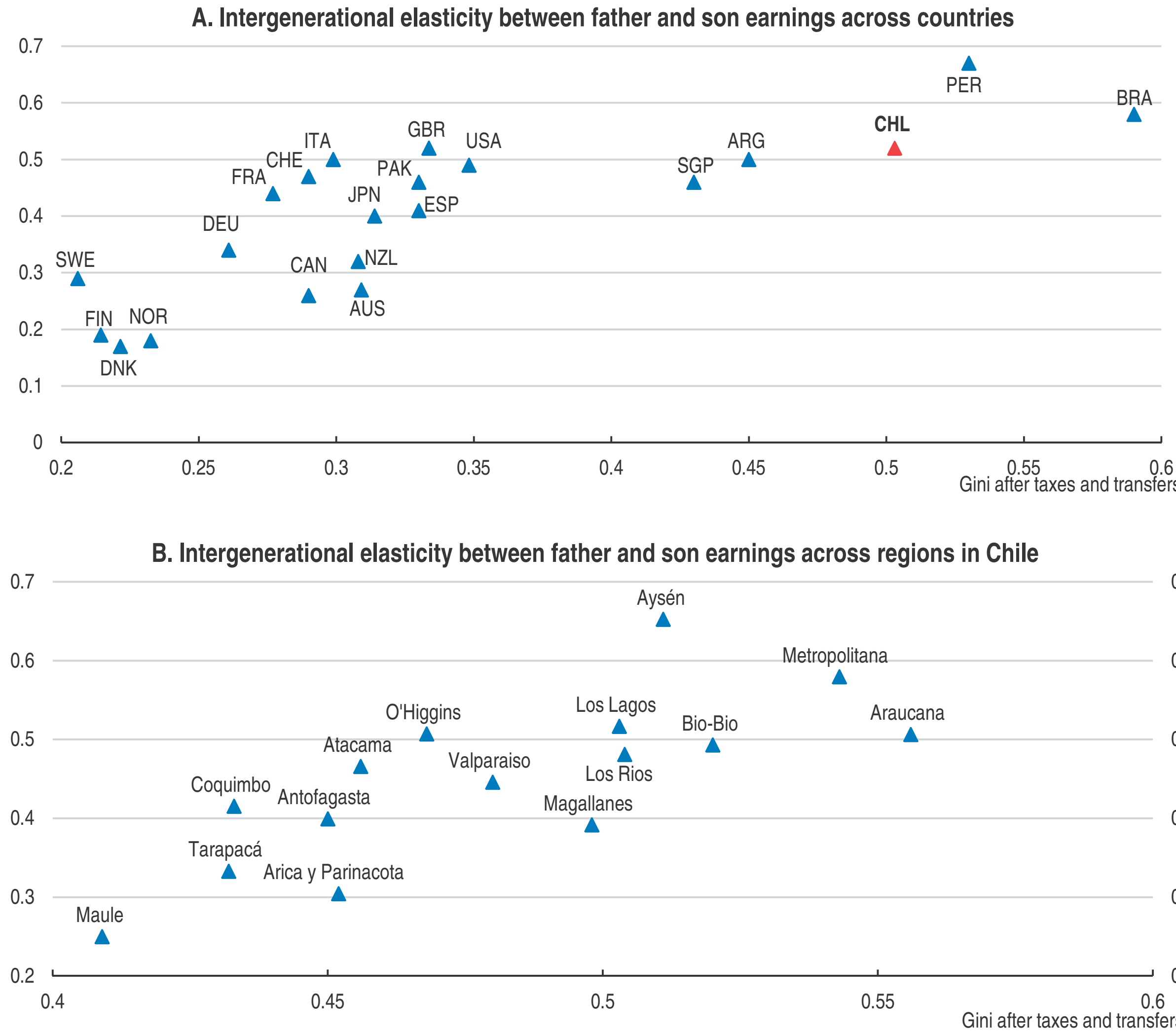
graduating from university by around four points and cuts the length of time children from poorer families spend in education by about half a year (OECD, 2015b). Furthermore, recent research finds consistent evidence that high inequality can put a significant brake on long-term growth, and that efforts to reduce it through redistribution – taxes and benefits – do not necessarily lead to slower growth (Ostry et al., 2014; Cingano, 2014; OECD, 2015b).

In Chile, like in other OECD countries, high income inequality is associated with low inter-generational social mobility (Figure 1.3, Panel A), as social status is passed on from parents to children (Corak, 2013). Statistical evidence compiled for this report show that this is also the case across Chilean regions (Box 1.1; Figure 1.3, Panel B). Being born in a high-income family can boost wages by more than 50% relative to the average, while a penalty of around 40% is expected when coming from a disadvantaged background. This is largely due to the transmission (or lack thereof) of human and social capital across generations: on average, 80% of individuals with at least one parent having attended university also have tertiary education (Chapter 2). In contrast, only 55% of individuals with parents with secondary education do so, and less than 13% among those with parents with primary

Figure 1.3. **Income inequality reflects inequality of opportunity**



Source: OECD analysis based on CASEN 2013 and Corak (2013).

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education or less. These social trends are even more pronounced at the very top of the ladder, a pattern characterised as "elite closure" (Torche, 2005; Nuñez and Miranda, 2011).

Low intergenerational income mobility is one of the most important indicators of individual income dynamics used in public policy discussions, as it can have important implications for political stability and economic growth (Corak, 2013). When the position people will occupy in society is determined by the position their parents had, people have low incentives to invest in their human capital or put effort to give the best of themselves, as they recognise this will not have any effect in their future relative incomes (Causa and Johansson, 2010). And lower investment in human capital can have a strong negative effect on productivity and growth (Heckman and Masterov, 2007; Chapter 2). Chile should focus on policies to increase intergenerational social mobility so that future incomes do not depend on parental socio-economic status, but on individual innate abilities and effort. When this happens people have a strong incentive to invest in their human capital, boosting productivity and growth, and reducing income inequality.

Box 1.1. **Intergenerational social mobility in Chile and its determinants**

The study of social mobility in developing countries is challenged by the lack of appropriate data covering two generations. In the case of Chile there is no available dataset including both parents' and children's income in their adulthood. Nevertheless, the survey *Encuesta de Caracterización Social y Económica* (CASEN, 2013) provides useful information about living conditions and asks respondents about the last educational level attended by their parents. Father's education can be used as a proxy of family background, as it is highly correlated with income and other traits that influence offspring's careers.

This box presents results from an experiment conducted for this Survey that measures the extent of intergenerational mobility by looking at the effect of father's education on individual's hourly wages once controlling for a set of demographic characteristics such as sex, age, marital status or location. The wage premium is the boost in wages associated with having a father who attended college instead of just medium education. Similarly, the wage penalty is the drop in wages associated with having a less educated father. Adding up the wage premium and wage penalty gives an overall measure of intergenerational wage mobility. The introduction of individuals' education as an additional explanatory factor allows distinguishing two distinctive channels of family influence. First, an indirect effect going through the transmission of education across generations. Second, a residual or direct effect linked to everything else not related to education like the transmission of genetics, social norms, contacts and so forth.

The main findings from this analysis are:

- Intergenerational mobility in Chile is low compared to other OECD countries (Figure 1.3, Panel A).
- Setting as the reference the average individual, having a father who went to university leads to a 60% increase in hourly wages. Likewise, having a father with basic or no education is associated with a 34% drop in wages.
- The measure of intergenerational mobility is very similar for men and women and across age cohorts. However, there are considerable regional differences (Figure 1.3, Panel B).
- There is a moderate relationship between income inequality and the measure of intergenerational mobility across regions. While the correlation with the direct effect is poor, the indirect effect due to transmission of education across generations is highly correlated with inequality (74%).

Exploiting differences in policy indicators across regions and employing interactions, this box also analysed the factors that explain the inequality-mobility relationship across regions, in particular the differences in social spending and the level of educational segregation. The results suggest that:

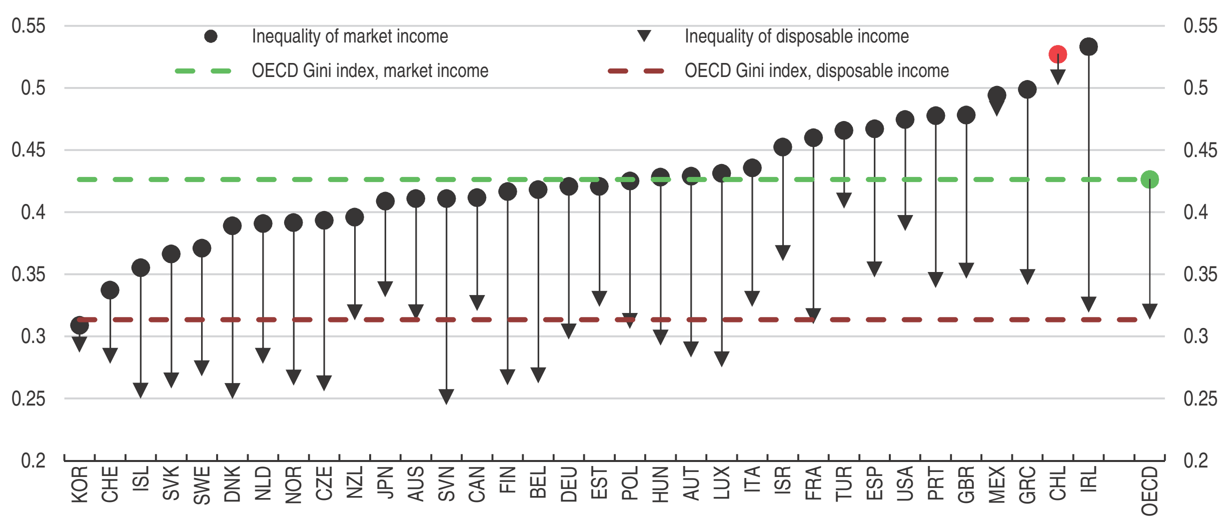
- A 10% increase in public educational spending in the 1990's (when the average individual was a teenager) is associated with up to a 9% decrease in the penalty of having a low educated father.
- Similarly, rising the percentage of students in public schools from 35% to 60% (e.g. from the level in Santiago Metropolitan to that in Los Lagos or Magallanes) could lead to a reduction of more than 30% in the influence of family income in the probability to attend college.

