Labour productivity

BOOSTING INCLUSIVE GROWTH

- Boosting labour productivity growth is key for more inclusive and sustainable growth.
- Inefficient regulations, including many licenses and permits, negatively weigh on productivity. Competition is limited in key sectors, such as telecommunications, maritime services and railways.
- Raising public support for R&D and stepping up infrastructure investment would spur innovation and competitiveness.
- Reforms need to improve adult skills and get more people into formal permanent jobs.

What’s the issue?

Chile’s labour productivity is among the lowest in the OECD. Output per work hour is half the OECD average and regional variation in labour productivity is among the highest across OECD countries. Labour productivity growth has decelerated from more than 5% annually in the 1990s to 1.5% over the last five years, with a prolonged decrease in investment. R&D spending of 0.4% of GDP in 2016 lags behind the OECD average.

Lowering regulatory barriers to competition in Chile could increase GDP per capita by more than 2.9% after ten years. Perceived market dominance is among the highest in the OECD and competition is limited in key sectors, such as telecommunications, maritime services and railways. The recent strengthening of the competition framework is welcome, but recent OECD guidelines should be used to further review existing regulations to foster competition. Many licenses and permits procedures are burdensome, restricting entry of new businesses. Chile has set up a productivity commission in 2015 and recently introduced ex-ante productivity impact assessments. Going forward, the regulatory process should build on all stakeholders and strengthened ex-ante and ex-post evaluations. Unnecessary and complex regulations should be streamlined. 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. Investment in intermodal connections, railways and digital networks is needed to bridge connectedness gaps. 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 value for money. Together with place-based policies building on the specific strengths and weaknesses of each region would help reduce the high regional disparity in productivity.

The licence and permits system remains complex

Index from 0 to 6 (highest burden)

The burden of the license and permit system is based on the absence of “a silence is consent” rule for administrative procedures and the absence of single contact points for information about and the issuance of licenses in 2013. LAC is the unweighted average of Argentina, Brazil, Colombia, Costa Rica and Mexico.
Source: OECD (2017), Product market regulation database.
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Business investment in R&D and innovation are weak. The innovation system is fragmented and public-private collaborations are perfectible. Increasing public support for R&D and innovation, which remains low despite new tax incentives introduced in 2013, and strengthening its evaluation would ease R&D financing. Additional technical assistance and mentoring for young and smaller firms, building on the recent Centros de Desarrollo de Negocios, would support firm growth and innovation.

Many workers have very weak skills and skill mismatches are frequent. Chile needs a long-term comprehensive strategy to develop effective skills policies. Reforming the life-long learning system, including by better targeting the most in need and through a clear regulatory framework, is necessary.

Why is this important for Chile?

Stagnant labour productivity holds back Chile’s living standards and limits integration into global value chains (GVCs). Productivity, GVC integration and innovation are increasingly important for Chile, given the end of the commodity boom, weak export performance and demographic change. Pro-competitive and more efficient regulations could promote innovation, competition, entry into new markets and the adoption of international standards.

Large regional differences in labour productivity reduce inclusiveness, hold back aggregate productivity and underlie the political discontent observed in many OECD countries. To adapt policies to regional circumstances, sub-national governments need the mandate to address regional challenges and, particularly municipalities, need sufficient fiscal capacity to meet their responsibilities.

Low and inadequate skills left many people in low-wage, informal or unstable jobs. Building on recent reforms in the education system, developing sound and relevant skills through primary, secondary and tertiary education, and activation policies and life-long learning will boost productivity and inclusiveness.

Key OECD Recommendations

- Systematically review competitive pressures in key sectors by conducting market studies and applying the guidelines of the OECD’s Competition Assessment Toolkit.
- Strengthen existing national e-procedures for firm registration and authorisation. Streamline licensing and permit procedures by focusing on ex-post controls.
- Combine structural reforms with place-based policies that focus on the specific strengths and weaknesses of individual regions. Develop national and sub-national long-term infrastructure strategies.
- Reform the life-long learning system to better target training programmes to the most vulnerable workers.

Further reading

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