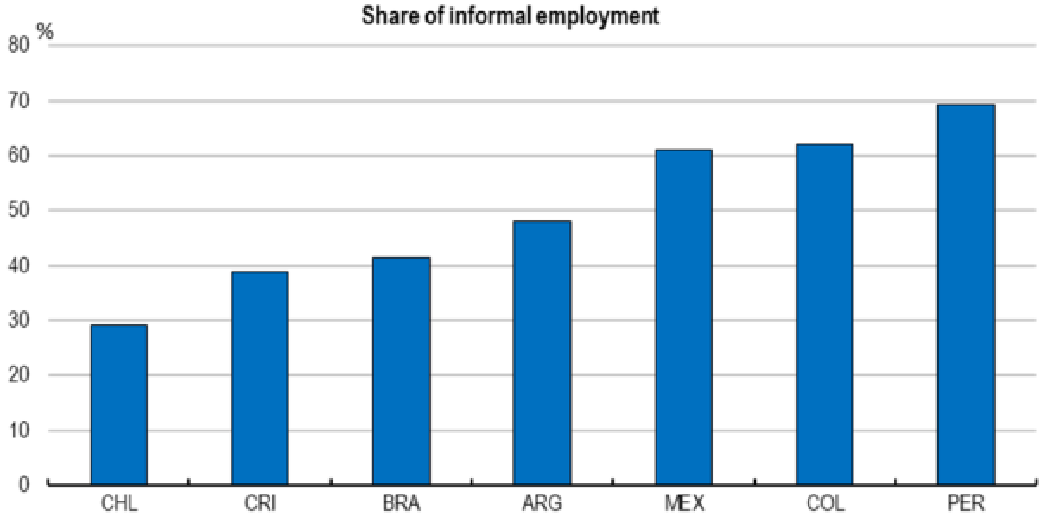
Reaching out to informal workers in Latin America: Lessons from COVID-19

By Jens Arnold, Paula Garda, Alberto Gonzalez-Pandiella, OECD Economics Department

Social distancing has led to sharp declines in mobility and activity across Latin America. Widespread informality creates particular challenges for the livelihoods of many workers. As their activities are shut down to contain the spread of COVID-19, informal workers or small entrepreneurs are usually not covered by social protection. Largely out of reach of the public sector, they easily fall through the cracks of emergency income support measures. This has highlighted a major need to rethink and strengthen social protection mechanisms in Latin America. Providing more complete social safety nets that are not tied to formal employment and that can react rapidly to income losses would be one solution. In many countries in the region, such safety nets could be built on the basis of existing conditional cash transfer programmes.

Informal workers and small entrepreneurs account for a significant share of the workforce across Latin America (Figure 1). Most of them have no access to social protection, and almost no savings to carry them through the trough. Informal employees were the first to lose their jobs, while self-employed entrepreneurs such as street sellers and small service providers were left with no source of income as streets became empty. Working from home may be a solution for educated middle-class workers, but it is out of reach for the most vulnerable (Mongey and Weinbergy, 2020).

Figure 1. Labour informality is widespread in Latin America



Note: Informal workers include own-account workers outside the formal sector, contributing family workers, employers and members of producers' cooperatives in the informal sector, and employees without formal contracts. Data refer to 2019 or latest available year.
Source: ILOstat, IBGE, OECD. Data refer to 2019 or latest available year.

The crisis has exposed shortcomings in existing social protection mechanisms

Governments in Latin America responded swiftly to the unprecedented challenges posed by COVID-19. Many countries designed temporary support measures, building on existing instruments such as formal-sector unemployment insurance and cash transfers. Formal-sector employees benefitted from more flexible access to unemployment benefits, for example in Brazil and Chile, while temporary short-time work schemes, wage subsidies or lower labour contributions helped to preserve formal labour contracts Brazil, Colombia, Costa Rica and several Mexican states. Cash transfer schemes targeted to low-income households play important roles in Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Uruguay, among others. These cash transfer schemes are typically based on large locally-maintained registries of low-income households that can consider both formal and informal incomes. Providing additional resources to these schemes allowed to raise benefit levels and/or expand coverage, including by eliminating previous enrolment waiting lists, as in the cases of Brazil, Chile, Colombia and Peru.

