



Breakfast seminar on OECD Economic Survey of Chile

Washington - Paris, 22 June 2004

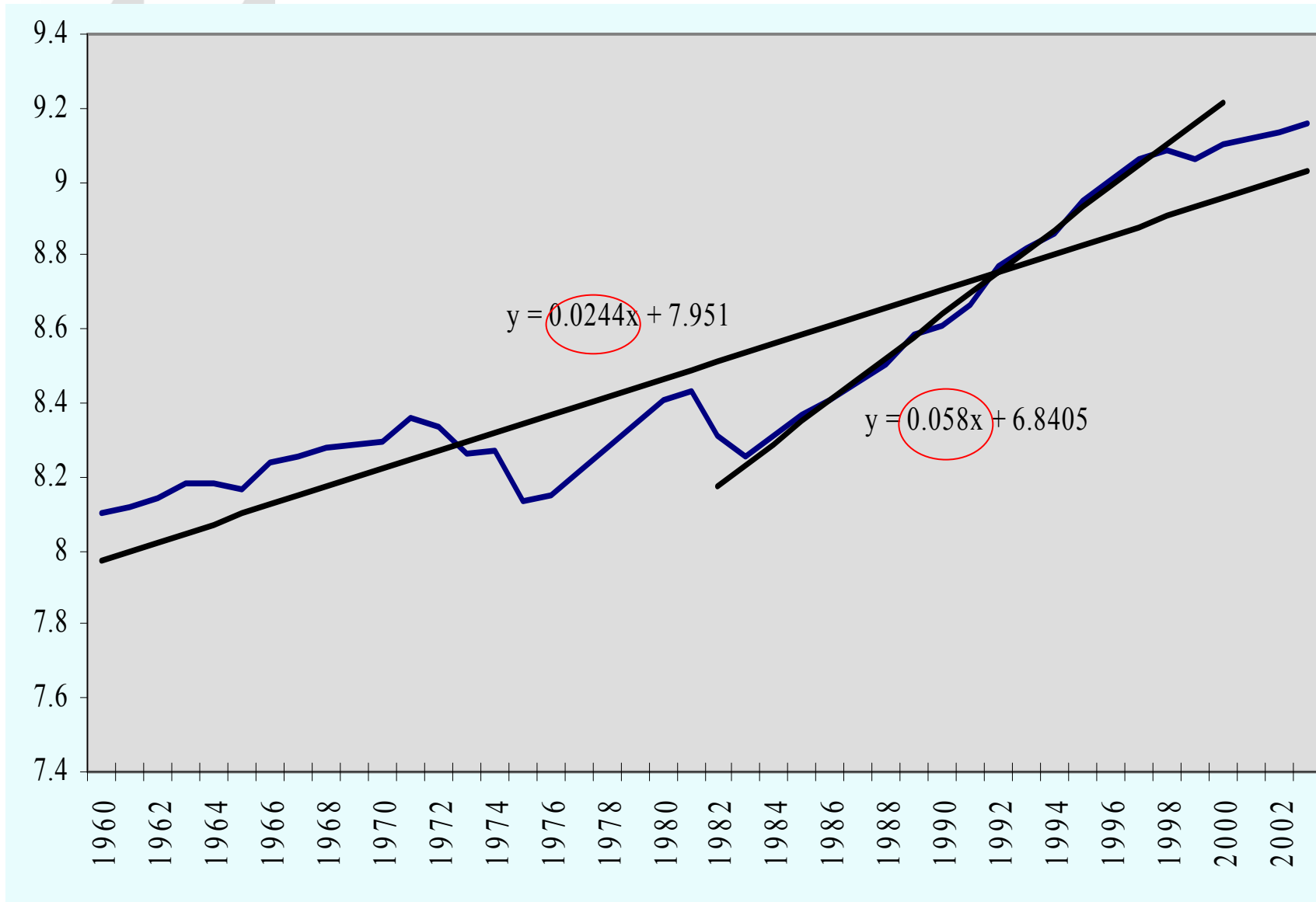
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Main Points

