

Chile's Labor Shortage: Workers Needed

The jobless rate in Chile has fallen to its lowest level in 15 years and by some measures the country is at (or close to) full employment. That's good for workers but it poses problems for companies, many of which are struggling to find well-trained employees at competitive rates of pay.

By Gideon Long

A couple of years ago, around a quarter of the people who walked through Ignacio González's office door in the Santiago suburb of Las Condes were unemployed. Most were well-qualified professionals with impressive CVs but they were struggling to find work.

"That's changed," says González, general manager of Mandomedia.com, a headhunting company. "These days everyone has a job. They come to us because they're looking for a better one."

Chile's unemployment rate has fallen dramatically in the past three years. In mid-2009, at the height of the global financial crisis, it was close to 12%, but in the three months to the end of April this year it had dropped to just 6.5%, according to data from the national statistics institute, the INE.

It's difficult to make historical comparisons using INE unemployment data because the institute changed its methodology in 2010. But statistics from the University of Chile, which has measured the jobless rate in the Greater Santiago area using unchanged criteria since 1957, suggest how low the current rate really is.



In December 2011, unemployment in the Santiago area (home to around a third of Chile's population) fell to 6.2%, figures from the university's Microdata Center show. That was its lowest level since March 1996.

In a speech in New York in April, Finance Minister Felipe Larraín said the government had created 720,000 new jobs since coming to power, at a rate nearly four times faster than under the previous government. Around 400,000 of those jobs have gone to women.

"We've overseen the best period of job creation in our history," said Larraín. "Some people say we're at full employment, and perhaps we're close to that."

Unemployment is unlikely to stay so low and, indeed, there are already signs that it's rising in some areas, due in part to seasonal factors (it usually climbs during the Southern Hemisphere winter due to agricultural redundancies). In its most recent survey, the University of Chile said the jobless

rate in Santiago jumped to 8% in March, up 1.8 percentage points from three months earlier.

Even so, national unemployment is impressively low by historical standards, and David Bravo, an economics professor and director of the Microdata Center, says he expects it to average a lean 7% in 2012.

As ever, though, the devil is in the detail.

Firstly, there are big discrepancies between different sectors of the economy. Employment in the construction industry in Greater Santiago soared 14.8% year-on-year in March and 11.5% in industrial manufacturing. But during the same period, employment in the retail sector fell 10.5%.



“There’s a disconnect between the skills that companies need and those that the country’s education system provides.”

Andrea Repetto,
Adolfo Ibañez University

Secondly, there are important differences between the respective employment rates for men and women. More than 70% of the potential male workforce is employed while for women the rate is barely 50%.

Thirdly, the headline figures mask a stubborn youth unemployment problem: 19.8% of the potential workforce aged between 20 and 24 is out of work compared to just 4.4% for those aged between 50 and 54.

Job quality is also an issue. Critics of the government say many of the new jobs are temporary, insecure or poorly paid. Wages remain relatively low. More than half of Chilean workers earn less than US\$460 a month, points out Andrea Repetto, an



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“Faced with a labor shortage you can operate at the same level with fewer staff, but you can’t sustain that for long.”

Claudio Hohmann,
Walmart Chile



“We’re proud of the low unemployment rate, but we’re still concerned about the 500,000 people seeking work.”

Bruno Baranda,
Labor Ministry

economics professor at Adolfo Ibañez University.

A race for talent

For private companies, the low jobless rate means, first and foremost, a scarcity of labor.

“There’s a significant deficit of workers in mining, agriculture, construction, transport and some industrial sectors, although not all,” says Bruno Baranda, undersecretary for the Labor Ministry. “In the metalworking sector, for example, there’s a shortage of electricians and welders.”

One initiative that’s helped bring liquidity to the labor market is a government website, the National Employment Service (*Bolsa Nacional de Empleo*, www.bne.cl). Launched in 2011, it allows workers to upload their CVs and companies to advertise job vacancies. Some 200,000 CVs have been posted on the site and 300,000 jobs advertised.