Evidence shows that the structure of income taxation and the size of transfers (e.g. unemployment benefits) affect the link between parental background and teenager cognitive skills and wages (Causa and Johansson, 2010). Therefore, improving redistributive and income support policies will not only help Chile reduce cross-sectional income inequality and poverty rates, it will also help increase intergenerational social mobility and provide more opportunities for all to invest in their human capital.

Improving the tax and welfare system

To reduce these social trends, Chile needs to increase the redistribution of income through the tax and transfer system, as little redistribution is taking place compared to other OECD countries (Figure 1.4), and several Latin American peers, like Argentina and Uruguay (Lustig, 2015). OECD evidence shows that in Chile transfers are more progressive than in the average OECD country (Joumard et al., 2012), and that this progressivity contributes to reducing the Gini after taxes and transfers. The problem is that the size of transfers is too small, thus limiting the impact of social programmes. Also, the narrow tax base, which greatly constrained public revenues, explains why the level of expenditures in public goods has been insufficient to reduce inequalities (Lopez and Miller, 2008).

Figure 1.4. **The tax and transfer system should do more to reduce inequality**



Note: The vertical access measure the percentage change in the Gini coefficient before and after taxes and transfers.
Source: OECD, *Income Distribution and Poverty Database.*

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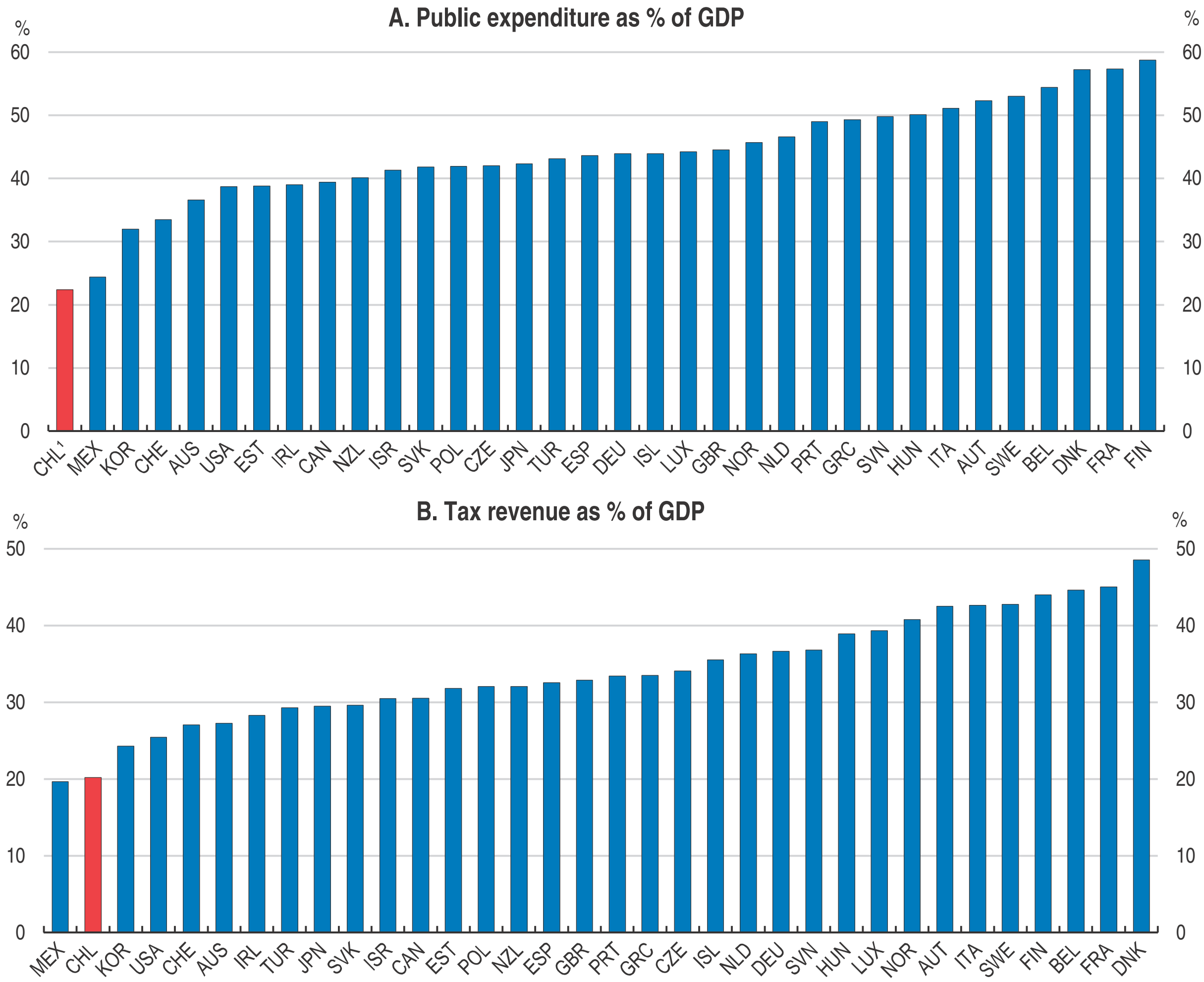
Raise more tax revenues

Chile's tax-to-GDP ratio (20.2%) is significantly lower than the OECD's average (33.7%) (Figure 1.5). Furthermore, Chile's tax revenues are lower than the tax revenues that most OECD countries were collecting when they had similar levels of GDP per capita. This suggests that there is scope to raise more tax revenues to meet growing public spending needs in education and health. To change this, the government has introduced a tax reform aimed at increasing general government revenues by 3 percentage points of GDP over the period 2015-18 (Box 1.2). The tax reform will reduce inequality as more than 75% of revenue increase will come from higher taxes on the top 1% (World Bank, 2015), eliminating tax expenditures and fighting tax evasion and avoidance.

Figure 1.5. **Public expenditure and tax revenue are very low**



1. Chile central government expenditure.

Source: OECD, *National Accounts Statistics* and *Revenue Statistics 2014*.

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Important tax exemptions mainly benefit higher-income earners and leave a large share of natural resource rents untaxed. In practice, evasion and avoidance by the top income earners is a significant contributor to the low impact of income taxes (Fairfield and Jorratt, 2015). Estimates show that just correcting for tax evasion makes a significant difference on the share of the income distribution (Lopez et al., 2015). In particular, the average participation of the top 1% on GDP over the period 2005-09 decreases by 2.5 percentage points of GDP.

A key component of the tax reform is a change to tax accrued profits whether or not they are distributed as dividends. This reform will increase revenues and has the potential to reduce inequality (Lopez et al., 2015). The reform could negatively affect investment and growth because it reduces after-tax returns on investment, however this could be compensated by a positive effect on long run growth through education, if the funding is used successfully in reforming the school system. Furthermore, there is some uncertainty about the revenue yield of the tax reform, stemming from how the private sector will

Box 1.2. **The 2014 tax reform**

In September 2014 the Chilean parliament passed an important tax reform. The law entered into force the last quarter of 2014, though some provisions will be phased in over the 2015-18 period. The overall goal tax reform is to raise the tax-to-GDP ratio to finance a large increase in education spending. The tax measures aim to raise an extra 3% of GDP. More than half of the increased revenues are forecasted to come from increased income taxation, mainly from corporate income (Table 1.1). Increases in compliance are forecast to increase revenues by 0.5% of GDP (17% of the overall reform revenue goal), while expansions in the VAT base will account for 0.3% of GDP (12% of the overall reform target. The law contains various provisions including:

- Extensive changes to corporate income tax (CIT).
- A reduction in the top PIT rate from 40 to 35%.
- Broadening of the base of VAT on real estate.
- Increases in health-related taxes.
- Increased taxation of carbon and other pollutants.
- Measures to improve compliance, reduce Base Erosion and Profit Shifting (BEPS), reduce evasion and avoidance.

Table 1.1. **Revenue projections from the 2014 tax reform**

	% of the projected revenue increase	% of GDP
Corporate income tax	48.30	1.46
Increase in collection due to plan to decrease tax evasion and avoidance	17.20	0.52
Taxing the sale of new properties and limiting the use of special VAT credit	11.90	0.36
Raising the stamp tax from 0.004 to 0.008	4.60	0.14
Change of tobacco tax	4.30	0.13
Other (Taxing capital income of real estate, restrictions on deemed income system, etc.)	3.60	0.11
Effect of the repeal of several measures	3.30	0.10
Fiscal traceability of specific taxes and mining tax auditing	2.60	0.08
New tax on source emissions (CO_2, NO_x, PM)	2.30	0.07
Effect tax change on alcoholic and non-alcoholic beverages	2.00	0.06
Historical FUT incentive	1.70	0.05
New tax on contaminating motor vehicles	1.70	0.05
Decrease in collection due to saving incentives and others	-3.60	-0.11
Total	**100**	**3.02**

adapt. The envisaged gradualism of implementation is thus welcome. It will remain important to monitor the effects on investment and savings and stand ready to adjust the reform if warranted.

Similarly, although it is clear that the reform will contribute to reduce inequality, the size of the effect is uncertain. For instance, estimates by the World Bank (World Bank, 2015) suggest that with the changes introduced by the tax reform, the share of net income received by the richest 1% of the population will fall by 1.1% of GDP. However, the effect of the reform on the Gini coefficient after taxes and transfers will be small (0.07 points). This is because the Gini coefficient is more sensitive to transfers to the centre of the distribution than to the tails, which is what this reform is targeting. These findings are consistent with previous research on the distributional effect – as measured by the Gini – of several changes in the tax structure in Chile (Engel et al., 1999; OECD, 2012a). These studies suggest that the targeting of expenditures and the level of the average tax rate are far more important determinants of income redistribution. Therefore, to boost the impact of redistribution system in reducing income inequality efforts should be strengthened to increase revenues by broadening the tax base and expand transfers.