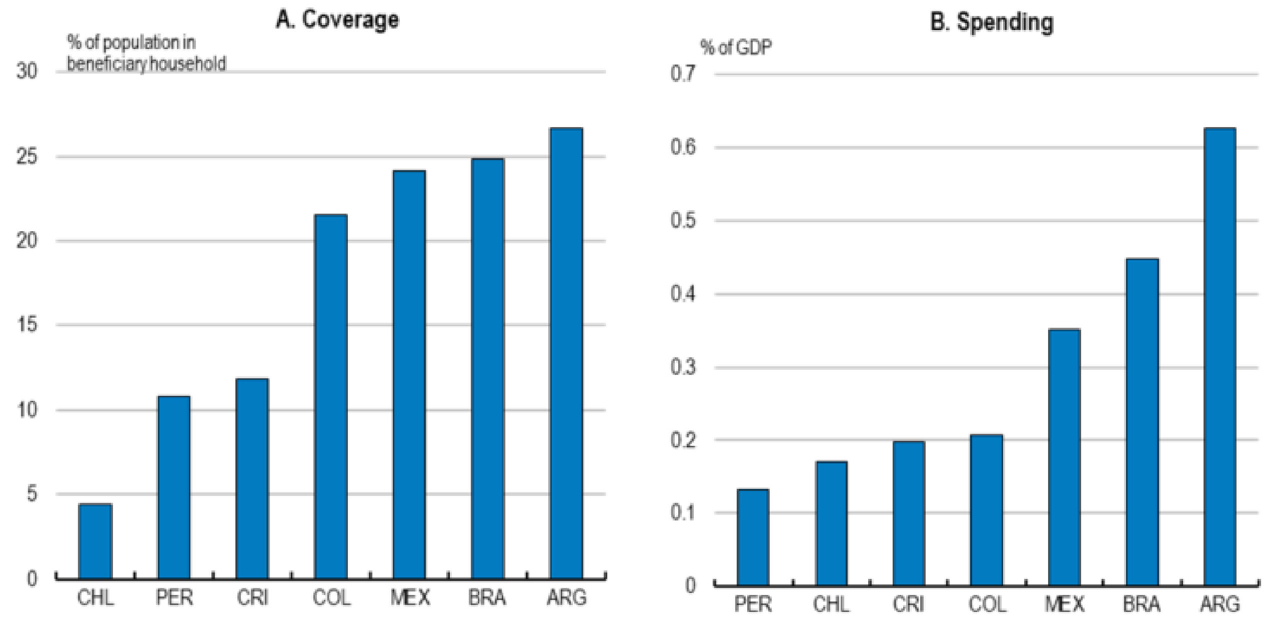
The COVID-19 policy response, however, has also exposed significant gaps in existing social safety networks. Amid policy support for formal workers and for the poor, vulnerable households whose livelihoods depend on informal activities are often left without any social protection mechanism to fall on. Before the pandemic, many of these had successfully escaped poverty and gained incomes above the threshold where they would qualify for cash transfers, but without gaining access to the kind of social protection in place for formal employees. As distancing measures led to unprecedented declines in demand, many of these households were left without any income.

Reaching informal workers is a challenge for public policies and has required innovative ideas. Beyond the grasp of income tax systems, and with no access to social benefits, many informal workers have traditionally been outside the radar of the state. In addition, they often lack access to banking services, so governments had to respond creatively and ensure the creation of basic bank accounts for emergency benefit recipients. More than 50 million Brazilians used a smartphone application to receive an emergency benefit established after the outbreak. Colombia has been similarly successful, paying out benefits to 1.5 million households previously not covered by social benefits, and including free digital banking products. Chile is supporting more than 2 million vulnerable and informal households through different cash transfers, handing out debit cards to those without a bank account. Costa Rica's new cash transfer also offers the creation of a bank account. Such programmes have replaced significant shares of pre-crisis incomes for low-income households (Busso et al., 2020).

Lessons for the future

Building more effective universal social safety nets that include informal workers and entrepreneurs emerges as one of the main lessons from the COVID-19 crisis and the social unrest during 2019. Given their wide reach in many countries, existing cash-transfer programmes would be the most straightforward basis for effective social safety nets (Figure 2, Panel A). In several countries, eligibility is in principle universal, but in practice, enrolment processes are too slow or cumbersome to help people in the face of sudden income losses. An important step would therefore be to make cash transfer programmes more agile, so that they can disburse quickly when people lose their livelihoods, following the examples of the UK's Universal Credit or Malaysia's BSH programme. More universal social safety nets based on means-tested cash transfers could also help to reduce the widespread fragmentation of social programmes, and strengthen their effectiveness.

Figure 2. Conditional cash transfer programmes achieve significant coverage at low fiscal costs



Note: Data refer to 2017 for Colombia and 2018 for all remaining countries. Source: OECD calculations based on ECLAC: Database of non-contributory social protection programmes in Latin America and the Caribbean, available at http://dds.cepal.org/bdptc/.

Financing universal social safety nets will require additional resources, but building on existing programmes may make the cost manageable. Cash transfer schemes are among the most cost-efficient social expenditure programmes, and they cost relatively little (Figure 2, Panel B). Brazil's successful Bolsa Família programme, for example, currently only costs 0.5% of GDP, compared with 12% spent on formal social security schemes. During the COVID-19 pandemic, additional spending of 0.04% of GDP was enough to eliminate an accumulated queue of 1 million benefit applicants. Building on existing citizen identification systems and digital technologies could further reduce costs.

Social protection for informal workers should go along with efforts to foster formalisation. Reviewing non-wage labour costs can help to reduce informality, as illustrated by Colombia's 2012 tax reform. Costly and complex business regulations, including those for starting a formal business, also hamper the formalisation of firms and jobs. Expanding the use of one-stop shops for business regulations would be one way forward. Social programmes could increasingly integrate training and lifelong learning for informal workers. This could create a virtuous circle between formal employment, growth and equity.

Positive economic outlook for the main economies in Latin America but downward risks have intensified

Alvaro S. Pereira (Director) and Latin American desks, Economics Department, Country Studies Branch, OECD

The global economy is navigating rough seas. Global GDP growth is strong but it has peaked. In many countries unemployment is well below pre-crisis levels, labour shortages are biting and inflation remains tepid. Yet, global trade and investment have been slowing on the back of increases in bilateral tariffs while many emerging market economies are experiencing capital outflows and a weakening of their currencies. The global economy looks set for a soft landing, with global GDP growth projected to slow from 3.7% in 2018 to 3.5% in 2019-20. However, downside risks abound and policy makers will have to steer their economies carefully towards sustainable, albeit slower, GDP growth.

The economic recovery in the Latin American economies has become dissimilar. While in some countries, growth has been revised downwards, in others it has been revised upwards. This disparity is closely linked to how these economies have evolved in the face of the financial stress and increased financial volatility in recent months. The region's economies with the best macroeconomic fundamentals, independent central banks, countercyclical monetary policies, sound fiscal policy framework and no major currency mismatches in corporate or sovereign debt, were better able to sail the adverse global financial conditions that led to capital outflows, weakening their currencies.

