

Appendix F. Using the KILM for labour market analysis in a country – an example

This appendix is intended to demonstrate how to use the KILM to generate a detailed analysis of the labour market situation in one country, in this case, Chile. It should, in particular, show that a review of a single indicator alone might give a misleading picture, and that it is only through the combined analysis of as many indicators as possible that one can get the whole picture of “health” of the labour market.

Let us look in depth at the labour market in Chile. First, a look at the distribution of the working-age population (in this case 15 years and over) from KILM tables 1c, 2 and 8a shows that in 2003 only half of the population in Chile that could be working was actually employed. (See figure F1.) A comparison with other countries in KILM table 2 reveals that this is a fairly low employment-to-population ratio. The regional average in Latin America and the Caribbean in the same year was 60 per cent while the world average was 62 per cent (see box 2a in the KILM 2 manuscript). The share of the working-age population that was economically inactive is high, especially among women, which indicates that a large source of productive potential, namely the female population, remains untapped. The question remains, however, as to whether the inactive population is largely voluntarily or involuntarily so? Voluntary (and positive) reasons for remaining outside of the labour force include remaining in school. In fact, the labour force participation rate of youth (aged 15-24) was indeed much lower at 31 per cent (with an inactivity rate, therefore, of 69 per cent) than the prime working-age population (aged 25-54) at 72 per cent (28 per cent inactivity). That the labour force participation rate of women remained at 50 per cent even at the prime working age range of 25 to 54 years hints to the fact that female inactivity is indeed one source of labour market underutilization in Chile.

Turning our attention to unemployment, we see in figure F2 that unemployment was not abnormally high at 7.4 per cent for both sexes, 6.9 per cent for males, and 8.3 per cent for females in 2003, although these rates represent a substantial increase from those of a decade earlier (4.5 per cent, 4.2 per cent and 5.1 per cent for both sexes, males and females, respectively). Data on long-term unemployment in KILM table 10 for 1995 indicated that only 3.4 per cent of those unemployed were seeking work for an extreme length of time of one year or longer. Unemployment of young people, however, was as much as three times higher than adults overall, and almost four times higher for young females. A higher unemployment rate among young jobseekers is to be expected given their lack of experience and the fact that they might willingly “shop around” in the job market before settling into their career, but the fact that young people have more than three times greater difficulty in finding a job than adults can be considered excessive and a good indication that both integrated and targeted policies aimed at easing the transition of youth into the labour market could be warranted in Chile.

Now let us turn to the employment-related indicators in search of clues as to whether Chilean workers are facing good working conditions. In 2003, 68 per cent of the total working population were employed in a job where they earned a salary, 3 per cent were self-employed and had employees of their own, 27 per cent were self-employed and working alone (own-account) and only 2 per cent were contributing (unpaid) family workers. (See figure F3 for employment by sector and by status.) The majority of the Chilean workforce was employed in services (63 per cent), although the agricultural sector, employing 14 per cent of Chile’s workers in 2003, is still very much present. One

difference between male and female workers was that relatively more female workers were wage and salaried workers and contributing family workers, whereas relatively more males were own-account workers. In addition, women were more likely than men to work in the services sector whereas the industrial and agricultural sector continued to employ approximately half of the male workforce.

Employment in the informal economy is difficult to define; however, it is clear that a dominant aspect of the informal economy is self-employment, specifically self-employment without employees (own-account workers). The large share of Chilean own-account workers hints to the presence of a substantial informal economy. This is backed up by the figures in KILM table 7d, which show that in 1995 as many as 45 per cent of workers in Chile were employed in the informal economy.¹ The negative implications associated with working in the informal economy include lack of social protection in terms of health care, unemployment insurance and pensions; low wages; little job security; long hours or insufficient hours. The informal economy is often linked to poverty; however, in the case of Chile, poverty does not affect a large share of the population, implying that informal economy workers in Chile are able to sufficiently support themselves and their families with their earnings; the share of US\$2 working poor in total employment in Chile was only 10 per cent in 2000 (KILM table 20).

Although informal economy employment in Chile is not strongly linked to poverty, it could very well be linked to long hours, as is seen in table F1. Working less than full time in Chile seems to be hardly considered as an option. In 2000, only 5 per cent of employment was part time (less than 20 hours). The clear preference (or need) is to work 40 hours or longer (with 84 per cent of workers falling in this category). In fact, only four countries with data available in KILM

table 6a showed higher shares of total employment in excess of 40 hours per week (the Czech Republic, Hungary, the Republic of Korea and Slovakia). Of course it would be improper to say that all those working more than 40 hours per week are working “excessive hours” since many could be perfectly happy in doing so and might even welcome more hours. There is no way of gauging preference for working hours here, however, it is fair to say that 84 per cent of the workforce at 40 hours or more per week is much higher than was seen in most other countries (the average for OECD countries was 60 per cent) and does imply that the majority of workers in Chile are working long hours.