To raise more revenues Chile could focus on broadening the tax base of the personal income tax (PIT), which does not contribute significantly to reduce inequality. The reform package did not address this key challenge. The PIT does not raise much revenue in Chile and one of the reasons is that many taxpayers do not have to pay the tax. This is in part because the tax-free income threshold is very high and higher PIT rates are only payable at very high income levels. An inclusive PIT reform would make significant changes in the PIT rate schedule, especially by lowering the bands at which the higher income rates are levied. In 2014, single taxpayers had to start paying PIT on gross earnings equivalent to 118% of the average wage. In contrast, taxpayers in the OECD on average had to start paying PIT on gross earnings equivalent to 29% of the average wage. Also the top PIT rate applies to very high income levels only. In 2014 in Chile, the top PIT rate of 40% had to be paid on gross earnings exceeding 12.7 times the average wage. After abolishing the top PIT bracket, this threshold in Chile will be lowered to 10.5 times the average wage, which remains very high. In comparison, the top PIT rate hits at 5.2 times the average wage on average across OECD countries in 2014 with a median value of 3.6 times the average wage. The PIT rate schedule in Chile is one of the least progressive rate schedules that can be found in the OECD. In Chile the average PIT rate increases very slowly per percentage point increase in the average wage over the 50% to 500% of the average wage income interval, taking into account tax allowances, deductions, credits and PIT rates. Low values indicate that the average PIT rate hardly changes when income rises on average over that interval.

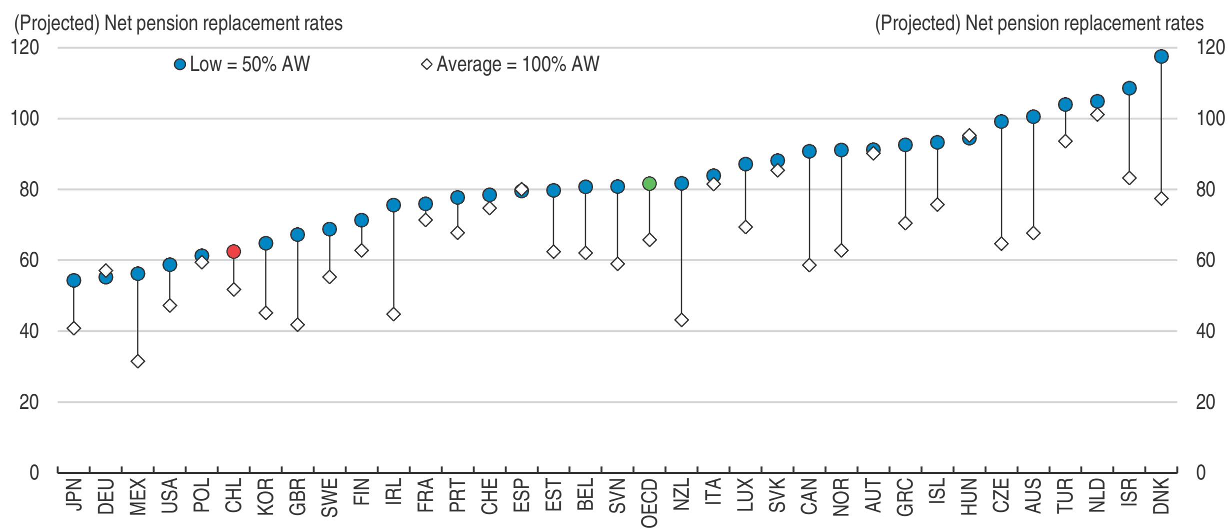
Similarly, the generous deductions for private pension savings and mortgage interest deductions could be cut significantly to increase revenues and reduce inequality. The additional tax revenues raised could be used to provide more generous benefits for particular families, either through direct cash benefits or indirect PIT reliefs, including for lower income families with children. In Chile, only "Single Taxpayers at 167% of the average wage" have to pay a small amount of PIT; single parents can benefit from a small child benefit, which reduces the tax burden slightly below 7%. Chile has very generous non-standard tax reliefs which primarily benefit richer taxpayers, which contributes to lowering the PIT system's progressivity. Chile allows taxpayers to deduct voluntary contributions and voluntary pension fund savings from taxable income; the maximum deduction in 2014 (CLP 14 776 260) was more than twice the average wage. Chile also has a very generous mortgage interest relief deduction.

Finally, reducing informality is a key challenge to increase revenues, with significant implications for tax policy. The level of informality – as measured by the share of people not contributing to social security – in Chile, although low for Latin American standards, is high compared to other OECD countries. There are many reasons why broadening the tax net to informal operators should be a priority: it would not only raise additional revenues, it would also restore equity between formal taxpayers and informal operators, raise social welfare as workers employed in the informal sector have limited access to social protection, and ultimately boost economic growth as productivity in the informal sector tends to be lower than in the formal sector. The tax system can affect individuals' decisions to move out of the informal sector through a combination of positive incentives (e.g. lowering the tax burden on low-income earners, simplification of tax procedures) and dissuasive measures (e.g. stronger audit capacity and sanctions).

Create a more inclusive pension system

In most OECD countries, pensions explain a large share of the overall redistributive impact of the tax and transfer system (OECD, 2012a). In Chile, however, pensions do not help to reduce inequality, as the Gini coefficient before and after pension contributions are very similar (Lustig, 2015). In 2008 Chile undertook reform to improve pension coverage and safety net benefits as part of their efforts to fight poverty in old age more effectively. As a result Chile's old-age pension system has reduced elderly poverty from around 23% in 2008 to 20% in 2011, thanks to this reform that introduced a solidarity pension. However, the average pension remain modest among other things because they are mostly financed by mandatory contributions that remain low (10% of earnings – compared to 20% on average across the OECD). In Chile low earners' pension benefits replacement rate is only between 50% and 60% of their pre-retirement earnings, among the lowest rates in the OECD (Figure 1.6). This means retirees will face a significantly lower standard of living than the one they had during their working lives.

Figure 1.6. **Net replacement rates for full-career workers are relatively low**



Note: "Average" and "low" earnings levels refer to 100% AW and 50% of the AW respectively.
Source: OECD, *Pension at a Glance Database*.

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In 2011, Chile ushered in the last phase of its 2008 reform to cover 60% of the poorest elderly people in its public solidarity pension system (SPS), a new pillar that provides means-tested benefits to those who receive no, or very little, pension. People are entitled to the solidarity pillar if they have accumulated insufficient assets in their mandatory defined contribution plan to give them a retirement income above a certain income threshold. However, actual data by the Chilean Superintendence of Pensions shows a take-up rate of 43% since the new solidarity pillar was introduced in 2008. People may not be claiming their solidarity benefits because of a lack of knowledge, although the Chilean authorities argue that the population has been widely informed when the new solidarity pillar was introduced.

In Chile basic pensions become available to men at the age of 65 (same as OECD average) and to women at the age of 60 (OECD average of 64). In Chile, self-employed workers have been allowed to contribute voluntarily to the pension system, but have not been covered by any mandatory pension scheme. In most OECD countries, self-employed workers have mandatory social protection coverage. In most countries, they are covered by the same pension scheme as employees (e.g. Canada, Hungary and Korea). In other countries, self-employed workers contribute to separate special pension schemes (e.g. Austria, Belgium and France). Some countries provide preferential tax treatment for social contributions to the self-employed to extend social protection coverage. Although in Chile mandatory contributions of self-employed were expected to start in 2016, it is under discussion a proposal to implement it gradually since 2018.

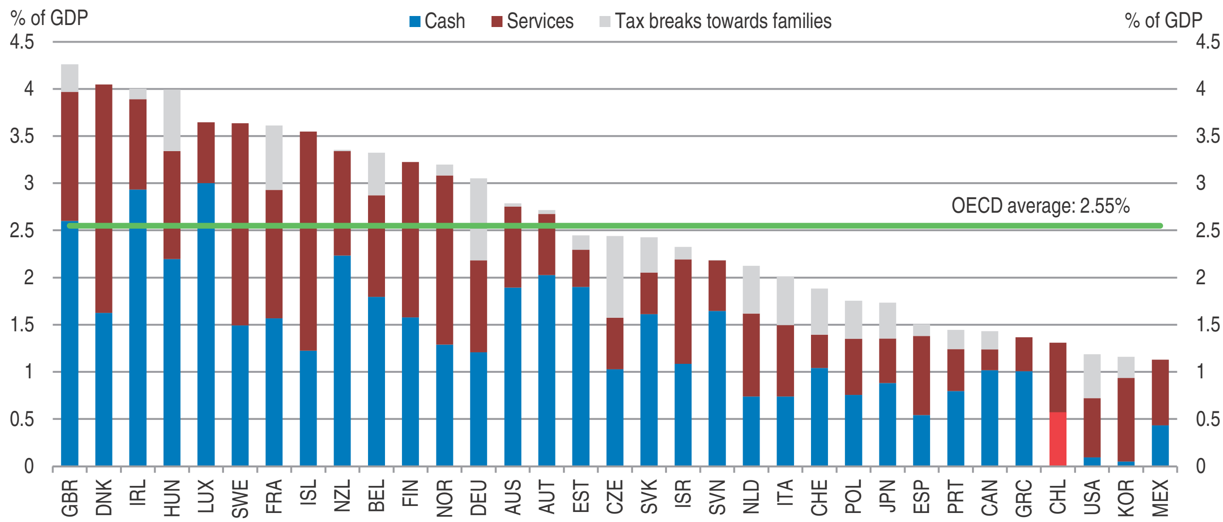
The Chilean government set up an expert commission (*Comisión Asesora Presidencial sobre el Sistema de Pensiones*) to assess the pension system, identifying its strengths and limitations, and elaborate a set of remedies (Bravo et al., 2015). The commission examined a wide range of issues, but focused particularly on the large number of future pensioners who have low contribution densities and low replacement rate that the pension system have. Overall, half of men have contribution densities lower than 47.5%, and half of women have densities of less than 12.8%. These low contribution are associated with work histories that include periods of self-employment, informal employment, unemployment or professional inactivity, and are particularly a problem for women and individuals in low income brackets.