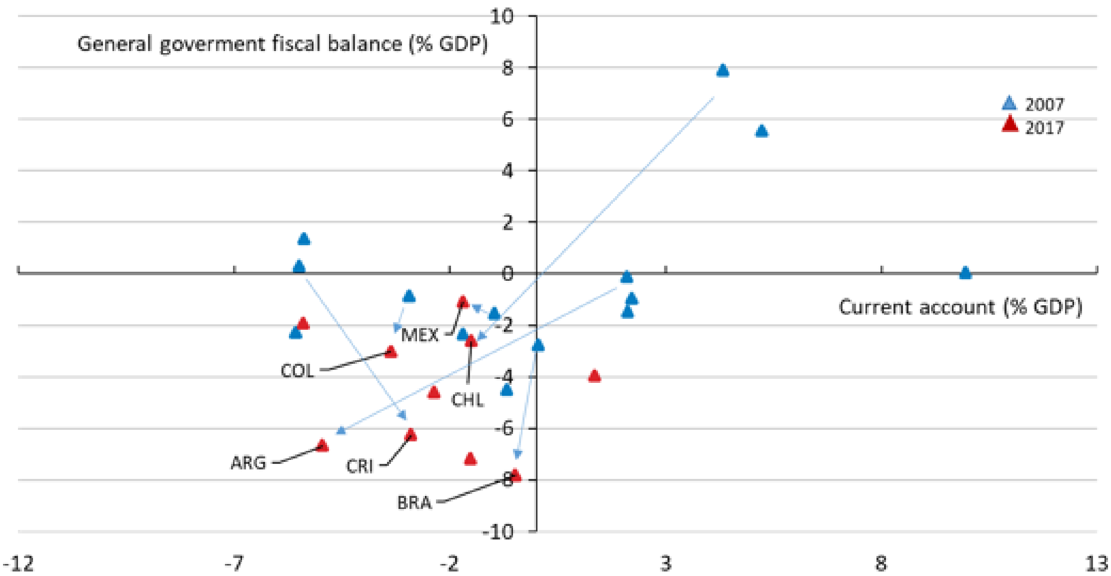
OECD Economic Outlook for some Latin American countries

	2017	2018	2019	2020
Argentina	2.9	-2.8	-1.9	2.3
Brazil	1.0	1.2	2.1	2.4
Chile	1.6	4.1	3.7	3.4
Colombia	1.8	2.8	3.3	3.4
Costa Rica	3.3	2.9	3.0	3.3
Mexico	2.3	2.2	2.5	2.8

Source: OECD Economic Outlook 104.

While Chile and Colombia have gained momentum, Brazil has shown lower growth and Argentina has fallen into recession. Mexico and Costa Rica have also experienced less momentum than expected. Growth in Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico, countries covering about 85% of Latin America's GDP, is expected to be around 1.4% this year and to accelerate to 2.0% in 2019 and 2.7% in 2020 (weighted average) (see Table). However, downside risks abound while the region is vulnerable to the global context. Several indicators, such as the fiscal and current account deficits have been accentuated in the last decade in most of these economies (Figure), suggesting that the region is still vulnerable. Needs to be noted that the situation is uneven and a broader list of indicators should be analysed.

The region is still vulnerable ten years later



Note: Contains data for Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico in the region. In addition, it contains data for China, India, Indonesia, Russia, South Africa and Turkey.
Source: OECD Economic Outlook 104 and IMF.

An accumulation of risks could create the conditions for a harder-than-expected landing. First, further trade tensions would take a toll on trade and GDP growth, generating even more uncertainty for business plans and investment. Second, tightening financial conditions could accelerate capital outflows from the region and depress demand further. Third, a sharp slowdown in China would hit Latin America and other emerging economies, but also advanced economies if the demand shock in China triggered a significant decline in global equity prices and higher global risk premia.

Looking ahead, it will be necessary to strengthen the macroeconomic policy framework to reduce vulnerabilities where necessary. Most of the region’s economies are starting, or will start in the near future, more restrictive monetary policies, while also undertaking fiscal consolidation. Depending on each country, it will be important to find a balance between the needs for social spending and public investment, with the need to put debt on a sustainable path. In Chile, Colombia and Mexico, this consolidation can be done gradually, but Argentina, Brazil and Costa Rica need to do it more urgently. Pension or tax reforms will be necessary in this regard.

Given the limited scope for countercyclical policies, in the face of external risks and a more pronounced slowdown, the time to promote the necessary structural reforms is now to guarantee a future with a sustained increase in productivity and greater inclusion. Many countries in the region have scope to reform the tax system and make it more effective in improving investment incentives and raising more resources. Depending on the characteristics of each country, possible measures may include limiting the use of tax exemptions and reduced rates, particularly in VAT, but also in corporate taxes, extending the tax base by including more people in personal income taxes, reducing evasion or making greater use of property, inheritance or environmental taxes. Other priorities should focus on export promotion and diversification, which would help reduce current account deficits. Investing in quality and innovative human capital, closing infrastructure and logistical gaps, and curbing corruption would support exports and their diversification, strengthening growth. Encouraging women’s participation in the labour force, reducing precariousness and informality in the labour market, as well as pension reforms are also urgent in several countries of the region and necessary to increase productivity and reduce inequalities.

Argentina: A combination of massive fiscal and monetary tightening will keep the economy in recession during 2018 and 2019. Private consumption and investment will remain depressed due to lower real incomes and high interest rates, and unemployment will rise. However, a better harvest and a lower real exchange rate will support stronger exports.

Brazil: Growth will gain momentum during 2019 and 2020 as private consumption, supported by improvements in the labour market, will increase. Recovering credit and greater policy certainty as a new administration takes office will buttress the recovery. Political uncertainty around the implementation of reforms remains significant and could derail the recovery, but if uncertainty fades and reforms advance as assumed, investment will become stronger.