Finally, a well-rounded analysis of labour market conditions in a country should take into consideration the labour market indicators that have significant macroeconomic impacts for long-run sustainable growth, namely employment elasticities, wages, labour productivity and unit labour costs. KILM table 19a showed that the fastest period of economic growth in Chile between 1991 and 2003 was 1991-95 (annual GDP growth rate of 8.9 per cent) with subsequent slow downs in 1995-99 (4.3 per cent) and 1999-2003 (3.2 per cent). How did the slower economic growth affect employment? KILM table 19a shows that even in the period of high annual GDP growth in the early 1990s, it had not been reflected in high employment growth. The employment intensity of growth in the early period was 0.4, meaning that a 1 percentage point increase in economic output was associated with an increase in employment of 0.4 percentage points. The employment elasticity was even lower in the subsequent periods of slower economic growth (0.2 in 1995-99 and 0.3 in 1999-2003).²

Looking at the sectoral employment elasticities over the period 1991-2003 in KILM table 19b, we find the following: a 1 percentage point growth in value added in

1. In this case, the informal economy includes all own-account workers (excluding professionals and technicians), unpaid family workers and employers and employees working in establishments with less than five or 10 persons.

2. As noted in Chapter 1, section A, employment elasticities below 0.25 are considered low while elasticities between 0.26 and 0.75 are considered moderate.

agriculture resulted in a negative loss of 0.5 percentage points in agricultural employment; a 1 percentage point growth in industrial value added brought no change to employment in industry; and a 1 percentage point growth in value added in the services sector brought a growth of 0.6 percentage points in employment in services.

So, in Chile, economic growth did not translate into a substantial increase in jobs (or vice versa), except in the services sector. This is not surprising, however, given that labour productivity (overall and in each sector) was rising over the same period, meaning that increased output was mostly due to a growing efficiency of labour – perhaps due to the increased use of technologies – rather than an increase of labour inputs. This situation is indicative of a country undergoing shifts of employment from labour-intensive agrarian activities into services, which is exactly what happened in Chile over the period; the share of total employment in agriculture decreased by 30 per cent between 1990 and 2003 while employment in services increased by 14 per cent (KILM table 4a). Employment in manufacturing also decreased slightly – the share of manufacturing employment in total employment declined from a peak of 17 per cent of 1989 to 14 per cent in 2003.

The next logical step would be to ask if labour productivity gains were beneficial to workers in terms of higher compensation. Real manufacturing wages did increase slightly over the period (KILM table 15). However, given that only 14 per cent of the total employment is in manufacturing, it is not possible to generalize that wage gains were common to all. A better indication that wages increased over the period is labour compensation per person employed, which can be deduced from the unit labour cost indicator in KILM table 18a. Labour compensation, in simple terms, is the cost to employers of engaging workers. The majority of costs are the gross wages and salaries of employees, but they also include other costs of labour that are paid by employers, including employers' contributions to social security and pension schemes. Unit labour costs, which take labour

compensation per person employed as the numerator and GDP per person employed (i.e. labour productivity) as the denominator, are a measure of economic competitiveness since they measure how much it costs to produce a unit of output. The traditional assumption is that the lower the cost, the better, so that cheaper goods and services can be placed on the world market, although a more well-rounded approach would recognize that increased competitiveness in the world market should not come at the expense of workers.

The fact that unit labour costs increased by almost 70 per cent between 1990 and 1997 in Chile (see figure F4) despite the country's increase in labour productivity (the denominator), implies that labour compensation (the numerator) increased to an even greater extent than labour productivity. The conclusion: labour compensation increased substantially in the early to late 1990s. This might have been a positive consequence for workers – keeping in mind that improved wages accrued only to those employed in the formal economy,³ assuming that the increased cost of labour and insufficient demand did not lead some establishments to shed labour, which seems to have been the case, since the unemployment rate in 1997 of 5.3 per cent was lower than that of 1990 (5.7 per cent) and the employment elasticity was moderate at 0.4 (1991-95).