The recommendations of the commission will be examined by a special council of minister which will analyse which of the different recommendations could be implemented. Some of the recommendations of the expert commission are highly consistent with OECD best practices. To make the pension system more sustainable and improve replacement rates, the required contribution rates should be gradually raised from 10% to 14%. In addition, to make the system more inclusive, reforms could focus on increasing the level of the solidarity pension (available to the bottom 60% of households), to improve replacement rates, notably for women and the poor. The reform should increase the statutory retirement age, equalising the retirement age of men and women at 65 years, and periodically review the retirement age to be consistent with life expectancy. These features are a key feature of sustainable pension systems. The reform should also remove the modality of programmed retirement pension to avoid decreasing pensions over time, and encourage annuitisation.

Strengthen cash transfer programmes for the most vulnerable populations

The redistributive power of income taxes and cash benefits for the working-age population is limited, in part, because the size of the transfers are low (Figure 1.7). Poor families can draw on the *Ingreso Etico Familiar* (IEF), a group of cash transfers aimed at improving the living conditions of extremely poor families. The IEF includes a basic benefit (*Bono por Dignidad*) plus a series of conditional cash transfers related to medical check-ups of children, and school- attendance and results. Relevant payment rates are low when compared to other OECD countries, as the basic benefit amounts to less than USD 30 per month and slightly over USD 10 per child per month for other payments such as the school attendance bonus. These benefits are important to extremely poor families, but not all such families receive support: 60.6% of the families in receipt of the IEF belong to the 3 lowest income deciles, but only 8.8% of the families in the lowest decile received such support.

Figure 1.7. **Public spending on cash benefits for family are very low**



Source: *OECD Social Expenditure Database (SOCX) 2014.*

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In monetary terms the *Bono al Trabajo de la Mujer* (working women subsidy), is the most important component of the IEF. To be eligible women must be between 25 and 59 years old, work in the formal sector, earn less, as most women do, than CLP 423 685 per month (USD 689, the average wage is around USD 950 per month) and belong to the 40% most vulnerable group of the population as defined, among other factors, by the *Ficha de Protección Social* (FPS). At least 40% of poorest working women could be in receipt for the working women subsidy. However, in 2015, the average number of recipients was 280 000 who received less than USD 100 per month.

The FPS is a key tool used by the authorities to determine access to means-tested cash transfers and in-kind benefits. Completion of the list of questions in the FPS provides the authorities with a profile of (low-income) households. The tool aims to measure long-term household income capacity as based on the households' housing and living conditions, location, family situation, health, education, income and employment, which are somehow weighted into an overall score that affects access to social support. The FPS has been criticised for its complexity and lack of transparency. Moreover, increasing its focus on current income stream may help better target support for low-income households. Changes in FPS are being implemented, and should be effective already in 2016. Under the new system only actual incomes will be considered, people will be still asked to enter a register, as in the current FPS, and these records will be matched with administrative records of income.

Strengthening these poverty alleviation policies as planned by the government is welcome, but additional spending will be necessary to effectively fight poverty. Efforts should focus on vulnerable groups, like children, elderly and minority groups which are overly represented among the lowest deciles of the income distribution. An example of the latter are the indigenous populations, which in Chile represent around 9.1% of the total population (Casen, 2013). Although poverty rates for indigenous population have decreased over recent decades thanks to special initiatives targeted to them, they are still overrepresented in the lowest deciles of the income distribution, and experience higher poverty rates (23.4%) than the non-indigenous population (13.5%). In rural areas, indigenous peoples have little land and tend to be concentrated in extreme fragile, rapidly deteriorating environments. In urban areas, particularly in large urban centres such as Santiago, Concepción and Temuco, indigenous peoples are clustered in the poorest neighbourhoods, with limited access to social services, and a significant proportion of the population is underemployed or work in the informal sector. Indigenous peoples struggle to find labour opportunities because of racial discrimination. Indeed, evidence shows that in Chile the effect of class is more important in determining earnings than academic performance (Nuñez and Gutierrez, 2004).

Enhance fiscal equalisation to reduce regional inequalities

Chile should enhance fiscal equalisation across municipalities, as they differ strongly in resources and capacity to provide education and social programmes (OECD, 2015c). The main source of municipal income is property taxes, which penalises municipalities with a lot of low-value houses. Revenue per capita of the richest decile of municipalities is more than twice as high as those of the poorest decile even after fiscal equalisation. Within Greater Santiago the three richest municipalities have five times more resources per inhabitant than the three poorest ones. The Gini coefficient for average per capita fiscal revenues by decile also suggests that fiscal disparities across municipalities are high in Chile and fiscal equalisation does relatively little to correct this. Poorer municipalities need stronger resources to provide their citizens with high-quality services that help them overcome poverty and reduce income inequalities.

The government has launched an ambitious set of legal reforms to implement a "decentralisation and development agenda" to address disparities via better adaptation of public policies to regional and local needs and opportunities. The legislative proposals concern three main pillars: i) a constitutional reform allowing the election of the regional *intendentes* (keeping a *gobernador* as representative of the central power); ii) the transfer of competences and in the following areas: economic development, social development, infrastructure and housing to the regions; and iii) changes to the laws on regional financing and fiscal responsibility. In addition, the authorities have formulated special plans for four "extreme" regions that are geographically very remote – Aysén, Magallanes, Arica and Los Lagos (province of Palena and commune of Cochamó). These provide for substantial new investment resources and include greater flexibility to define targets and standards locally. However, they also raise capacity-building and absorption challenges for the regions concerned.

Reducing inequalities in the labour market

There are limits, however, to what the tax-and-transfer can do and the availability of well-paid jobs also has a major role to play in reducing inequality. Evidence shows that income inequality before taxes and transfers reflect mainly differences in labour market outcomes, as they accounts for around 75% of household income inequality across OECD countries, much more than the 25% accounted by self-employment and capital income combined (Figure 1.8). Over the past two decades, job gains have driven unemployment sharply down and encouraged many persons to participate in the labour market. However, the Chilean labour market remains segmented. Many poor workers do not have a labour contract and therefore do not have access to health insurance and unemployment benefits. This makes them extremely vulnerable and at risk of falling into

Figure 1.8. **Labour income inequality is the main contributor to household market income inequality**

As measured by the Gini coefficient

Note: Contributions to overall household market income inequality are derived by multiplying the concentration coefficients of each income source by their weight in total market income.
Source: OECD (2012a).

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poverty. Many workers also have non-standard jobs (temporary contracts, part-time schedules, etc.). Indeed, the share of temporary workers is the largest in the OECD (OECD, 2015a).

Update labour legislation to help reduce inequality

Some of the countervailing forces and labour market institutions that favour redistribution in Chile, principally unions, collective bargaining mechanisms and statutory minimum wages, exist but have a limited reach. In particular, collective bargaining strength in the private sector remains weak. Although the percentage of contracts that are negotiated through collective bargaining has risen since 2001, only 11% of all contracts were collectively bargained in 2011. Collective bargaining in Chile has significant levels of decentralisation and fragmentation, where negotiation occurs at the level of the firm, but in contrast to similar cases such as in Japan for example, in Chile the co-ordination is particularly weak.

Labour relations in Chile are governed by the Labour Code which has its origins in a 1979 reform. Although the Labour Code recognises the rights of workers to organise, a number of restrictions were placed upon organizing. The right to strike was severely limited by procedural rules and a right to lock-out was granted to employers (Reinecke and Valenzuela, 2011). Currently, two different types of collective bargaining co-exist: one with the right to strike, and the other without the right to strike. It is this last category that has grown during the last 20 years (to almost 31.4% of the total of workers covered by collective bargaining). Furthermore, those workers who do have the right to strike can be replaced from the first day of the strike under certain conditions. As a result the power of unions and collective bargaining mechanisms has been greatly reduced.

Unionisation density and coverage are relatively low in Chile, and strongly concentrated in the public sector. Improving social dialogue and industrial relations in Chile can be important elements of a more equitable and inclusive growth. The labour reform (*Proyecto de Modernización de Relaciones Laborales*; *Ministerio Secretaría General de la Presidencia*, 2014) currently in discussion in the Senate, aims at expanding the coverage and scope of collective bargaining by empowering trade unions and by bringing collective bargaining processes closer to other OECD countries, in particular European. The reform has a number of major provisions that change the bargaining conditions for collective agreements (Box 1.3). Among these provisions, it is likely that the change in the right to bargain collectively, which after the reform will be restricted only to union members, and the change in the extension of benefits, which now will occur only under the agreement of unions and employer, will increase union membership.