Chile: Growth is projected to remain strong over the next two years. With an uncertain external environment, solid domestic demand will underpin growth, aided by a stable inflation environment, public infrastructure projects and a tax reform. Inequality, though decreasing, remains high, as informality and unemployment remain high and social transfers low.

Colombia: Growth is projected to pick up as infrastructure projects, lower corporate taxes and higher oil prices will boost investment. Improving confidence and financing conditions will support consumption. As growth gains traction, unemployment will edge down. Social indicators are improving but informality and inequality remain high.

Costa Rica: Growth is projected to recover to around 3¼ per cent in 2020 and be broad-based, underpinned by both domestic and external demand. However, uncertainty, particularly surrounding the planned fiscal reforms, is weighing on growth in the near term. The projections are based on the assumption that the fiscal reforms will be implemented from 2019, with modest fiscal tightening holding back growth in 2019 and 2020.

Mexico: Growth is projected to pick up to 2¾ per cent in 2020. Low unemployment, strong remittances and the recovery of real wages will support household consumption. Investment, which has been persistently low, will strengthen on the back of announced public investment plans and increased confidence associated with the US-Mexico-Canada trade agreement. Exports will decelerate owing to less favourable global conditions, especially in the United States. Inflation has been pushed up by rising energy prices, but expectations and core inflation remain anchored and within the central bank’s target band. Informality is slowly declining but remains elevated, contributing to persistently high inequalities and low productivity.

To read more about the Economic Outlook and the main structural challenges visit the english and spanish/portuguese version (it includes OECD forecasts and a chapter on decoupling of wages and productivity and the implications for public policy).

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Las perspectivas económicas son positivas en los principales países de América Latina pero los riesgos a la baja se han acentuado

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La economía mundial está navegando mares agitados. El crecimiento del PIB mundial es fuerte, pero ha alcanzado su punto máximo. En muchos países, el desempleo está por debajo de los niveles anteriores a la crisis de 2008, la escasez de mano de obra se empieza a sentir, aunque la inflación sigue siendo templada. Sin embargo, el comercio y la inversión mundiales se han desacelerado como consecuencia del incremento de aranceles bilaterales y de mayor incertidumbre política, mientras que varias economías emergentes están experimentando salidas de capitales y un debilitamiento de sus monedas. La recuperación del crecimiento global comenzará a desacelerarse, mientras que los riesgos a la baja se han acentuado. Se prevé que el crecimiento del PIB mundial disminuya del 3,7% en 2018 a 3,5% en 2019-2020. Sin embargo, abundan los riesgos de recesión y los responsables políticos tendrán que orientar cuidadosamente sus economías hacia un crecimiento sostenible, aunque más modesto, del PIB.

En las principales economías de América Latina, la recuperación económica se ha vuelto despareja. Mientras que en algunas, el crecimiento se ha revisado a la baja, en otras se ha revisado al alza. Esta disparidad está estrechamente ligada a cómo estas economías han evolucionado frente al estrés financiero e incremento de volatilidad financiera de los pasados meses. Las economías de la región con mejores fundamentos macroeconómicos, bancos centrales independientes, políticas monetarias contracíclicas, un marco de política fiscal sólido y sin grande descalce de monedas en la deuda corporativa o soberana, fueron los que sortearon mejor las condiciones financieras globales adversas que sometieron a varios países a una repentina salida de capitales y debilitamiento de sus monedas.

Perspectivas Económicas de la OCDE para algunos países de América Latina

	2017	2018	2019	2020
Argentina	2.9	-2.8	-1.9	2.3
Brasil	1.0	1.2	2.1	2.4
Chile	1.6	4.1	3.7	3.4
Colombia	1.8	2.8	3.3	3.4
Costa Rica	3.3	2.9	3.0	3.3
Mexico	2.3	2.2	2.5	2.8

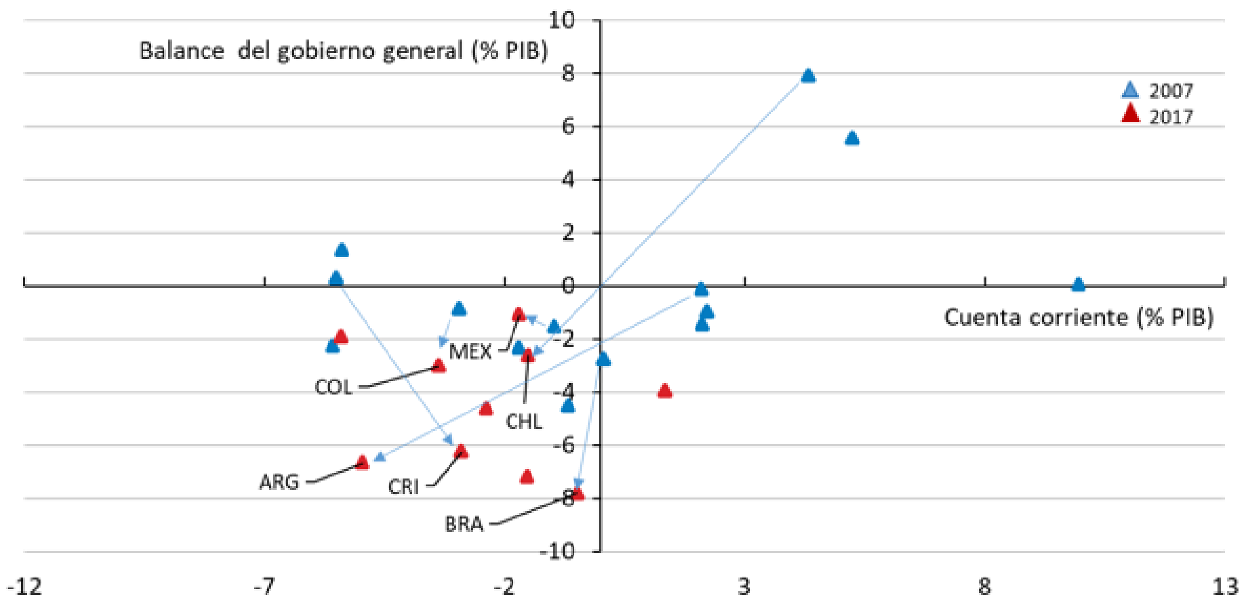
Fuente: Perspectivas Económicas 104 de la OCDE.

