

Executive summary

The Chilean economy is gradually recovering from a period of slow growth due to sharply lower commodity prices. Economic growth is expected to strengthen to 2.8% in 2018 thanks to improved external demand and investment. As a result, the unemployment rate is projected to stabilise and wage growth to pick up. The overall unemployment rate remains close to the OECD average (6.5% in Chile v. 6.3%). Yet, participation in the labour market is five percentage points below the OECD average, with very marked differences for women (8 percentage points below average) and youth (12 percentage points below average). This is reflected in relatively low employment rates for these sub-groups. While participation of the low-educated to the labour market is high in international comparison, the quality of jobs is frequently poor: informality is common and Chile has the highest share of temporary workers in the OECD.

Ensuring that the most under-represented groups can build the necessary skills to successfully participate in the labour market can help reduce existing employment gaps. In addition, promoting labour market outcomes for under-represented groups can contribute to reducing income inequality and promoting employment and economic growth. Building skills to make labour markets more inclusive is, therefore, a priority on both equity and efficiency grounds.

While Chile has a range of programmes in place to support groups that face barriers in the labour market, the challenge of enhancing job opportunities for them is all the greater as the specialisation of the economy and the prospects of automation skew the demand for labour towards high-skilled workers.

By using the data provided by the Survey of Adult Skills, this study analyses the relationship between skills and labour market outcomes in Chile with a specific focus on disadvantaged groups: youth, women and the low-skilled. Chapter 1 examines the proficiency of the Chilean population in literacy, numeracy and problem-solving in a technological-rich environment; disentangles the relationship between proficiency and labour market outcomes in Chile; and sheds light on differences between sociodemographic groups. Chapter 2 describes the use of skills at work, the determinants of this use, the level of skills mismatch, and why it matters for individuals and economies. Chapter 3 examines in more depth the effect of skills on labour market outcomes by age and gender.

Key findings

- Both educational attainment and skill proficiency, as measured in the Survey of Adult Skills (PIAAC), are low in Chile when compared to other OECD countries. The share of adults who score at the highest levels of proficiency in literacy, numeracy and problem-solving in technology-rich environments is considerably smaller than the OECD average. This poor performance applies across the board,

at all education levels: the highest educated Chileans score, on average, below the OECD average for adults that have attained upper secondary education.

- Differences in proficiency related to age, educational attainment and parents' education are especially large in Chile, with gaps up to 20% bigger than in the OECD on average. Chile is one of only few countries where the gender gap is statistically significant: on average, women score 7 points (adjusted) lower in literacy, when compared to men. The gender gap is smaller among younger Chileans, even after controlling for educational attainment, suggesting that lower labour force participation may cause faster skills depreciation or slower skills acquisition through lifelong learning among women.
- On average across OECD countries and economies that participated in PIAAC, after accounting for educational attainment, an increase of one standard deviation in an individual's literacy proficiency (46 score points) is associated with a 8% increase in hourly wages. The relationship is stronger in Chile than in the OECD on average and remains strong, even after educational attainment and the use of reading skills at work are considered. Skill proficiency is also found to affect the likelihood of being neither in employment nor in education and training, but more so for older workers – affected by early retirement – than for youth finding it difficult to enter the labour market.
- The analysis of the relationship between skills and gender and age wage gaps points to the existence of gender discrimination and seniority wage practices: both gaps would be significantly reduced if the return to skills for women (youth) was the same as that for men (older workers).
- The use of skills in the workplace plays an important role in the labour market outcomes of individuals in all OECD countries over and beyond that played by skills proficiency and educational attainment. Workers in Chile show below-average use of all skills, although the difference with the OECD average is small. This could partly be attributed to the limited use of High Performance Work Practices (HPWP) in Chile. Indeed, a growing body of literature shows that participatory practices at work – such as those allowing workers more flexibility in determining the way and rhythm with which they carry out their tasks – encourage better use of skills in the workplace. Management practices also help, with bonuses, training and working time flexibility providing incentives for workers to use their skills at work more fully.
- The extent to which skills are used in the workplace varies across socio-demographic characteristics for several reasons. Workers may have different attitudes to the deployment of skills in the workplace, may be constrained in their choice of jobs because of personal reasons, or may be offered jobs to which HPWP are less likely to apply. In Chile, differences in skills use at work are particularly marked by age group. Prime-age workers tend to use all skills more frequently than either youth or older workers both in Chile and on average. However, Chile shows a different pattern than in the OECD on average when it comes to age, with lower use by older workers than by youth in all skills but reading although this appears to be due in part to differences in proficiency and job type. The opposite is true in the OECD on average.
- A discrepancy between skills use in the workplace and skill proficiency could signal the existence of mismatch, whereby workers are in jobs that require higher or lower skills than those they possess. In Chile, qualification mismatch, at 34%, is very close to the OECD average. On the other hand, Chile has one of the highest prevalence of skills mismatch in OECD countries, and the highest

prevalence of underskilling in literacy. Field of study mismatch shows that almost one in two workers in Chile is mismatched, one of the highest values in the OECD, compared with just 40% of workers on average. Older workers are the most likely to be mismatched – in terms of qualifications, skills and field of study.

- Wage penalties from overqualification are larger in Chile than in the OECD on average: overqualified workers earn about 18% less than their well-matched counterparts with similar qualifications. In addition, while field of study mismatch per se does not entail large wage losses, it can be quite costly when it coincides with over-qualification which is the case for a large share of mismatched workers in Chile.

While these findings point to the importance of strengthening the skills of the Chilean workforce, they also suggest that skills may only be part of the story for some groups. Notably, women's poor labour force participation in Chile is likely to be strongly related to the difficulty of reconciling work and family life. Better services to support women's labour market participation would help make the best use of women's skills.

Also, educational credentials continue to play a stronger role than actual skills, generating mismatch between workers' skills and the skill requirements of their jobs. In this context, it becomes critical to develop mechanisms to effectively signal skills proficiency to employers. Effective systems for the recognition of prior learning could help achieve more transparency on the skills that job-seekers possess, irrespective of the context in which skills have been acquired (initial education or non-formal and informal learning).

Finally, as many of those already in the labour force have poor information-processing skills, participation in adult learning is key to develop and maintain skills. Cost-efficient infrastructures for lifelong learning and ensuring participation by all is likely to gain in importance as rapidly changing skill needs will require more frequent re-training and up-skilling. Unfortunately, as it is the case across OECD countries, adult learning tends to benefit disproportionately those who already possess good foundation skills. Increasing participation by the low-skilled will require targeted financial subsidies but also attention paid to non-financial barriers.



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