Box 1.3. **The labour market reform**

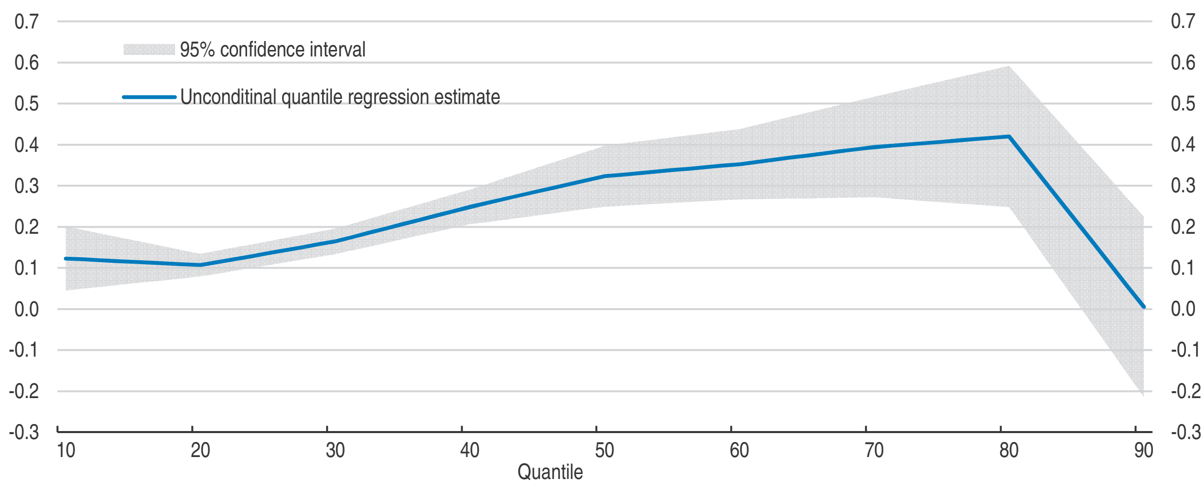
The labour reform (*Proyecto de Modernización de Relaciones Laborales*) currently in discussion in the Senate aims at expanding the coverage and scope of collective bargaining. The most important areas of the reform are:

1. *Right to bargain:* Currently non-union groups can negotiate collectively in the presence of unions. The reform proposes that unions have the priority for collective negotiations in the companies where they exist. Non-union members will only be able to bargain collectively by affiliating to the union in firms where unions exist. In firm where there are no unions, groups will still be allowed to exist.
2. *Level of collective negotiation:* Collective negotiation remains at the firm level.
3. *Extension of the benefits of collective agreement:* Currently, employers can unilaterally extend the benefits to non-union workers and workers' pay 75% of union members' fee. The reform proposes that the union and the employer should agree whether the benefits are extended, and to benefit non-union members will have to pay the full union member fee.
4. *Coverage of collective negotiations:* Workers on apprenticeship and temporary contracts, which are currently excluded from negotiations, will be allowed to negotiate with some restrictions.
5. *Adaptability pacts:* Currently companies and worker can arrange special work conditions with the approval of the *Direccion del Trabajo* (DT). The reform will allow negotiations of special work conditions, without going through the DT, if the company has 30% affiliation in one or more unions.
6. *Right to strike:* Employers will no longer be allowed to replace workers on strike, and unions will have to provide necessary personnel to comply with indispensable operations.
7. *Minimum period to start negotiations:* The minimum period is reduced to six months for new large firms. The negotiation process starts with a floor: the employer cannot offer lower benefits than the ones that already exist, with some exclusions.
8. *Gender issues:* The reform proposes to make mandatory the incorporation of women in the bargaining commissions for bargaining collectively and requires firms to provide information about gender gaps in wages.

Estimates produced for this Survey using household data from the National Socioeconomic Characterization Survey (CASEN), suggest that increasing union membership will have a stronger and significant effect for middle income households than for lower income households, and specially than the top income deciles (Figure 1.9), mainly because those affiliated to unions today belong to sixth and higher quintile. Therefore, the effect on overall income distribution is ambiguous. However, the fact that income inequality is larger at the top of the distribution indicates that the Gini coefficient will be reduced.

Figure 1.9. **The effect of increasing union membership would be stronger for middle income households**

Effect on log earnings of raising the share of workers affiliated to a union by 1 percentage point



Note: Unconditional quantile depression estimates for employed individuals using data from the National Socioeconomic Characterization Survey (CASEN).

Source: OECD estimates using CASEN (2013) following the methodology of Fournier and Koske (2012).

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As a major component of the rules that govern a modern economy, the reform to the Labour Code should also pay special attention to the details and be taken as an opportunity to make changes that also address other pressing challenges in the Chilean labour market. For instance, the change in the right to strike is a right step forward to protect workers' rights. But it should be balanced by clearly defining the range of minimum services that are guaranteed in the case of strikes. An option could be to clearly define some exemptions to the prohibition of replacement by defining specific jobs or tasks for which a replacement during strike may occur. Similarly, the proposed change in the extension of benefits of collective agreement should be reconsidered, as it may create the possibility of having two workers in the firm with similar tasks and experience who earn different wages, which goes against the goal of reducing inequalities in the labour market.

The reform should also consider adjusting employment protection legislation, which is relatively high for regular contracts producing incentives for firms to hire under non-regular work arrangements, thus resulting in labour-market duality (OECD, 2015b). Protection for workers from individual dismissal is among the highest in the OECD, with high severance pay for workers having at least 4 years of tenure. Although the changes to the collective bargaining may bring enhanced protection to workers in specific firms, given that negotiation will not be carried out at the sectoral or industry level, they are unlikely to change the indicator of employment protection (Venn, 2009).

Focus on protecting workers rather than jobs

Current legislation provides strong protection for employees with indefinite contracts, while providing little security to workers in non-standard contracts. Evidence shows that this strongly increases the level of inequality (OECD, 2011a). Non-standard employment is associated with poorer labour conditions (wages, working time, job security, leave entitlements, etc.). In Chile, workers with lower level of education are overrepresented in temporary employment, as are workers in small firms (OECD, 2012a). Similarly, households with temporary work arrangements are overrepresented at the lower end of the household income distribution.

Temporary workers are worse off in terms of many aspects of job quality. They tend to receive less training and, in addition, have more job strain and have less job security than workers in standard jobs. Earnings levels are also lower in terms of annual and hourly wages. Evidence shows that temporary workers in OECD countries face a wage penalty, even after controlling for observable individual, family and work characteristics (OECD, 2015a). On average, a temporary contract worker receives an hourly wage that is 11% lower for men than their counterparts in standard jobs (13% lower for women). The under-investment in human capital associated with short-term contracts can give rise to lower wages for temporary workers. While the wages of temporary workers increase with age and skill level, they grow more slowly than those of standard workers. As a result, the wage differences between temporary and standard workers tend to widen with age or skill. This implies that years of labour market experience may not be valued in the same way for temporary workers as for standard workers.

Furthermore, across OECD countries temporary work tends to lower wages at the bottom of the earnings distribution, while the effect is often neutral at the top, thereby contributing to increased individual earnings inequality. And Chile is no exemption. Evidence shows that earnings gaps between permanent and temporary workers are significantly larger at the bottom of the wage distribution (the so-called sticky-floor effect) (Bosio, 2014; Santangelo, 2011). As a result, a high share of temporary workers contributes to the wide overall wage inequality, since it increases inequality at the bottom end of the distribution and has a neutral effect on wage inequality at the top end.

Temporary contracts can provide workers an entry-way to firms to then transition into regular contracts providing more job security. Temporary contracts provide employers with a mechanism to test workers before making a stronger commitment and adjust to business cycles by not renewing temporary contracts when business is slow. However, across the OECD and especially in Chile, many workers do not transition to indefinite contracts and firms abuse temporary contracts. These workers cycle between temporary contracts, with unemployment spells in between (limiting their social and health contributions and their income security) and resulting in large turnover within firms.

To rebalance job protection, Italy has introduced a single standard contract applying only to new employment contracts, with employment protection increasing with tenure (Box 1.4). This new contract provides a basic level of protection for the first two years, after which the level of compensation for unfair dismissal increases. As evidence becomes available about the benefits, and possible costs of the single contract in Italy, Chile could usefully draw lessons. Increasing the share of permanent workers can help Chile reduce income inequality. Estimates produced for this Survey using household data from the National Socioeconomic Characterization Survey (CASEN) suggest that if temporary

Box 1.4. **The Italian labour market reform: Single contracts**

In Italy, a new open-ended contract has been in place since March 2015, as part of the Jobs Act, a package of labour market reforms introduced by the Renzi administration. This new contract increases employment protection with the job tenure, aiming at simplifying and streamlining dismissal rules while reducing labour market dualism. This new contract is applied only to new employment contracts, grandfathering existing rights. The temporary contracts will be transformed into open-ended ones by 2016, unless collective agreements set flexibility criteria for the use of temporary contracts.

This new open-ended contract limits the possibility of reinstatement of workers following unfair dismissal, excluding this possibility for redundancy dismissal ("*motivo oggettivo*", due to production and technological factors in the firm). In this arrangement, unfairly dismissed workers will receive monetary compensation which is increasing with the tenure. The monetary compensation will be equal to 2 monthly wages per year of service (with a minimum amount equivalent to 4 months and a maximum amount equivalent to 24 monthly wages). It preserves the right of reinstatement in case of invalid and discriminatory dismissals (because of race, gender, religion or disability) and for very specific cases of unfair disciplinary dismissals.

The Jobs Act reduces legal risk associated with unfair dismissal provisions which have been identified as most burdensome and affecting gross worker flows in general (OECD, 2013). By increasing predictability and thus lowering the effective costs of dismissal (i.e. even if judged to be unfair by courts, the subsequent financial costs are foreseen), the Jobs Act encourages firms to create more jobs.

There still remains some stringency on the definition of fair/unfair dismissal and compensation following unfair dismissal. In the case of redundancy, dismissal is judged as unfair if a transfer and/or a retraining to adapt the worker to different work is not attempted prior to dismissal ("*repechage*"); compensation following unfair dismissal is equivalent to 24 months of salary for a worker at 20 years of tenure against the OECD average of 6 months.

The Jobs Act also introduced a new form of out-of-court procedure, applying to all dismissal cases. According to this procedure, the employer pays the worker an indemnity equal to 1 monthly wage per year of service (with a minimum amount equivalent to 2 monthly wages and a maximum amount equivalent to 18 monthly wages), which is not subject to social contribution or fiscal taxation. This compensation could be considered as similar in some respects to severance pay. The acceptance of this transaction prevents any further dispute by the worker, that is, appealing to courts for a dismissal to be unfair or not.