Mientras que Chile y Colombia han ganado ímpetu, Brasil ha mostrado menor crecimiento y Argentina ha caído en recesión.

México y Costa Rica también han experimentado menor ímpetu al esperado. Se espera que el crecimiento en Argentina, Brasil, Chile, Colombia, Costa Rica y México, países que cubren alrededor del 85% del PIB de América Latina, se sitúe en torno al 1.4% este año y se acelere a 2.0% en 2019 y 2.7% en 2020 (promedio ponderado) (Tabla). Sin embargo, abundan los riesgos a la baja, mientras que la región se encuentra vulnerable al contexto global. Algunos indicadores, como los déficits fiscales y de cuenta corriente (Figura) se han acentuado en la mayoría de estas economías en la última década, sugiriendo que la región es aún vulnerable. Debe notarse que la situación es dispar y se debe mirarse una lista más amplia de indicadores.

Una acumulación de riesgos podría crear las condiciones para una desaceleración de crecimiento más acentuada de la esperada. En primer lugar, nuevas tensiones comerciales afectarían al comercio y al crecimiento del PIB, generando aún más incertidumbre para las empresas y la inversión. En segundo lugar, el endurecimiento de las condiciones financieras globales podría acelerar las salidas de capitales y deprimir aún más las monedas de la región. En tercer lugar, una fuerte desaceleración en China afectaría a la región y otras economías emergentes, pero también a las economías avanzadas si el *shock* de la demanda en China provocara un descenso significativo de los precios mundiales de las acciones y un aumento de las primas de riesgo mundiales.

La región sigue siendo vulnerable diez años después



Nota: Contiene datos para Argentina, Brasil, Chile, Colombia, Costa Rica y México en la región. Además, contiene datos para China, India, Indonesia, Rusia, Sudáfrica y Turquía.
Fuente: Base de datos de Perspectivas Económicas 104 y FMI.

De cara al futuro, será necesario reforzar el marco de las políticas macroeconómicas para reducir vulnerabilidades donde sea necesario. La mayor parte de las economías de la región están comenzando, o lo harán en el futuro próximo, políticas monetarias más restrictivas, al tiempo que también deben llevar a cabo una consolidación fiscal. Dependiendo de las holguras de cada país, será importante encontrar un ritmo que balancee las necesidades de gasto social y de inversión pública, con la necesidad de poner la deuda en una senda sustentable. En Chile, Colombia y México, esta consolidación se puede llevar a cabo de manera gradual, pero Argentina, Brasil y Costa Rica necesitan hacerlo de manera más urgente. Reformas pensionales o tributarias serán necesarias en este sentido.

Dado el escaso margen para hacer políticas contracíclicas ante la realización de riesgos externos y una deceleración más acentuada, el momento de impulsar reformas estructurales necesarias es ahora, para garantizar un futuro con incremento sostenido de la productividad y mayor inclusión. Muchos países de la región tienen margen para reformar el sistema tributario y hacerlo más eficaz para mejorar los incentivos a la inversión y recaudar más recursos. Según las características de cada país, posibles medidas pueden incluir limitar el uso de exenciones tributarias y tasas reducidas, en particular en el IVA, pero también en los corporativos, extender las bases de imposición incluyendo más personas en los impuestos a los ingresos personales, reducir la evasión o hacer mayor uso de impuestos a la propiedad, a la herencia o impuestos ambientales. Otras prioridades deberían focalizarse en fomentar las exportaciones, y diversificarlas, lo que ayudaría a reducir los déficits de cuenta corriente. Invertir en capital humano de calidad e innovación, cerrar las brechas de infraestructura y logística y frenar la corrupción apoyarían a las exportaciones y su diversificación, fortaleciendo el crecimiento. Alentar la participación de la mujer en la fuerza laboral, reducir la precariedad e informalidad del mercado laboral, así como reformas al sistema de pensiones son también urgentes en varios países de la región y necesarios para aumentar la productividad y bajar las desigualdades.

Argentina: La economía seguirá en recesión en 2018 y 2019 debido a un endurecimiento fuerte y simultáneo de políticas monetarias y fiscales. El consumo privado y la inversión seguirán siendo bajos a causa del descenso de los ingresos reales y de los elevados tipos de interés, y aumentará el desempleo. Sin embargo, una mejor cosecha y un tipo de cambio real más competitivo contribuirán al aumento de las exportaciones.

Brasil: El crecimiento cobrará impulso en 2019 y 2020 gracias al aumento del consumo privado, respaldado por mejoras en el mercado laboral. La reactivación del crédito y el descenso de la incertidumbre política una vez que el nuevo gobierno tome posesión apuntalarán la recuperación económica. La incertidumbre política sobre la implementación de reformas sigue siendo importante y podría frenar la recuperación pero, si desaparece y las reformas siguen adelante como se supone que deberían hacerlo, aumentará la inversión.

Chile: Según las proyecciones, el crecimiento seguirá aumentando en los próximos dos años. Ante una incierta coyuntura externa, el crecimiento estará respaldado por la sólida demanda interna con ayuda de un entorno de inflación estable, proyectos de infraestructuras públicas y una reforma fiscal. A pesar que las desigualdades han disminuido, permanecen altas, debido a que la informalidad y el desempleo siguen siendo elevados y las transferencias sociales escasas.