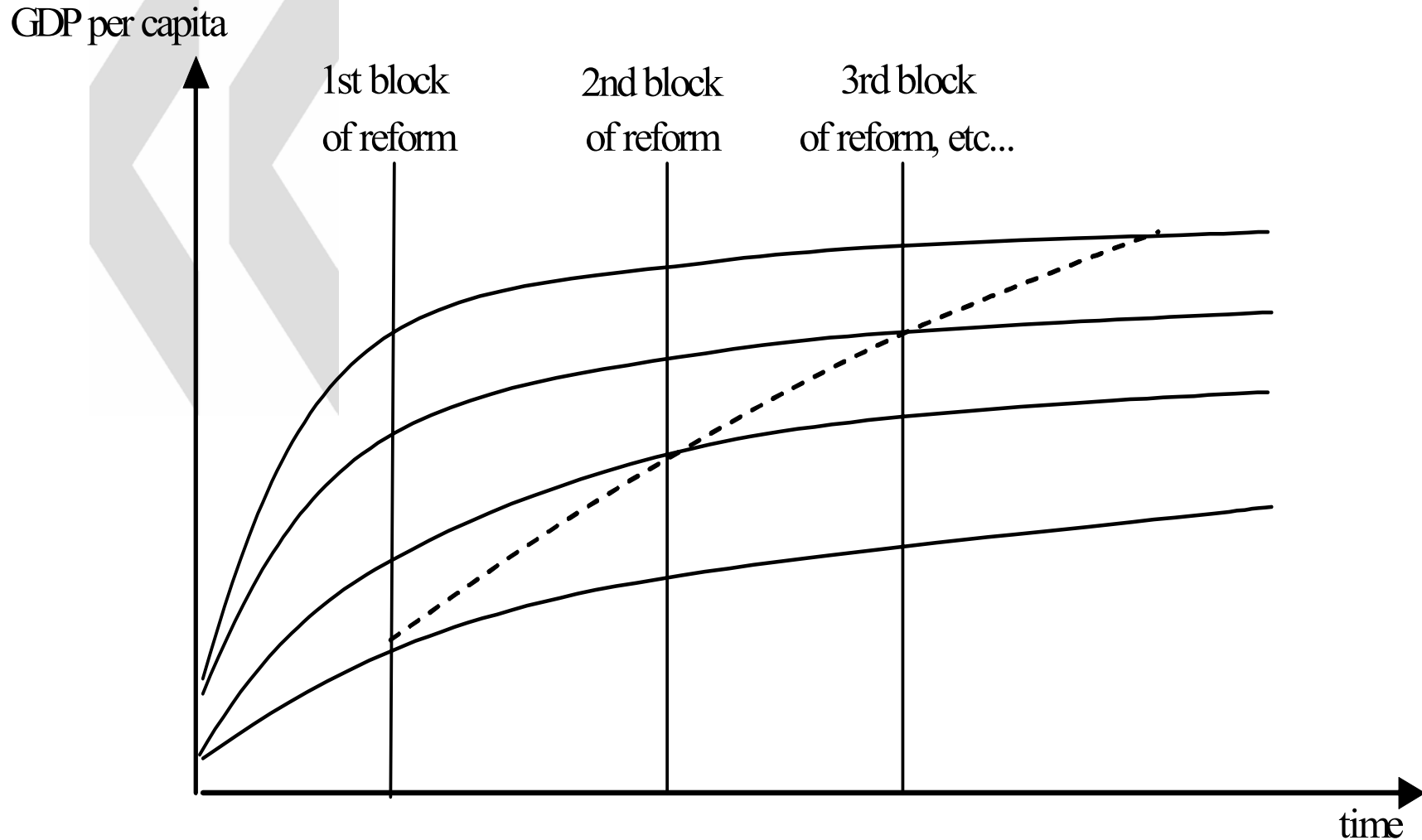
- **Policy coherence**
- **Future contingent liabilities**
- **International competitiveness**
- **Labour market issues**
- **Improve quality of social spending**

The big question: Why growth slowed down?

GDP per capita at the price levels and PPPs of 1995, log-scale



OECD view: Convergence in income levels need sustained and better coordinated reforms

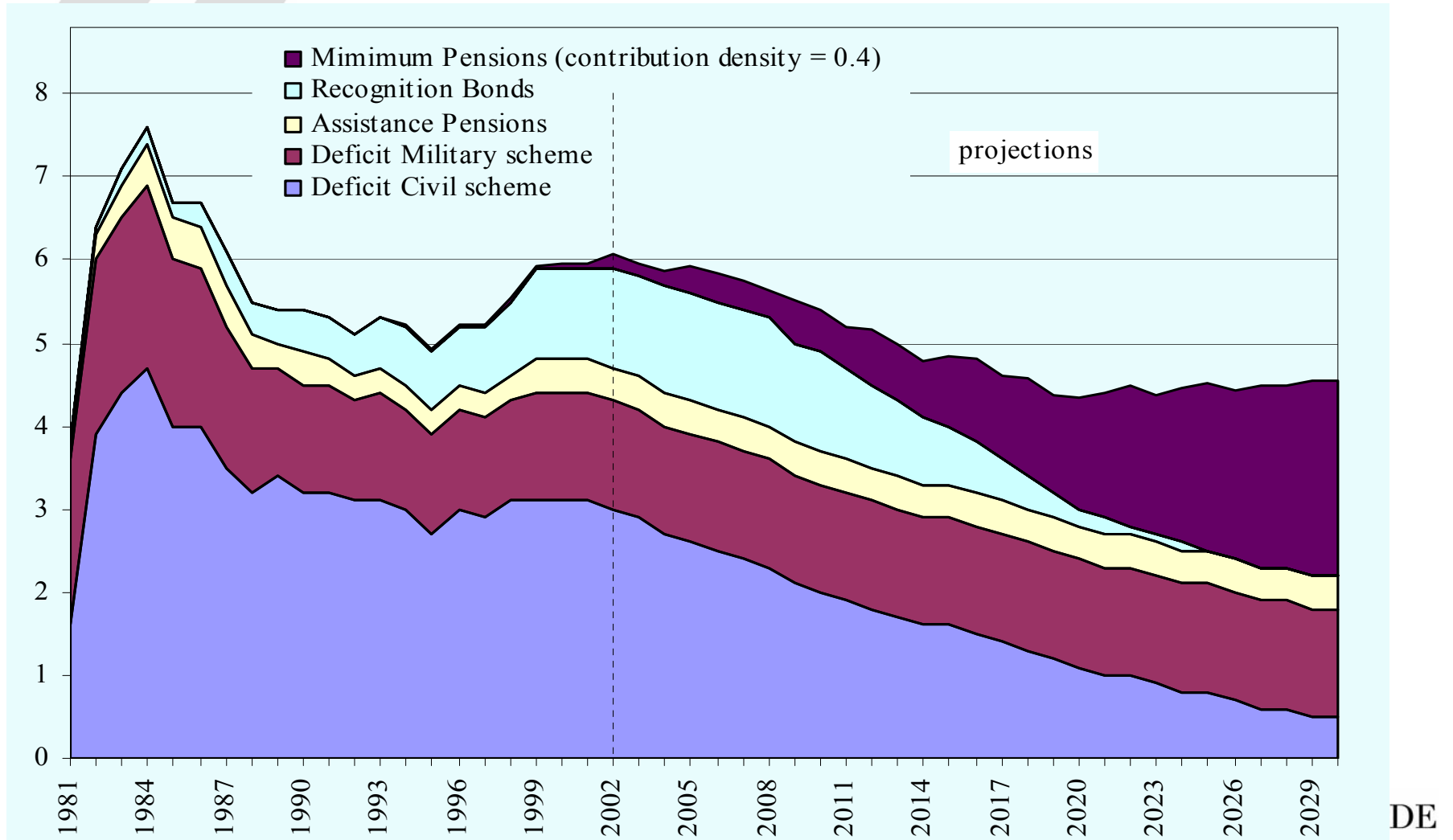


Need for a better compromise between the focus on equity and policies supporting growth

