Comments on “Median Labor Income in Chile Revised: Insights from Distributional National Accounts”

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Why is *Median Labor Income* important?

- **Macro perspective:**
  - Minimum wage setting
  - Taxes
  - Public Expenditure burden because of social benefits demand

- **Micro perspective:**
  - Poverty
  - Inequality
  - Social policies (pensions, health, etc)
Why measuring Median Labor Income is so difficult?

- **Administrative data:**
  - Is not designed for statistics (requires assumptions and corrections)
  - Cannot observe informal workers income
  - Is not usually publicly available for researchers at the required micro level

- **Survey data:**
  - Lacks of representation of the richest
  - Suffers from under-reporting due to self-response
How important are informal workers?

- **World**: 61%
- **OECD**: 17% (OECD, 2018)
  - The highest rates of informal employment in 2018 were found in Greece (27.8%), Latvia (25.7%), and Lithuania (24.7%), while the lowest rates were found in Switzerland (7.4%), Luxembourg (8.0%), and Norway (9.6%).

- **Chile**: 27% (INE, 2023)
  - **8.4% in Formal Firms**
  - 16.5% in Informal Firms (14.1% self-employed, 2.4% others)
  - 1.8% in Household Services
Measuring the magnitude of the labor informality in Chile

Tasa de empleo informal para una selección de países (%)

<table>
<thead>
<tr>
<th>Country</th>
<th>Year</th>
<th>Informality Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>EEUU</td>
<td>2016</td>
<td>19%</td>
</tr>
<tr>
<td>Japón</td>
<td>2016</td>
<td>19%</td>
</tr>
<tr>
<td>Italia</td>
<td>2016</td>
<td>19%</td>
</tr>
<tr>
<td>Uruguay</td>
<td>2020</td>
<td>22%</td>
</tr>
<tr>
<td>Chile</td>
<td>2021</td>
<td>27%</td>
</tr>
<tr>
<td>Brasil</td>
<td>2021</td>
<td>39%</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>2021</td>
<td>41%</td>
</tr>
<tr>
<td>Argentina</td>
<td>2021</td>
<td>49%</td>
</tr>
<tr>
<td>México</td>
<td>2021</td>
<td>57%</td>
</tr>
<tr>
<td>Colombia</td>
<td>2021</td>
<td>63%</td>
</tr>
<tr>
<td>Perú</td>
<td>2021</td>
<td>68%</td>
</tr>
<tr>
<td>Ecuador</td>
<td>2021</td>
<td>69%</td>
</tr>
<tr>
<td>Bolivia</td>
<td>2019</td>
<td>85%</td>
</tr>
</tbody>
</table>
A provocative implication: Is there space to increase minimum wage?

The ratio of minimum wage-to-median ratio could be lower than what we thought?

In fact, in 2017 it was Ch$ 270.000 / 370.000 = 72% ?

According to 2022 OECD figures, it’s one of the largest (median OECD is 52%)

This new estimate for 2017 would imply that

**the minimum wage-to-median ratio is actually 45%!**

😢
% of Minimum Wage to Median (OECD)

- Colombia
- Costa Rica
- Chile
- New Zealand
- Portugal
- Türkiye
- Mexico
- Slovenia
- France
- Korea
- United Kingdom
- Luxembourg
- Australia
- Germany
- Israel
- Poland
- Slovak Republic
- Greece
- Spain
- Canada
- Hungary
- Ireland
- Lithuania
- Netherlands
- Japan
- Czech Republic
- Estonia
- Belgium
- Latvia
- United States

Chile: 72
A provocative implication: Is there space to increase minimum wage?

Why increase the minimum wage? (beyond the obvious reason to increase workers wellbeing and reduce inequality)

- Is it possible that the minimum wage level is too low to compete with profitable informal activities?

- Maybe low-productivity low-wage jobs that are so unattractive (profitable) for workers are not really even “socially desirable”.

- At least formal work incentives such as Youth Employment Subsidy and Women’s Work Bonus could be re-evaluated.
Importance of Research Replicability

● Although the research is certainly **reproducible** (any devoted researcher could attempt this exercise again)

● It would get significantly more attention if **replicable**
  ○ Encourage to publish the details of the research (codes and data)