Colombia: Las proyecciones indican que el crecimiento repuntará, ya que los proyectos de infraestructuras, el descenso del impuesto de sociedades y la subida de los precios del petróleo potenciarán la inversión. La mejora de la confianza y de las condiciones de financiamiento respaldará el consumo. A medida que el crecimiento se vaya afianzando, el desempleo descenderá. Los indicadores sociales están mejorando, aunque la informalidad y la desigualdad se mantendrán en niveles elevados.

Costa Rica: Según las proyecciones, el crecimiento se recuperará hasta el $3\frac{1}{4}$ aproximadamente en 2020 y será generalizado, sostenido tanto por la demanda interna como externa. Sin embargo, la incertidumbre, particularmente respecto a las reformas fiscales planificadas está lastrando el crecimiento a corto plazo. Las proyecciones parten del supuesto de que las reformas fiscales se aplicarán a partir de 2019, con un modesto ajuste fiscal que frenará el crecimiento en 2019 y 2020.

México: Está previsto que el crecimiento repunte hasta el $2\frac{3}{4}$ por ciento hacia 2020. El bajo nivel de desempleo, fuertes remesas y la recuperación de los salarios reales reforzarán el consumo de los hogares. La inversión, que ha sido persistentemente baja, se reforzará a consecuencia de los planes de inversión públicos anunciados y del aumento de la confianza vinculado al acuerdo comercial entre Estados Unidos, México y Canadá. El crecimiento de las exportaciones se reducirá debido a unas condiciones internacionales menos favorables, en especial en Estados Unidos. La subida de los precios de la energía ha empujado la inflación al alza, pero las expectativas y la inflación subyacente siguen ancladas y dentro del rango meta del banco central. El alto nivel de informalidad contribuye a que haya una gran desigualdad y una escasa productividad.

Para leer en más detalle sobre las proyecciones macroeconómicas, así como los principales desafíos estructurales ir al reporte en la versión español/portugués o inglés (que incluye proyecciones para países de la OECD, principales desafíos y un capítulo especial sobre la desvinculación de los salarios y la productividad y las implicancias en términos de políticas públicas).

Boosting export performance in Chile

by Antoine Goujard, Chile Desk, Economics Department

Chile's export growth has disappointed over the past two decades. In particular, exports of goods and services – in volume – have only grown at 1.1% annually over 2009-17 and at around 2.0% for non-copper products and services, compared to 4.2% in the average Latin American country (Panels A and B).

Chile's weak export performance reveals structural weaknesses. Beyond copper and copper-related products that are highly dependent on external demand, export growth has been weak in manufacturing and services sectors. At the same time, with low investment in innovation and skills, productivity gains have stalled (Panel C). Exports remain mostly natural-resource based (Panel D) and highly concentrated across products, firms and destinations, with SMEs participating little in international trade.

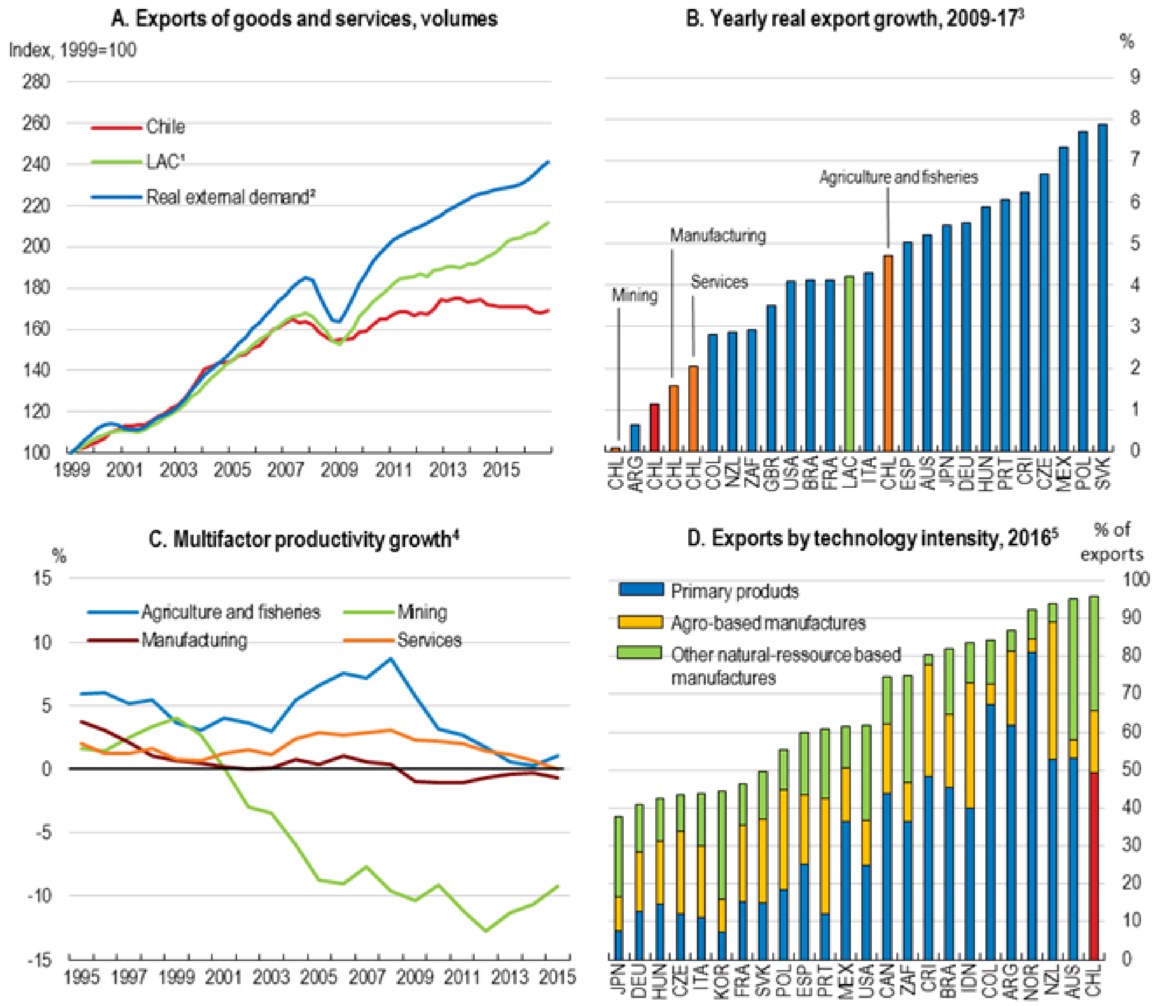
To enhance inclusive growth potential decisive policy efforts are needed to improve productivity and competitiveness, and broaden the export base. The 2018 OECD Economic Survey shows that while the implementation of the 2014-18 Productivity Agenda and measures to raise the efficiency of electricity markets have been positive steps, more efforts are needed to raise productivity in four key areas:

1. **Strengthening competition.** Perceived market dominance that tends to reduce efficiency and raise rents, is among the worst in the OECD. Competition is limited in key sectors, such as telecommunications, maritime services and railways. The recent strengthening of the competition framework is welcome, but systematic reviews of competitive pressures are needed. Moreover, the guidelines issued by the OECD (2016b) should be used to review existing regulations from a competition perspective according to a set schedule, and pro-competitive and streamlining measures should be implemented rapidly.
2. **Simplifying the business environment.** Administrative procedures, such as licenses and permits, are burdensome, notably for smaller and younger firms complicating entry of new businesses. Streamlining unnecessary and complex regulations would allow substantial productivity gains. Improving the digital procedures for firms (*Escritorio Empresa*), and focusing on ex-post controls for businesses that have low associated sanitary and environmental risks, would ease firm creation and growth. On the trade side, simplifying regulations of preferential trade agreements would help SMEs to go global. Going forward, the regulatory process

should build on all stakeholders and strengthened ex-ante and ex post evaluations such as the new productivity assessments (OECD, 2016a).

3. **Increasing innovation and skills.** Business investment in R&D and innovation is particularly weak, while entrepreneurial and managing skills are low and unequal. Increasing public support for R&D and innovation, and strengthening its evaluation, would help develop public-private links and ease R&D financing for SMEs. Additional technical assistance and mentoring for young and smaller firms, building on the recent *Centros de Desarrollo de Negocios*, would also support firm growth, innovation and access to export markets.
4. **Improving logistic and digital infrastructure.** Investment in intermodal connections, railways and digital networks is needed to bridge connectedness gaps (OECD, 2017b). Developing national and local infrastructure strategies, integrating the regulation of public and private ports and better accounting for environmental damages in transport taxes and road pricing would ensure money is well spent. Fully integrating the single window mechanism for exports and imports (*SICEX*) with the domestic logistic infrastructure and with regional partners would deliver significant synergies and gains for exports.

Chile's export performance has broadly disapointed



1. LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.
2. Export markets' growth for goods and services, in volume terms (unweighted average of Argentina, Brazil, Chile, Colombia, Costa Rica and Mexico with export market shares as of 2010).
3. Annualised growth between 2009 and the last four available quarters.
4. Five-year moving average. Multi-factor Productivity is adjusted for human capital and hours of work (CNP, 2017).
5. According to Lall (2000)'s classification.

Source: OECD (2017), Economic Outlook 102 Database; Central Bank of Chile (2017), Statistical Database; CNP (2017), *Informe de Productividad Anual 2016*, Comisión Nacional de Productividad and OECD calculations. OECD calculations based on CEPII (2017), BACI Database and World Bank (2017), World Development Indicators; Comtrade Database and Lall, S. (2000), "The technological structure and performance of