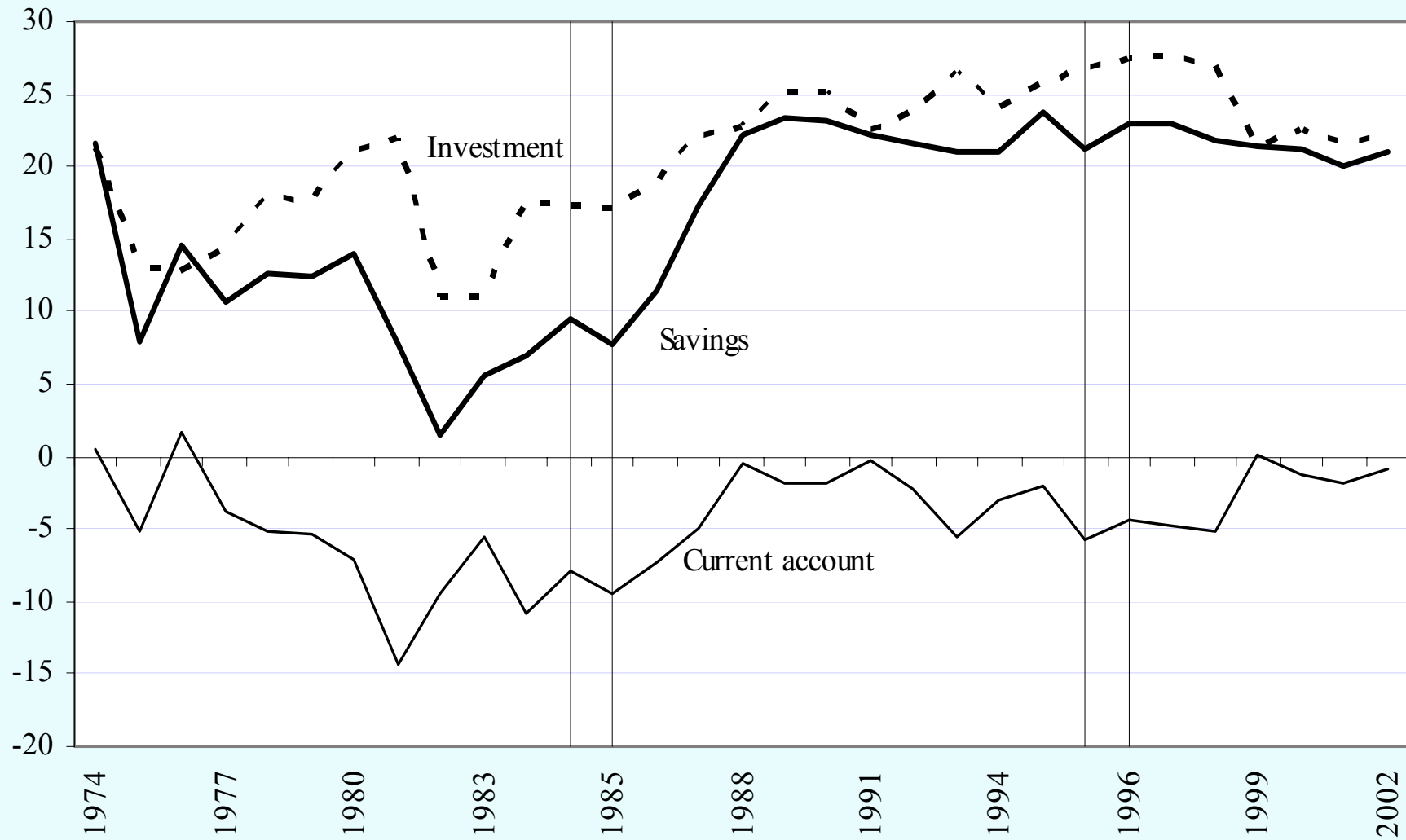
Size of the state is controversial...

- **...so more focus on quality of social spending...**
- **...and the Pro-Growth Agenda is a good basis for policy dialogue,**
- **...and above all more policy coherence is needed in the design of reforms.**

Lack of coherence: problems in the labour market may create contingent liabilities..



To sustain high investment rates, Chile needs more foreign capital ...



... therefore further financial reforms are needed:

Capital markets are illiquid and this limits the interest for foreign investors

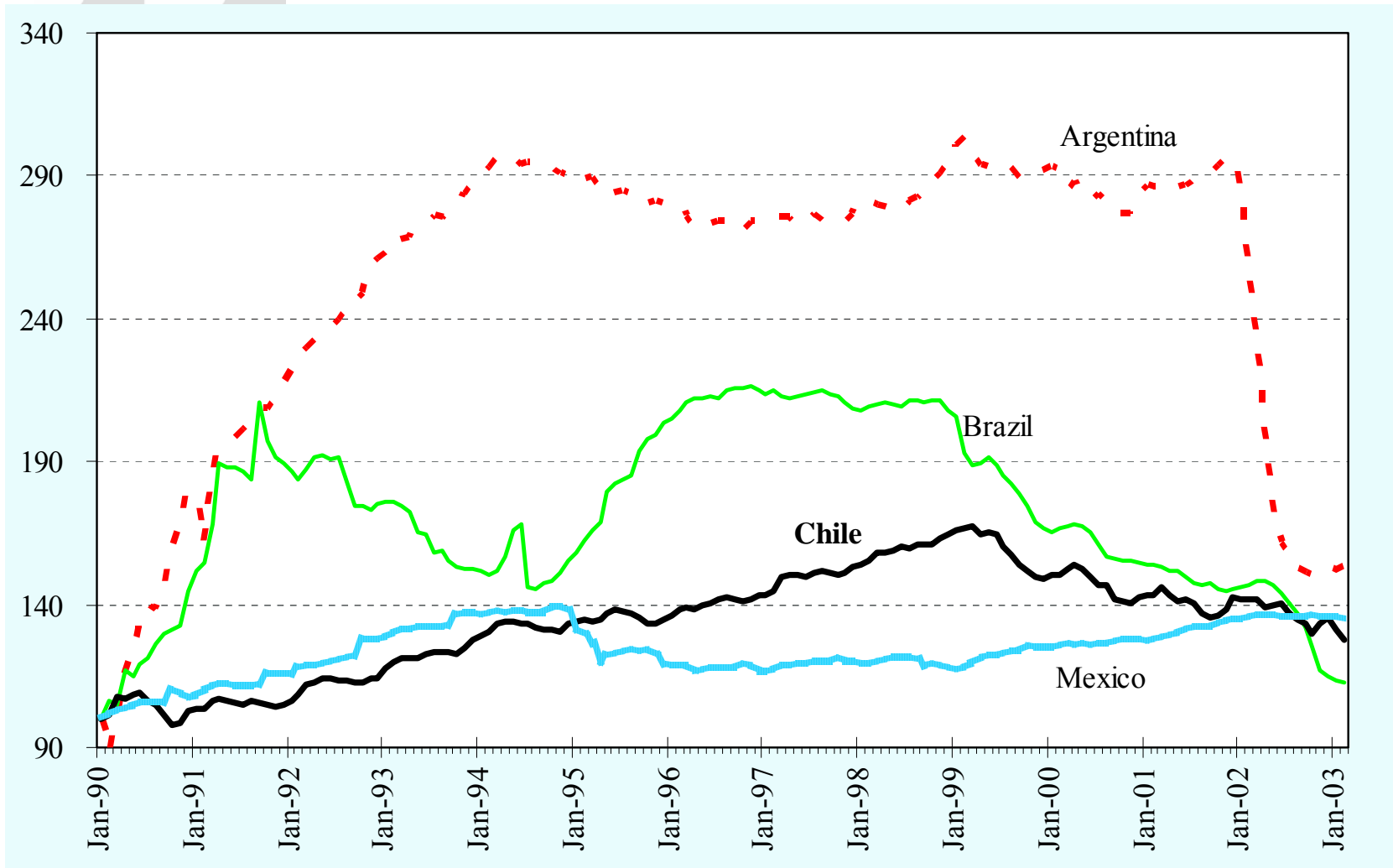
- ***Low risk diversification may reveal lack of competition in pension and banking sectors***

Credit to SMEs remains restricted

- ***Venture capital could be developed***
- **Very high rates of withholding tax hinder development of financial relations with foreign firms**

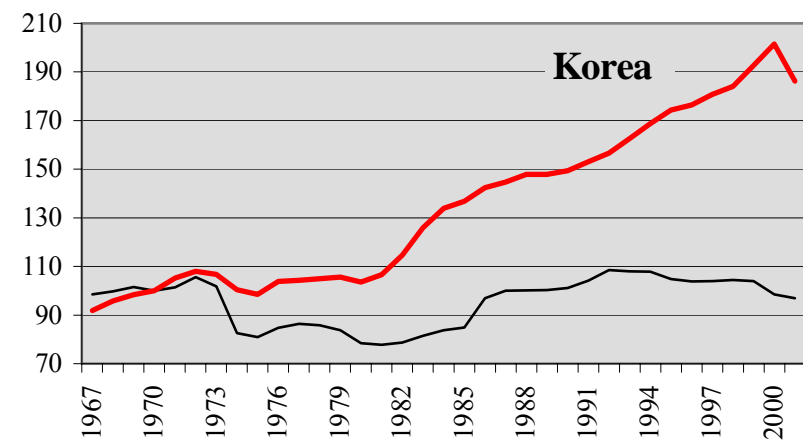
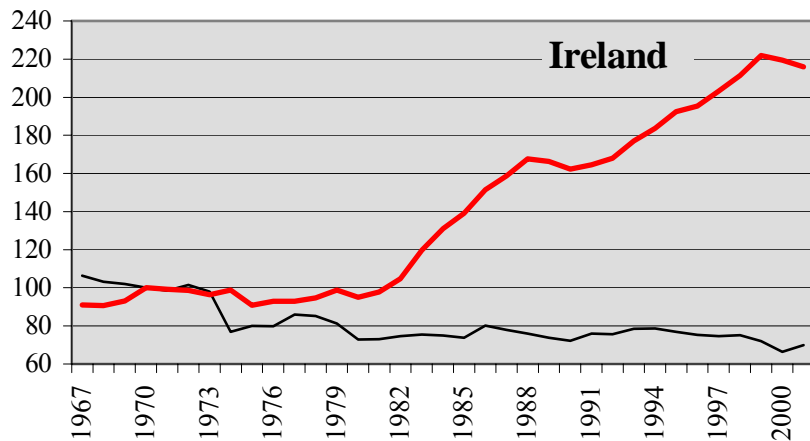
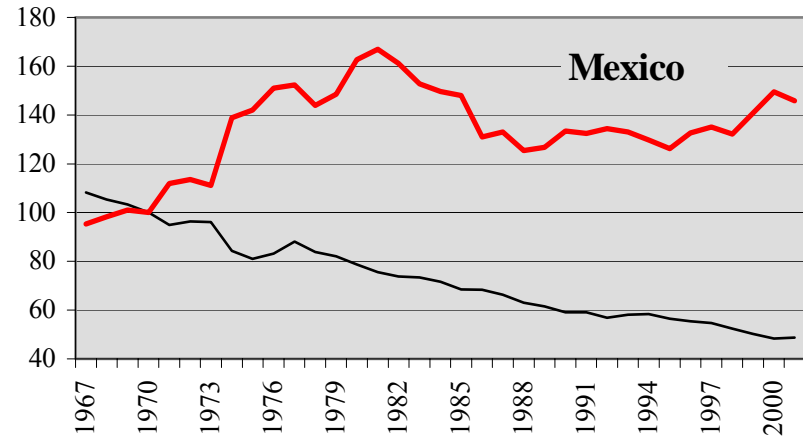
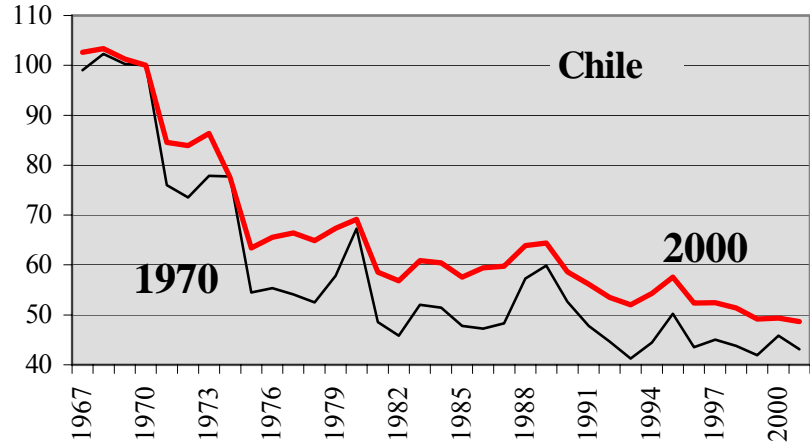
Is the *encaje* still an issue?