Source: OECD (2015), *OECD Economic Surveys: Italy 2015.*

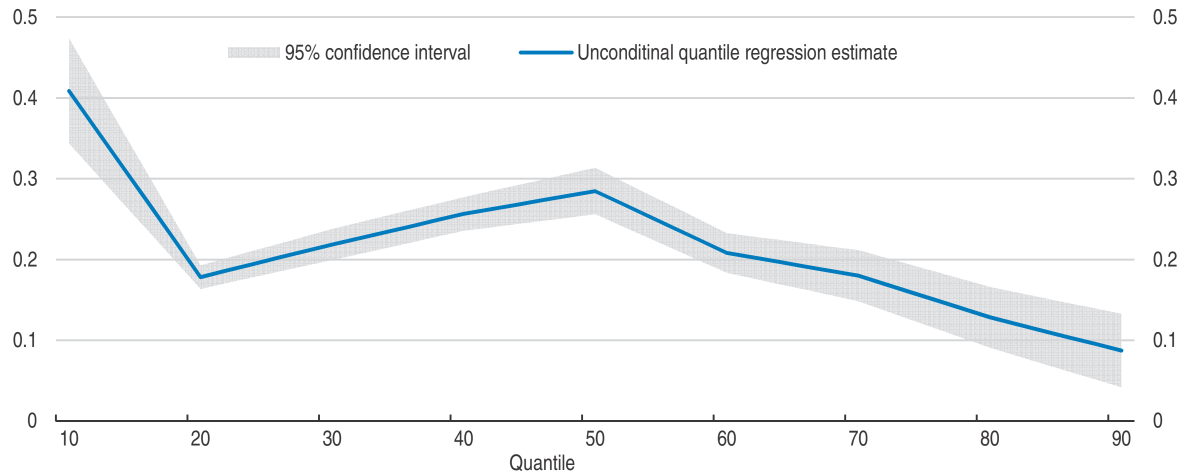
contracts are reduced by 10% relative to permanent contracts, earnings of the lowest income deciles will increase by around 3% more than income of the highest incomes deciles (Figure 1.10). Therefore, well designed labour reform that increases the share of permanent workers in Chile could have significant effects reducing income inequalities.

Efficient activation policies to improve labour opportunities for the less advantageous

Youth in Chile face a high risk of unemployment. Lack of job-specific skills needed in the labour market, low levels of general skills, absence of work experience programmes, and low coverage of financial incentives for employers to hire and train youth may hinder young workers' employability. The OECD Action Plan for Youth recommends a set of

Figure 1.10. **Reducing the share of temporary contracts can reduce earnings inequality**

Effect on log earnings from reducing by 1% the share of temporary contracts relative to permanent contracts



Note: Unconditional quantile regression estimate for employed individuals using data from the National Socioeconomic Characterization Survey (CASEN).

Source: OECD estimates using CASEN (2013) following the methodology of Fournier and Koske (2012),

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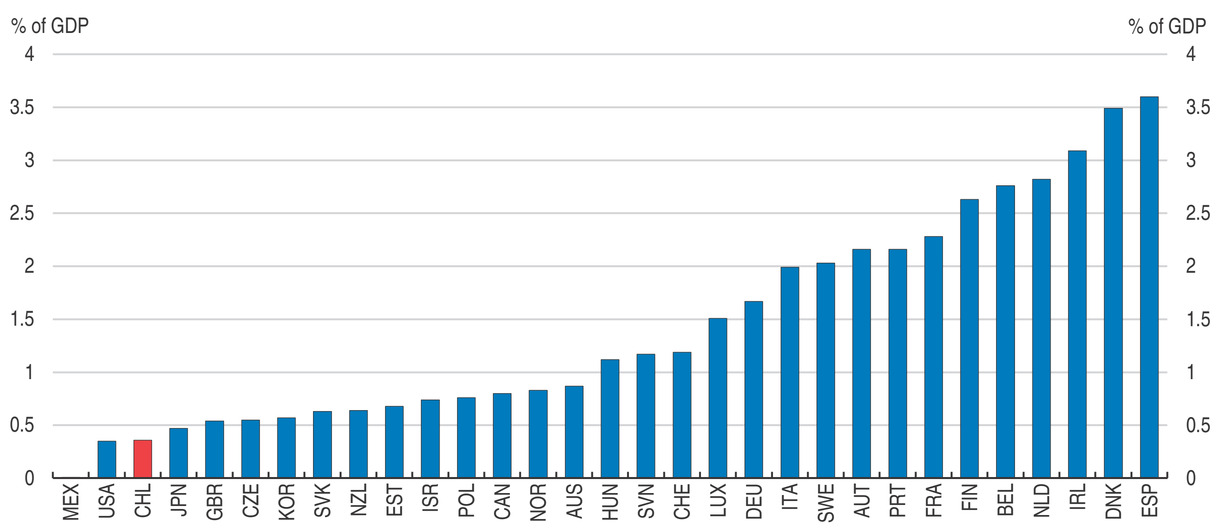
measures, including active labour market strategies and encouraging employers to expand quality apprenticeships or internship programmes, while strengthening the education system, the role and effectiveness of Vocational Education and Training and assisting the transition from school to work. The Chilean government is supporting youth employability along some of these lines. The public employment service (*Servicio Nacional de Capacitación y Empleo*, SENCE), specifically targets youth in its training provision. The *Subsidio al Empleo Joven* and the *Subsidio Previsional a los Trabajadores Jóvenes* are attempts to lower employment costs for youth in the formal sector. *MásCapaz* is an ambitious worker training programme to bring youth and women closer to the labour market which during 2015, the first year of full scale implementation, has attracted 56 thousand to training course, with 50% being younger than 30 years and 75.8% belonging to the 20% of the poorest. Also *Yo Trabajo*, run by FOSIS, is an attempt to target low-skilled individuals and those in the margins of the labour market. *MásCapaz* training schemes are long durations, they have between 200 and 300 hours.

However, more efforts are required. In particular, the government could strengthen the public employment service's job-search support, improve the linkages between upper secondary and tertiary education and employer needs, and offer guidance counselling services and work experience programmes beginning in lower- or upper-secondary schools and continuing through the public employment service. Developing an apprenticeship system and enhancing the work-based component in vocational education and training (VET) and terminal programmes would also improve youth's employability. In addition, more and better incentives could be provided for employers to hire and train youth by facilitating and expanding the take-up of youth employment subsidies so that more SMEs benefit (OECD, 2010).

More generally, Chile should invest more resources to improve worker training and lifelong learning system, which is currently ineffective and does not benefit workers and firms that need it most. Currently the training system is mostly based on tax credits to employers that mainly benefits large employers, leaving low-skilled or low-income workers and SMEs, who could benefit the most, out. In addition, training schemes are usually ineffective due to their short duration and quality varies widely (Larrañaga et al., 2014). Training and adult skill development more generally need to be better linked to the labour market. Following the example of other OECD countries, Chile should systematically assess current or future skill needs (OECD, 2015d). Doing job training right can boost productivity of workers because it facilitates the use of goods and work tools that require more technical skills, accelerates the process of adoption of new technologies and helps individuals to engage in sectors high productivity.

Finally, Chile should increase spending on active labour market policies, which is currently 0.36% of GDP, significantly lower than the average country in the OCDE or 1.37% of GDP (Figure 1.11). Both SENCE and the *Oficinas Municipales de Intermediación Laboral* (OMILs) need to increase their capacity to deliver high quality counselling, guidance, job-search assistance and training based on workers' needs; all of which are key to help the unemployed find stable work. The planned extension of the training system to the unemployed and vulnerable workers through the public employment service will reduce the inequalities in access to worker training. The new auction of the *Bolsa Nacional de Empleo* (BNE) is a step in that direction; however, it should be integrated with training opportunities. Efforts to further reform SENCE may increase its ability to deal with its ambitious mandate of co-ordinating worker training and activation policies and the addition of quality assurance requirements to training providers may increase the efficacy of worker training.

Figure 1.11. **Spending in active labour market policies is very low**



Note: The figure for Chile does not include the recent programme *MasCapaz*, which will increase spending on labour market policies by 0.4% of GDP.
Source: *OECD Employment and Labour Market Statistics 2014.*

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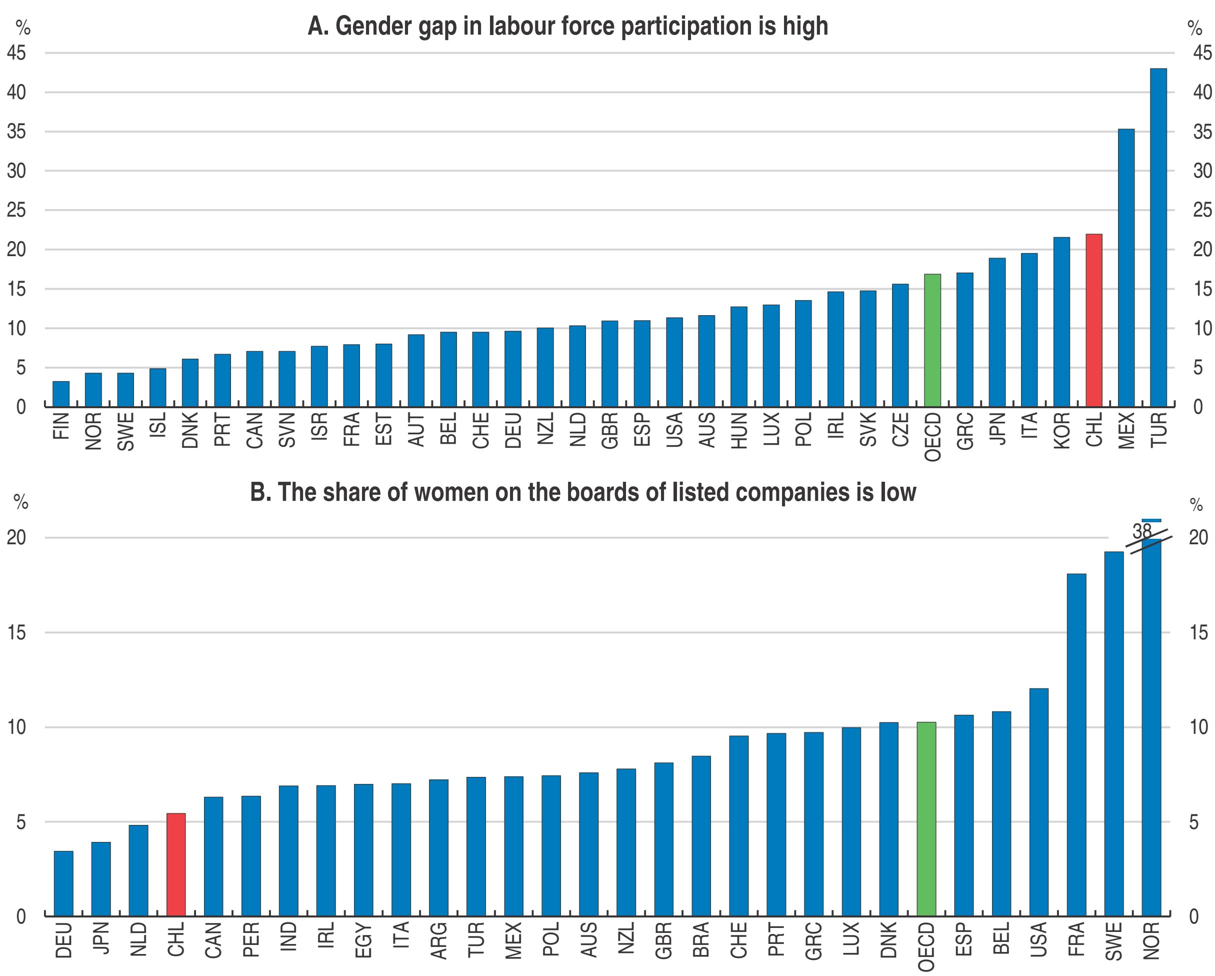
Ongoing efforts to promote the development of Sector Skills Councils, the development of qualification frameworks and occupational standards will facilitate the linkages between skills development and skill needs. To strengthen its system to inform skills policy based on current and future skill needs strong social partner organisations (e.g. Sector Skills Councils that include SMEs) are needed and partnerships between workers, employers and training institutions need to be developed, together with the public employment service's role in co-ordinating training that meets labour market and reaches those workers and sectors that need it most. In addition, occupational standards and qualification frameworks have to be developed and used effectively. While the efforts put forth by *ChileValora* to develop occupational standards are very welcome, they are insufficient. Rigorous and continuous methods to assess and anticipate skill needs are also needed, together with methods for quality assurance and the monitoring of training providers.