After 1997, unit labour costs began to fall while labour productivity continued to increase. Also in this period, unemployment rose to a high of 8.9 per cent in 1999 and then fell back down to 7.8 per cent in 2002. In short, in recent years in Chile, unit labour costs are declining and labour productivity is growing, both of which are good omens for economic growth. However, there remains a great deal of uncertainty about the “health” of the labour market; the inactivity rate is higher than almost all other countries with data; young people have more than three times greater difficulty in finding a job than adults; many Chileans are working in the informal

3. However, as discussed above, the large size of the informal economy in Chile should not be ignored.

economy; the female employment-to-population ratio is extremely low at 32.7 per cent in 2003; employment in agriculture is falling which begs the question of whether or not employment creation in services will be sufficient to absorb the migrating agricultural

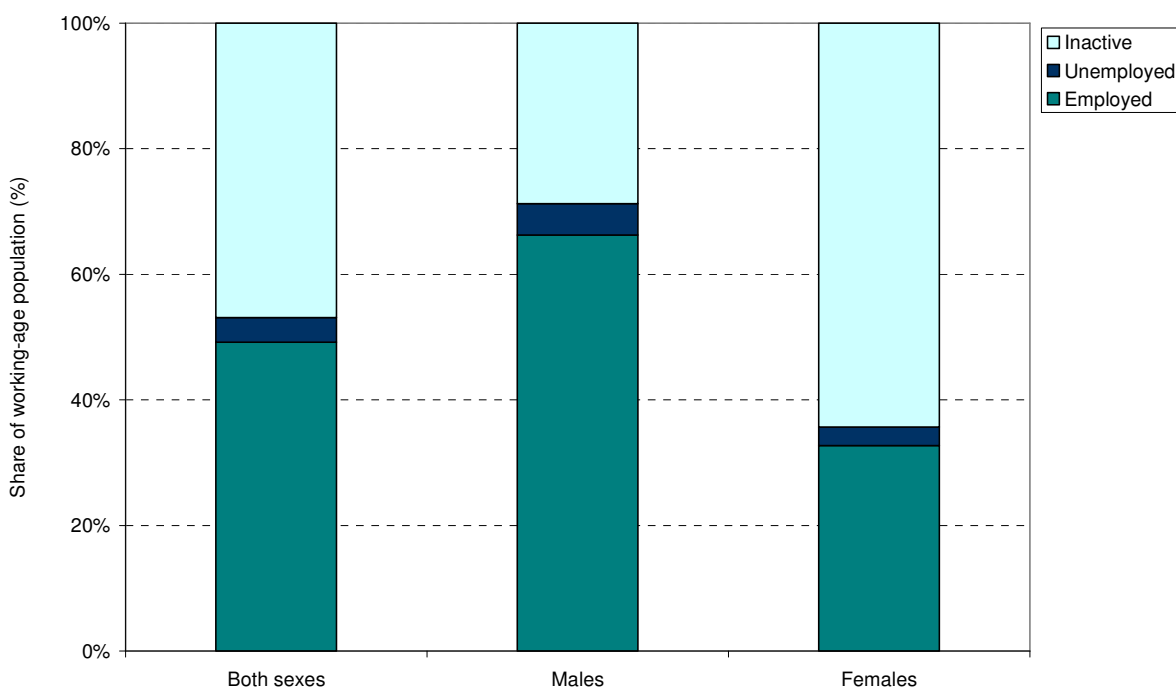
worker. Each of these developments should be investigated in detail by policy-makers with an eye towards addressing the problem of an underutilized labour force and towards enhancing the decent work opportunities for all.

Table F1. Share of total employment by hours worked, 2000

| Hours band | Both sexes | Males | Females |
|------------|------------|-------|---------|
| <20 | 4.8 | 4.9 | 4.8 |
| 20-29 | 4.8 | 5.3 | 4.7 |
| 30-39 | 6.0 | 6.2 | 5.9 |
| >40 | 84.4 | 83.5 | 84.6 |