Sound macro policies did not distort relative prices...



... but Chile has not changed its specialisation to more dynamic products in world trade (1970 vs 2000)

— Based on RCA 1970 and weighted by export structure
 — Based on RCA 2000 and weighted by export structure



International competitiveness: policy issues

Maintain favourable framework conditions

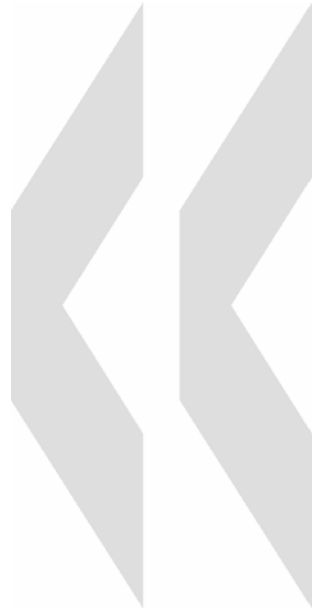
- Policy linkages analysed in the Survey
- Free-Trade agreements are important. For economic integration also need strong K-flows

But difficult to evolve towards more differentiated or sophisticated products

- Very low R&D intensity compared with other countries
- Low share of R&D performed by the private sector

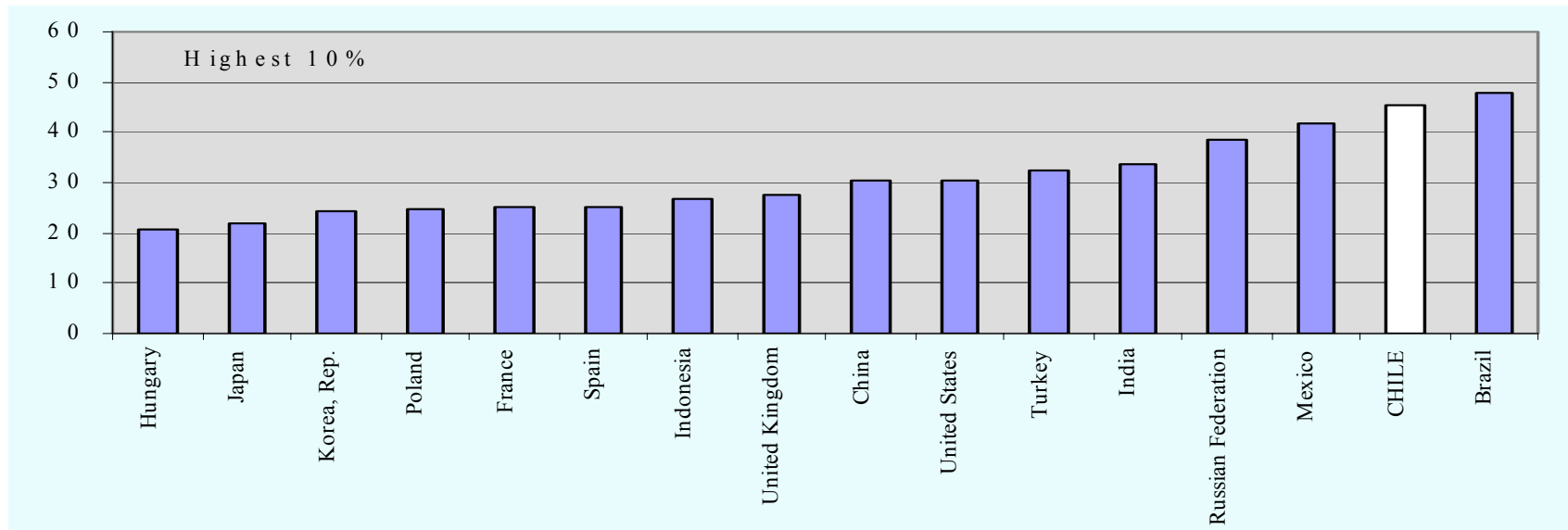
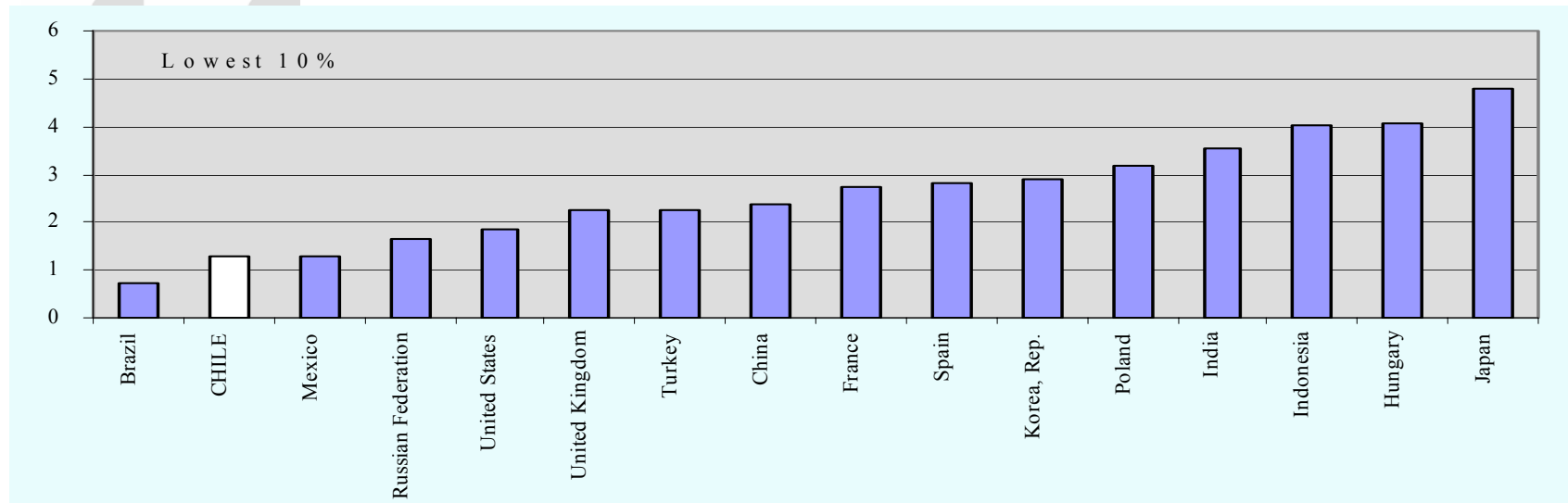
Need of a strategic vision