Closing gender gaps

Female labour force participation in Chile has increased significantly since the mid-1990s, but it is still low at 54% in 2011 compared with an OECD average of 62%, and the gap with men is among the widest in the OECD (Figure 1.12, Panel A). The share of women on board of listed companies in Chile is among the lowest in the OECD (Figure 1.12, Panel B). The major obstacle Chilean women face to participate more fully is the traditional gender roles towards work and care. At home, Chilean women spend 4 hours per day more

Figure 1.12. **Women face all kind of inequalities**



Source: Panel A: *OECD Employment and Labour Market Statistics 2014*. Panel B: World Values Survey Association 2009.

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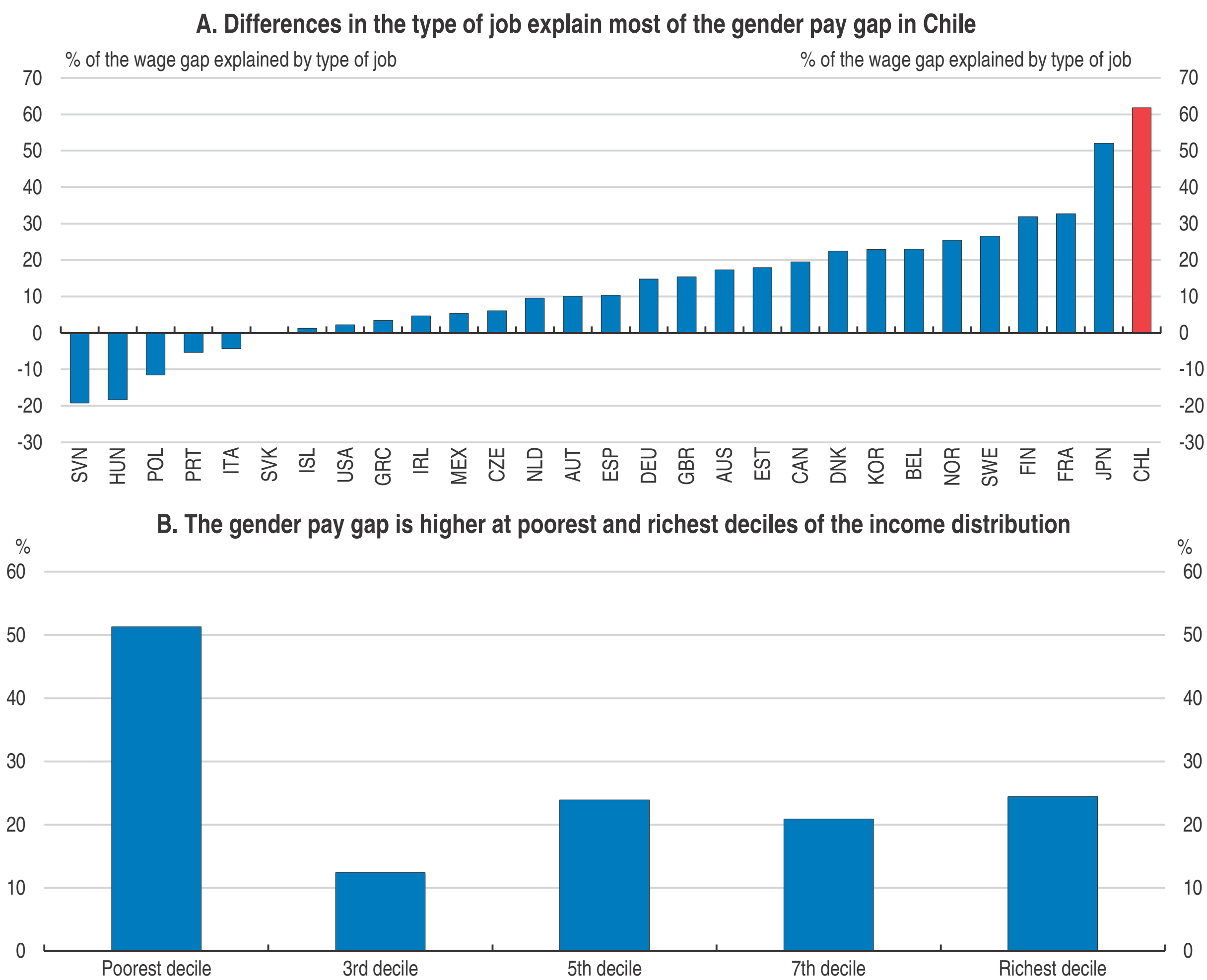
on unpaid work than men (OECD, 2012b). Unlike other OECD countries, the gender pay gap in Chile is mainly explained by the characteristic of jobs occupied by women (Figure 1.13). Women dominate the service sector (83% of women, compared to 34% of men), in particular the sectors of health and social work, followed by education. Women often work part-time or drop out of the labour force after childbearing. Together with low earnings, this increases the risk of old age poverty: 60% of women affiliated with the pension system have contributed for less than 50% of the time than men.

Figure 1.13. **Differences in the type of job explain most of the gender pay gap in Chile**



Source: For Chile OECD estimates based on CASEN (2013); for other countries OECD (2012b).

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In addition, the gender pay gap varies a lot across the income distribution: it is higher at the extremes of the income distribution, in particular at the very bottom (Figure 1.13, Panel B). At lowest income levels, the job characteristics that depress women wages are firm size, informality and non-standard contracts. At highest income levels, the gender pay gap is explained by differences in education, occupation, and type of industry. While the level of education – women tend to be better educated than men – and type of occupation tend to reduce the gender pay gap, the type of industry where they are employed is the main factor contributing to increase it. This is probably related with a mismatch between girls' aspirations and their actual career achievements. Well-educated women often end up in jobs where they do not use their full potential and skills. In addition to loss of talent, OECD findings show that being over-qualified and over-skilled reduces job satisfaction, which is likely to reduce productivity (OECD, 2012b). To solve this problem, Chile should provide career guidance at schools and universities to help women better match their acquired skills with the career path they choose.

Reduce gender gaps to boost inclusive growth

Increasing participation of women in the labour force can have a significant impact on economic growth and contribute to reduce income inequality (OECD, 2012). First, research shows that Chile suffers one of the largest losses of income per capita because of low level of female labour force participation in the OECD (Figure 1.14, Panel A). Narrowing the labour force participation gap between men and women by 50% has been estimated to raise annual growth in GDP per capita by 0.3 percentage points on average (Thévenon et al., 2012). Second, Evidence from OECD countries shows that having more women in paid (full-time) work results in lower household income inequality (OECD, 2015b). Therefore, policies that focus on increasing the earnings potential of lower-paid women can reinforce the equalising effect of women's labour market integration.