Yet still there is a labor shortage and in the construction industry it is particularly acute. Not only has the sector bounced back strongly from the global financial meltdown of 2008/9, with projects like Santiago’s emblematic Costanera Center back on track, it also received a shot in the arm from reconstruction following the earthquake of February 2010, which generated demand for everything from builders and carpenters to plasterers and welders. The sector expanded 8% last year, outstripping the wider economy by two percentage points. Up and down the country, construction companies are struggling to find the workers they need.

“This is a problem which has been growing over the past two years,” says Carolin Carboni, human resources manager at Besalco, a construction company employing 9,300 people.

“There’s a lack of quality too,” she adds. “The people who

are available don’t have the necessary skills and training. The technical colleges have done their best to adapt their curricula to meet company needs, but there’s still a gap.”

Sergio Cavagnaro, general manager of the Chilean Chamber of Construction (CChC), says his sector is “already at full employment” and describes the situation as “critical”. The chamber is training women to take jobs that were once the preserve of men and even looking into the possibility of taking on prisoners on day-release schemes.

The problem is by no means limited to construction firms. Retailers like Walmart are finding it tough to entice and keep staff – either unskilled workers to fill supermarket shelves or skilled professionals to run the company.

“In periods of high unemployment, people come to us to look for work, but in times of full employment like now, it’s the other way around,” says Claudio Hohmann, manager of corporate affairs at Walmart Chile. “Now, it’s the company that has to go out and look for workers.”

Hohmann says Walmart, which employs 40,000 people in Chile, has become more proactive. “We’re going out to the universities and showcasing the company to young people, because attracting talent has become much more competitive.”

He says staff turnover has increased. Young people are now in an enviable position: they can leave a job after just a few months and walk straight into another one, often with better pay.

Many companies complain of losing staff to the big mining companies in northern Chile. “Mining firms have the advantage that, at the margins at which

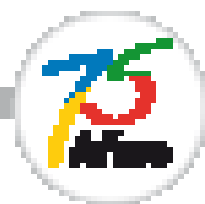
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“The fiscal stimulus package of January 2009 has helped bring down unemployment and this government has continued where the last left off, with a firm hand on the tiller.”

David Bravo,
University of Chile

they operate, they can offer more attractive wages,” says Hohmann. “Retailers operate at very tight margins so we can’t always offer those kinds of salaries.”

Unsurprisingly, wages are rising. According to the INE, salaries in Chile have risen 6.6% in real terms since 2009 and the cost of labor has risen 9%. The Chilean Chamber of Construction says wages in its sector have risen by 20% since 2009, and by even more in the north, where the lure of the mines is strongest. In his May 21 address to the nation, President Sebastián Piñera said wage inflation was running at 6% a year, a full 2.5% ahead of consumer price inflation. That’s good news for workers, but not so good for payrolls.

More workers please!

So, where can these private

companies find more workers at a reasonable price?

One obvious answer lies in the great potential of Chile’s women. At around 50%, the country has one of the lowest rates of female participation in the workforce anywhere in the Organization for Economic Cooperation and Development (OECD), although it has improved in recent years.

“Given Chile’s level of development, that rate should be at least 15 percentage points higher than it is,” says Andrea Repetto. “From that point of view, Chile isn’t even close to full employment. There’s still a lot of potential to bring more workers into the labor market.”

The government says it’s trying to unleash that potential. Undersecretary Baranda points to the Women Miner (*Mujer Minera*)



Delivering natural... Dole

program, launched in February this year, as one example. The program offers training to 2,000 women from the poorest sectors of society to help them find work in the mining industry.

But there are still obstacles to the employment of women, not least Chile's extremely generous maternity leave provisions, which make some companies reluctant to hire women. Ignacio González at Mandomedia.com says he's noticed a fall in the number of women being hired since those provisions were strengthened last year.

Some women say they would be tempted to work if they had better access to childcare, could work flexible hours, if wages were higher or if public transport were better, allowing them to travel to work more easily and more cheaply. Until these various problems are

addressed, the untapped potential of Chile's female workforce is likely to remain just that – untapped.