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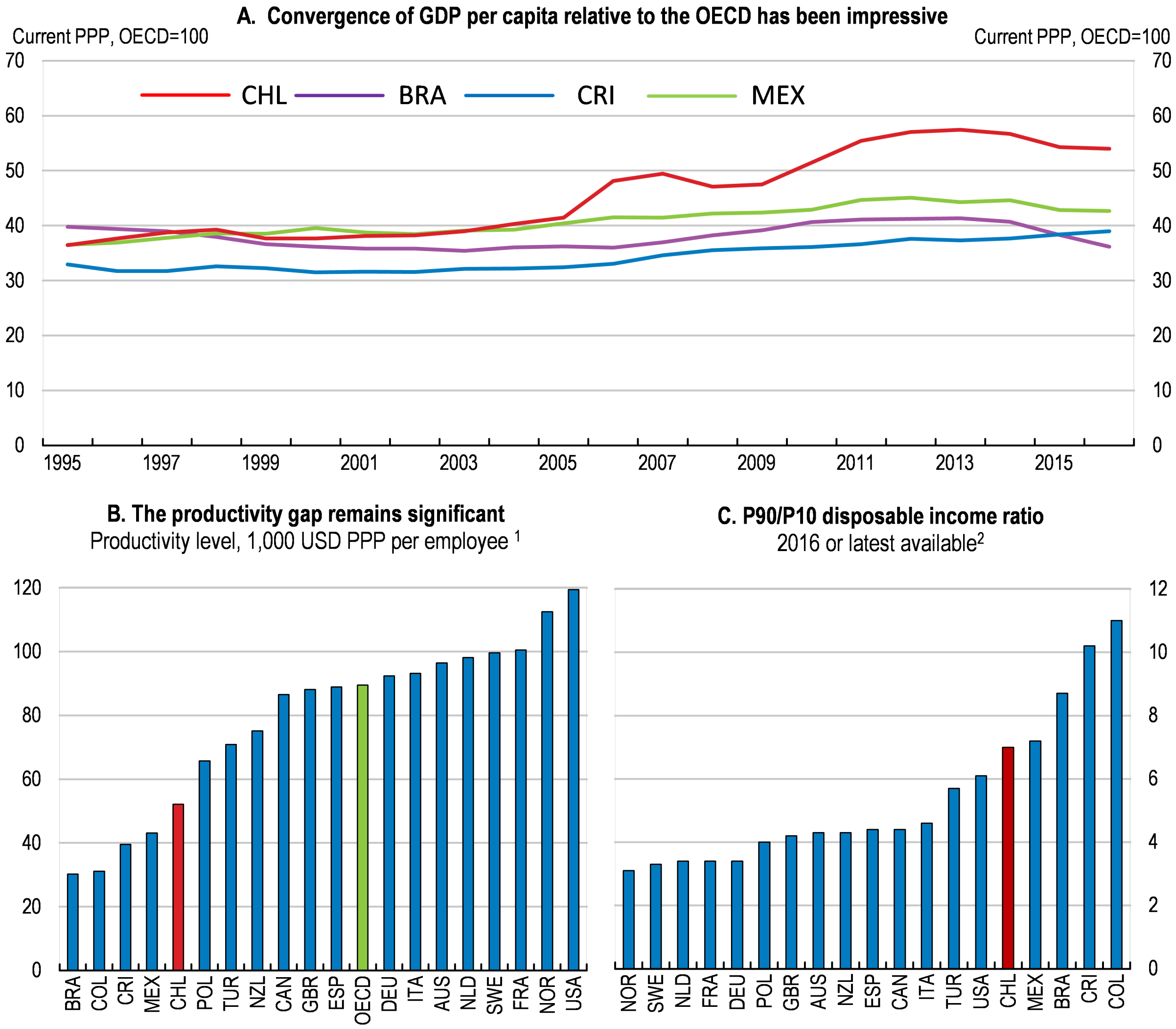
Mind the gaps: boosting productivity and reducing inequality in Chile

Antoine Goujard and Paula Garda, OECD Economics Department, Chile/Colombia desk

Chile has been one of the fastest-growing economies in the OECD in recent decades. Sound macroeconomic management, bold structural reforms, such as trade and investment liberalisation, and buoyant natural-resource sectors, supported fast convergence in living standards (Panel A). However, progress has slowed: declining productivity gains are limiting prospects for rising incomes and better-quality jobs; and inequality remains stubbornly high (Panels B and C).

The twin challenges for Chile: boosting productivity and reducing inequality



1. 2016 or latest available year.
2. Data refer to 2015 for Chile. The P90/P10 ratio is the ratio of income of the 10% of people with highest income to that of the poorest 10%.
Source: OECD, National Accounts Statistics and Productivity and Income distribution databases.

Chile is at a turning point if it is to continue raising the living standards of all. The 2018 OECD Economic Survey of Chile projects a solid expansion of the economy by 2.9% in 2018 and in 2019. Chile will benefit from more favourable global economic conditions and stronger world trade. The rebound in copper prices will also support short-term growth.

The cyclical recovery offers a key opportunity to address the country's low and stagnant productivity and its persistently high inequality. An ambitious reform agenda could increase GDP per capita by over 5% in ten years and lower inequality, notably through better-quality jobs, according to OECD estimates. This calls for increasing competitive pressures and incentives for innovation, reducing the administrative burden, improving labour market regulations and raising social spending and the employability of all by more training.

Greater productivity would be a major boost for broader-based export growth (Chapter 1 of the Survey). Competition and simplified administrative procedures, notably licences and permits, are key for better competitiveness. The simplification process should include more stakeholders and stronger ex-ante and ex-post evaluations (OECD, 2016). Systematic reviews of competitive pressures and additional technical assistance and mentoring for young and smaller firms would support entrepreneurship and ease access to export markets. Together with higher and well-targeted support for R&D, this will raise innovation and productivity growth. At the same time, further infrastructure investment, notably in intermodal connections, railways and digital networks (OECD, 2017a), are needed to bridge remaining connectedness gaps and to reduce congestion.

Chile has to do more to realise the full potential of its people. Productivity boosting reforms need to go hand-in-hand with measures to raise skills and make the labour market more inclusive (Chapter 2 of the Survey). The recent education reforms will support teaching quality and skills, lowering inequalities (OECD, 2017b). However, continuing to strengthen the quality of education and developing apprenticeships would improve opportunities for all. Female employment and the skills of the youth would benefit greatly from better access to early childcare and extended daycare opening hours. Providing additional relevant training for vulnerable workers would support productivity and employment, notably for women, the lower skilled and the youth. Lower restrictions on permanent contracts and broader access to unemployment insurance would also ease labour market adjustment for workers and firms and increase quality-jobs, thereby reducing informality and boosting well-being.

Further reading:

OECD (2018), OECD Economic Surveys: Chile 2018, OECD publishing.

OECD (2017a), *Infrastructure Governance Review: Chile – Gaps and governance standards of public infrastructure*, OECD publishing.

OECD (2017b), *Education in Chile, Reviews of National Policies for Education*, OECD publishing.

OECD (2016), *OECD Reviews of Regulatory Reform – Regulatory Policy in Chile, Government Capacity to Ensure High –Quality Regulation*, OECD publishing.