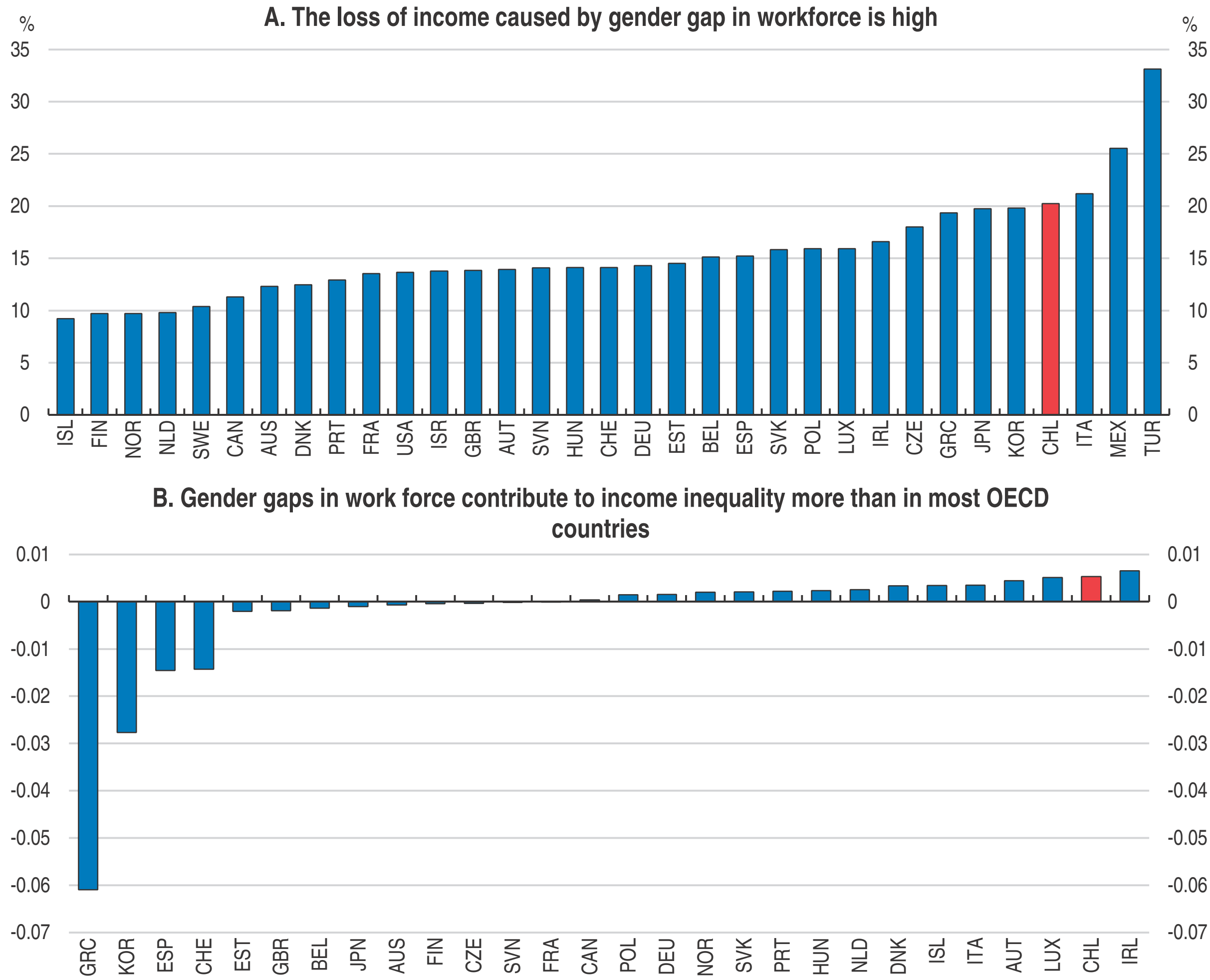
Moreover, there appears to be a negative relationship between representation of women in parliaments and income inequality in OECD countries (Figure 1.15). Despite the fact that Chile has made remarkable progress increasing women participation in politics, the share of parliamentary seats occupied by women is the lowest in the OECD. Women's civic and political participation helps to promote their own rights as well as those of their families and communities. Women's civic activism pushes governments to be more responsive to women's claims and adopt gender-responsive policies. These policies must take into account the existence of discriminatory social institutions that can restrict women's ability to actively participate in public life. In some countries this includes limits on women's freedom of movement and negative attitudes towards female involvement in public life.

The government is making a strong effort to promote more gender diversity in leadership positions, both in parliament and in the boards of private companies. A new bill *Proyecto sobre fortalecimiento de la democracia*, contains provisions that seek to promote the political participation of women, giving funds to parties with the requirement that at least 10% of these funds are intended to encourage participation of women. Another bill, *Proyecto de ley sobre partidos políticos*, introduces quotas for women. It provides that for internal party elections candidates must respect gender balance where no sex should be represented in more than 60%. It also proposes mandatory participation of women in party relevant directives in order to achieve gender parity. Finally, as mentioned before, the labour reform currently being discussed in the Senate, makes mandatory the incorporation of women in the bargaining commissions for bargaining collectively, and requires firms to provide information about gender gaps in wages.

Enhance policies to help women join the labour force

Evidence shows that female labour supply is much more responsive to wage changes than males in terms of hours worked but even more so in terms of decision to participate (Killingsworth and Heckman, 1986). Because of this, active labour market policies that help improve skills and promote labour opportunities have a larger effect for women than for

Figure 1.14. **Gender gaps in the workforce contribute to income loss and high inequality**



Note: In Panel B a negative (positive) contribution of a factor means a lower (higher) dispersion of that factor in the country considered relative to the United States, so that the factor drives inequality down (up) relative to the United States. The decomposition is based on the UQR results. To better capture the contribution of hours worked, a set of dummies is created, with each dummy capturing a bracket of five hours (Sweden is an exception since the dataset of that country only distinguishes between full-time and part-time workers).The results of the decomposition analysis need to be interpreted with care due to cross-country differences in survey designs and very small samples for several countries, most notably Iceland, Ireland, Luxembourg and Portugal.

Source: Panel A: Cuberes and Teignier (2015). Panel B: Fournier and Koske (2012).

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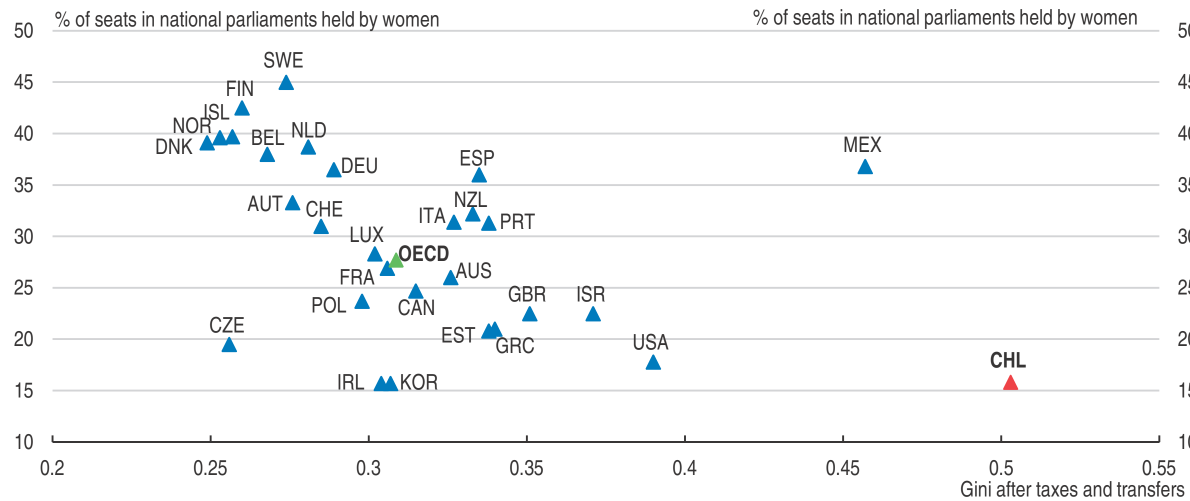
men (Bergemann and Van den Berg, 2008). Since Chile devotes little public spending to active labour-market policies by international standards, more spending on this area can contribute to reduce the gender gap in labour force participation. Programmes like *MásCapaz* are a step in the right direction. This should be accompanied by steps to reduce the opportunity cost of joining the labour force, such as family benefits and child-related entitlements. Therefore, a key priority should be to expand high-quality childcare, especially for children aged up to three years. To help solve this problem, the government is building new child care spaces. The plan is to build more than 3 000 of these spaces during the period 2014-18.

Figure 1.15. **The number of women in parliament is correlated with income inequality**



Source: *OECD Income Distribution and Poverty Database* and *PARLINE Database*.

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Create awareness to fight discrimination

OECD evidence shows that an important part of the earnings gap between men and women is due to discrimination (Koske et al., 2012). Discrimination is likely to entail negative consequences for long-run living standards as it reduces work incentives and leads to a suboptimal allocation of human capital. To combat discrimination, legal rules can be made more effective, for example by empowering well-resourced specialised bodies to investigate employers even in the absence of individual complaints and to take legal action against those who engage in discriminatory practices (OECD, 2011). The fact that the Superintendence of Securities and Exchanges (*Superintendencia de Valores y Seguros*) is asking open stock companies to inform gender wage gaps in their annual reports, is a step in the right direction.

Policies to modify gender roles could also contribute to higher female labour market participation. Raising awareness for the existence of gender inequalities and for the potential benefits of a more gender-equal society is a prerequisite for broad support for a gender mainstreaming policy agenda. The newly created Ministry of Women is set to play a central role in bringing gender issues to the public debate through information campaigns or disseminating best practices can contribute to dismantling stereotypes such as the belief that a working mother is a bad mother or that technical professions are male professions.

Recommendations to bring all Chileans on board

A more inclusive labour market

- Reduce duality in the labour market between protected indefinite contracts and precarious fixed-term contracts.
- Strengthen public employment services to deliver targeted active labour market programmes for youth, the low-skilled and the unemployed.
- Increase spending in active labour market policies.

Improving the transfer system

- Increase mandatory pension contribution rates.
- Equalise the retirement age of men and women at 65 years.
- Link the retirement age according to changes in life expectancy.
- Boost the level of the solidarity pension.
- Enhance fiscal equalisation to ensure that poor municipalities have sufficient resources to provide their citizens with high quality services and continue efforts to improve these.
- Strengthen poverty alleviation policies as planned, better targeting them to vulnerable populations, including indigenous groups.

Closing gender gaps

- Improve the access to quality child-care for children under-3 years of age.
- Promote gender diversity in leadership positions in parliament and private companies.
- Bring gender issues into the public debate through information campaigns.

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From:
OECD Economic Surveys: Chile 2015

Access the complete publication at:
https://doi.org/10.1787/eco_surveys-chl-2015-en

Please cite this chapter as:

OECD (2015), “Bringing all Chileans on board”, in *OECD Economic Surveys: Chile 2015*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/eco_surveys-chl-2015-5-en