Another potential source of labor lies outside Chile's borders. There are millions of unemployed Europeans and work-hungry Latin Americans who could potentially find jobs here. González, whose headhunting company has offices in Peru and Argentina as well as Chile, says Chilean firms are often reluctant to import labor from abroad, but that is changing, due to necessity. He says companies are starting to look to Spain, where the jobless rate is over 20%, for potential well-qualified professional recruits.

But there is a limit to how many foreigners can work in Chile. At present, any company with 25 or more employees on its books has to ensure that at least 85% of its

workforce is Chilean.

The CChC's Cavagnaro says many construction companies would like to take on more Peruvian, Bolivian and Colombian migrants but they can't, for fear of breaking the law. "We're talking to the Labor Ministry about modifying that rule," he says.

It's not just foreigners who are being lured to Chile by the prospect of work. Chileans are too. As the economic situation in Europe remains dire, many Chileans there are returning to their homeland. "I'm getting a lot of calls and CVs from Chileans in Europe who feel it's maybe time to come home," says González.

Stuck in the Stone Age

The other great source of untapped potential labor in Chile

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is its youth. There are far too many young Chileans stuck at home, without work, reliant on their parents for financial support.

Here, training is key, and Chile's record in this area is lamentable. Labor Minister Evelyn Matthei recently acknowledged that when it comes to employee training, Chile is "in the Stone Age".

The National Service of Training and Employment (SENCE) is the state entity charged with overseeing training. It offers a range of subsidies, grants and bonuses to employers and employees to incentivize training, with a particular emphasis on women, the young and the poor.

The central pillar of the SENCE's work is a scheme under which companies can apply for a tax credit in exchange for providing their workers with training. The companies decide who is trained and how.

But there is a growing consensus that the system is failing. Last November, a commission of experts headed by the economist Osvaldo Larrañaga published a damning report on training in Chile, describing it as "clearly deficient" and "regressive". Some 27% of funds for training were going to the richest 20% of the workforce, it found.

The problem is that, all too often, the money goes to large companies with employees who are already relatively well trained. It doesn't find its way to small companies where it's most needed.

Furthermore, because the companies choose the content of the courses, they tend to focus on non-transferable skills that are specific to their own needs. They don't necessarily give workers skills that will benefit them in later life.

Finally, the courses tend to be too short – 19 hours on average



“Looking for professionals abroad is an extreme measure, but one that shouldn’t be ruled out.”

Carolin Carboni,
Besalco

in 2010. That's not much time to teach anyone anything.

Larrañaga's commission found that SENCE's tax credits were worth US\$226 million in 2010, accounting for 80% of total public spending on training. The benefits to companies were clear, but the benefits to workers far less so.

The panel of experts praised some SENCE programs, particularly those financed through the National Training Fund (FONCAP), targeting young, poor people. But it said their impact was minimal. In 2009, for example, there were 441,000 people aged between 18 and 25 who were unemployed and who belonged to the poorest 40% of Chilean households. Of these, only 12,000, less than 3%, received FONCAP-funded training.

To her credit, Minister Matthei has taken the commission's recommendations to heart and promised to send a bill to Congress to overhaul employee training in Chile.

Francisco Agüero, a former national director of SENCE and now the head of its companies' department, says no decision has yet been taken on whether to phase out the system of tax credits, as the commission recommended. "It's being debated and analyzed," he says.

But whether it's scrapped or not, the emphasis is clearly moving away from tax credits towards other SENCE programs.

"The minister is particularly interested in a new program called Training For Work (*Formación para el Trabajo* or FOTRAB), that offers much longer training courses, of between 500 and 600 hours, and targets young people from the poorest quintiles," says Agüero.

Training of that duration requires money, but the government seems committed to finding it. At US\$57 million, FOTRAB's budget for this year is 162% higher than last year, and other SENCE programs are also being handsomely financed.

While that remains the case there is hope that the Chilean workers of the future will be better equipped to do their jobs, but that won't solve the short-term problem of how to find extra workers right now.

"The labor shortage is good in the sense that everyone has jobs, but it's bad because it means the country could be growing more quickly, and it's unable to do so," says Cavagnaro. "The economy has one hand tied behind its back." **bUSINESS CHILE**

Gideon Long is a freelance journalist based in Santiago