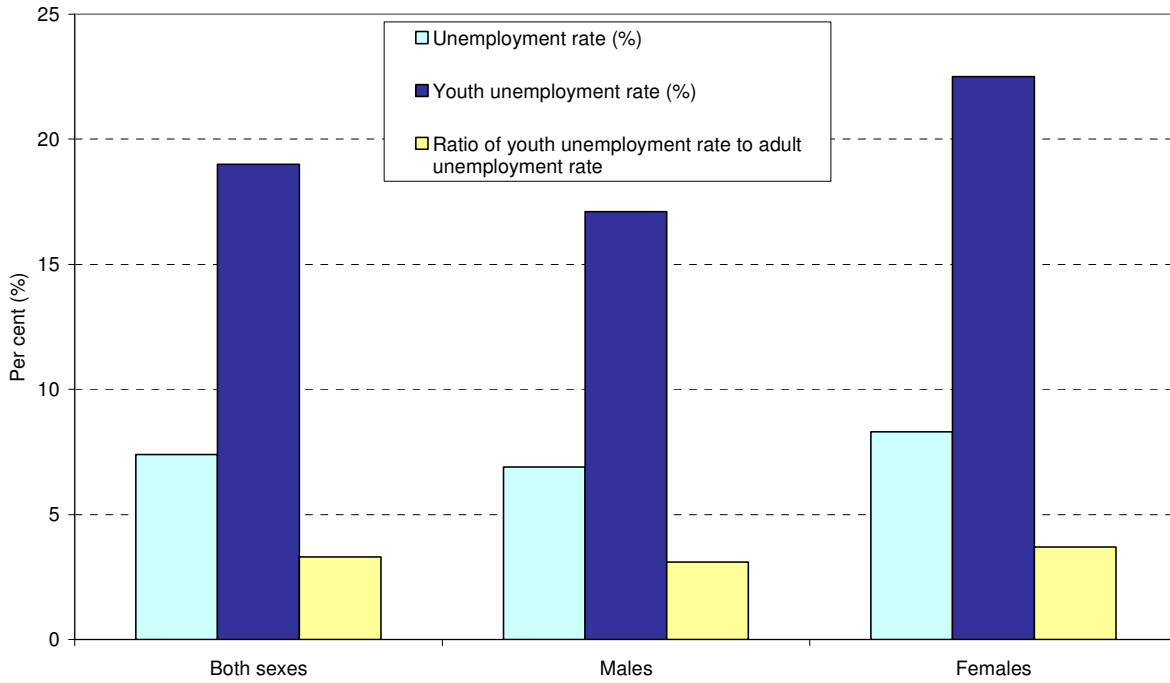
Source: KILM table 6a.

Figure F1. Distribution of the working-age population in Chile, 2003



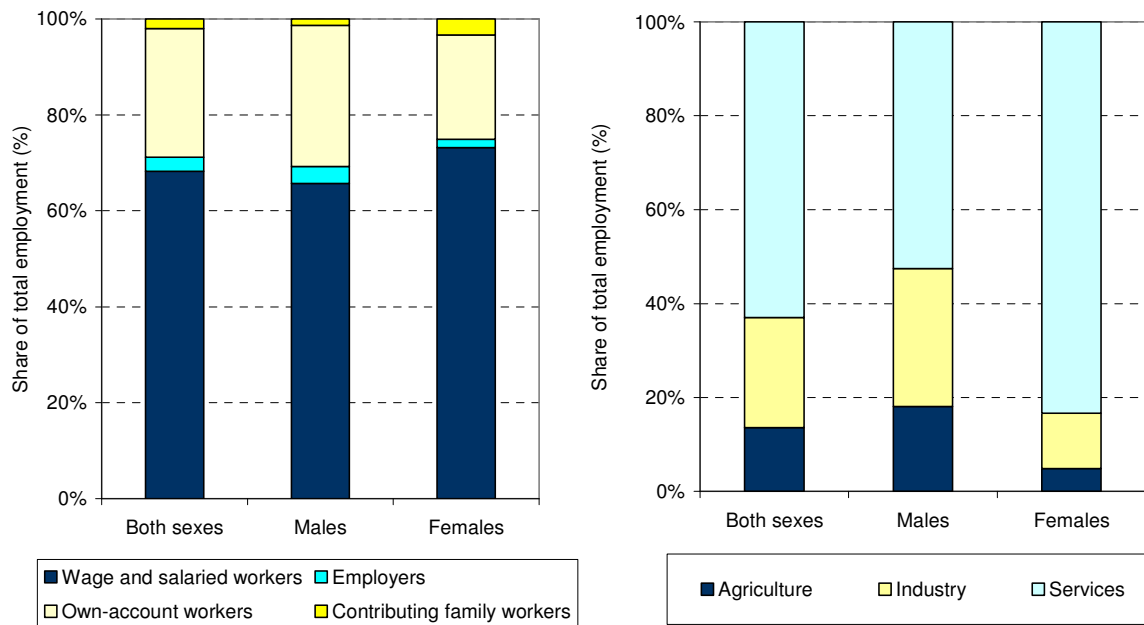
Sources: KILM table 1c (labour force participation), table 2 (employment) and table 8a (unemployment).

Figure F2. Total and youth unemployment, 2003



Sources: KILM table 8a (unemployment) and table 9 (youth unemployment).

Figure F3. Status in employment and employment by sector, 2003



Source: KILM table 3.

Source: KILM table 4a.

Figure F4. Labour productivity and unit labour costs, total economy, 1990-2002



Source: KILM table 18a.