- Role of the education system
- Public-Private partnership and dialogue
- Service industries have a strong potential

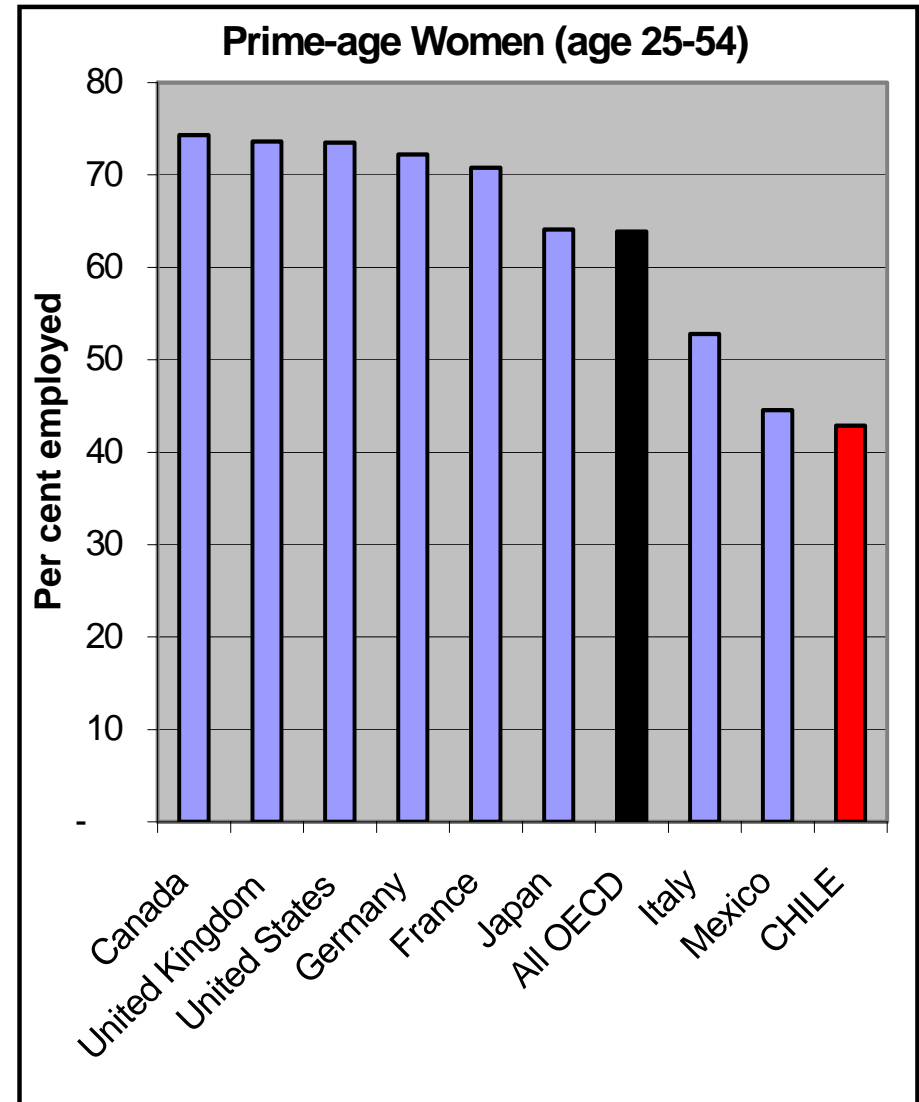
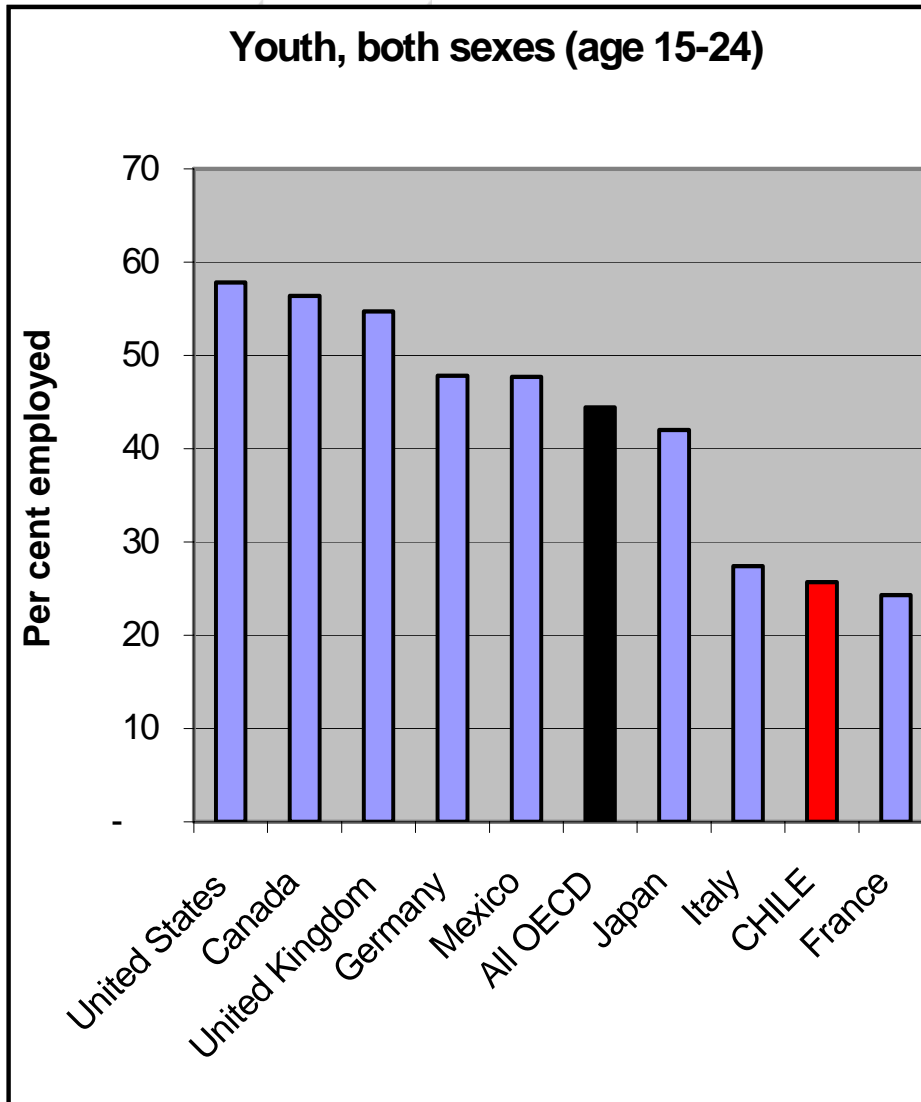


Labour market issues & Improve quality of Social spending

Background: high inequality



Labour market is not delivering high participation rates



Labour market rigidities

Notable *rigidities*:

- Only 1-year fixed-term contracts
- 11 months severance benefits (indefinite job separation)
- “Lack of skills” insufficient for dismissal
- Expensive penalties in case of dispute

But more flexible for ‘economic’ employment reductions:

- Employers can usually select workers to fire
- No special procedures for large-scale dismissals

Bottom-line: Chile is less rigid than Europe, but more rigid than USA, UK and Australia.

Labour market: policy issues

Very unequal income distribution:

- High degree of labour segmentation hindering investment in human capital
- Related to unequal access to education

Need to improve industrial relations:

- Problems are best solved by workers and employers together
- Need for more consensus-building and mutual trust

International evidence shows that rigid labour regulations hamper job growth and innovation, in particular when labour costs are key for competitiveness.

Education

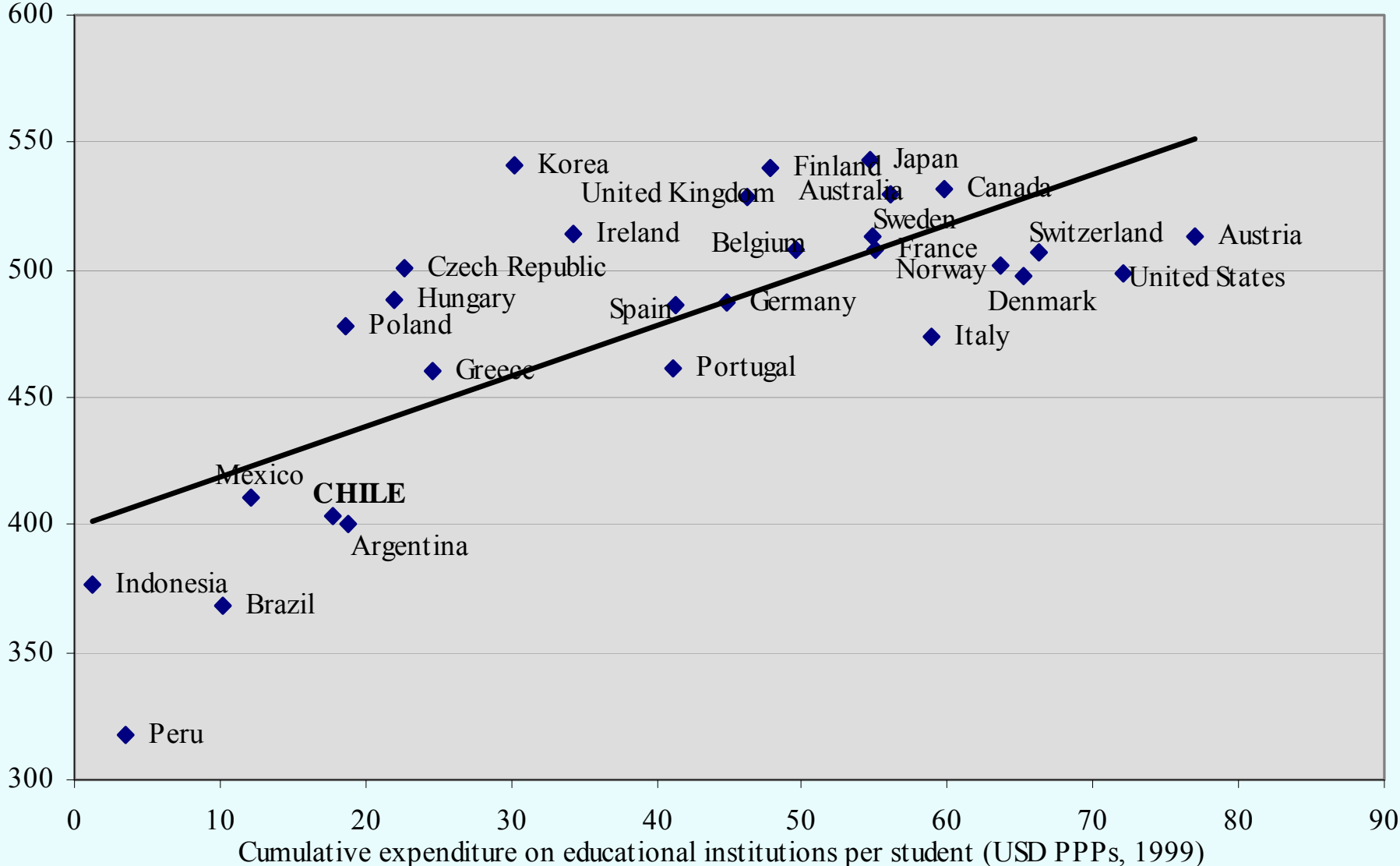
Progress has been made in increasing access and coverage, and reducing repetition rates, supported by:

- vouchers
- *jornada completa*
- raising compulsory education from 8 to 12 years
- targeted programmes for (a) low performing students and schools, and (b) improving quality.

... but quality is low

Increased spending, but low quality (acc. PISA+)

Average performance



Health Care: policy issues

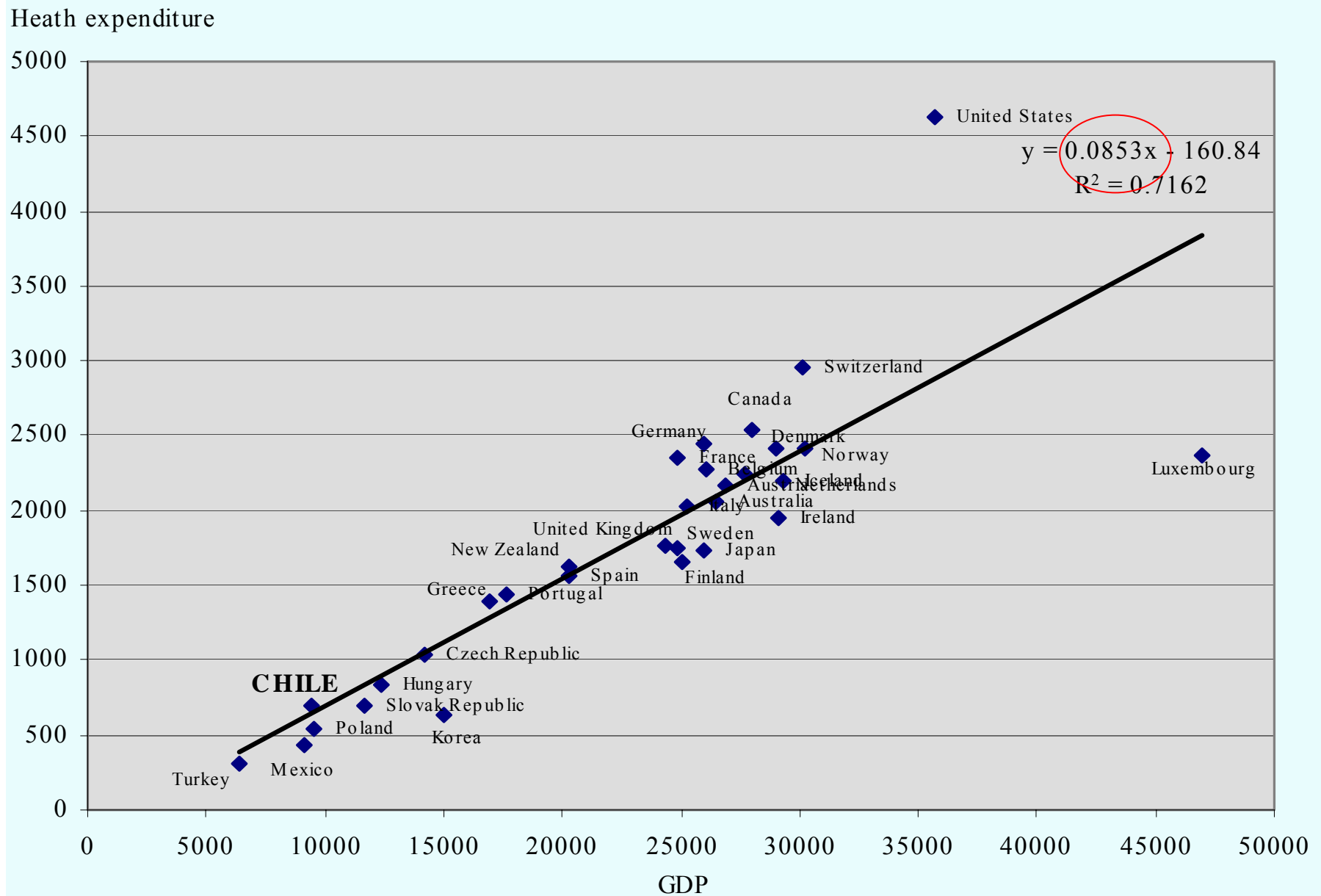
Major reforms under way (AUGE) ...


... *to tackle inequality and inefficiency as guided by best practices.*

But:

- *Control of growth of costs* will be essential (see Figure!) by:
 - more autonomy to hospitals
 - more prospective/performance types of funding
 - define priority treatments in AUGE.
- Limit *cream skimming* in private health insurance
- Develop indicators to *monitor quality*.

The need to contain growth of health expenditure per capita





OECD Economic Survey of Chile

Thank You for your attention!

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Further Information:

- www.oecd.org/eco/country_surveys