

Growing apart? The Persistence of Inequality in Chile, 1964 – 2010

Colin M. Kennedy and Warwick E. Murray

Colin M. Kennedy, Victoria University of Wellington, School of Geography, Environment and Earth Sciences

Warwick E. Murray, Victoria University of Wellington, School of Geography, Environment and Earth Sciences (warwick.murray@vuw.ac.nz)

Abstract

Over the last twenty years Latin America has forged ahead in terms of economic development and per capita income growth based largely on export growth. Social inequality has worsened considerably however. The continent remains the most unequal on earth and there are few signs of this improving. What is the relationship between economic growth and income inequality historically in the continent? How does this vary between and within countries? What are the geographies of inequality, particularly across the rural and urban divide? How is shifting, ostensibly post-neoliberal, state policy mediating this? This paper investigates these themes and identifies key research directions for their further exploration. It uses detailed sectoral and regional data from Chile to illustrate the growing divide, elements of its geography, and the changing role of the state in regulating inequality.

Keywords: social inequality, state policy, economic growth, post-neoliberal regulation, Latin America

Introduction

Over the past five decades Chile has been governed by presidents representing the full spectrum of political ideology and, by 2010, the dominant political paradigm had travelled full circle. Between 1958 and 1964 Jorge Alessandri led a centre-right conservative administration which was replaced by Eduardo Frei's Christian Democratic centrist reformist government from 1964 to 1970. Salvador Allende's ill-fated 'Chilean road to socialism' was terminated violently in 1973 and replaced by an extreme right-wing dictatorship led by Augusto Pinochet that would eventually see Chile become the most neoliberal economy in the world. Democracy was restored in 1990 and a centre-left coalition of Christian Democrats and socialists termed the Concertación held power under the successive presidencies of Aylwin (1990-94), Eduardo Frei (jr) (1994-2000), Ricardo Lagos (2000-06), and Michelle Bachelet (2006-10). In 2010 Sebastián Piñera led a centre-right coalition into power; this represented the first time since the early 1960s that such an administration governed. Perhaps one of the only constants during this half century of extreme transformations in Chilean politics has been the spectre of inequality. Successive administrations have sought solutions – to varying degrees and in very different ways – to the predicament of social and economic asymmetry. In many ways Chile has become a policy laboratory for social and economic progress – defined in various ways during different periods. What is the result of these varied policy initiatives in terms of socio-economic progress? Unfortunately, the inequality gap, measured in terms of material possession and opportunity, has remained stubbornly high throughout all administrations and, today, remains as wide as it was in the early 1960s.

This paper investigates the persistence of inequality in Chile between 1964 and 2010. The discussion begins with a review of inequality trends in Latin America as a whole in order to provide the historical and empirical context. Following this, the main policy orientation of four successive political periods in Chile and the implications for social distribution are considered. We conclude that regardless of the dominant ideology, inequality has persisted.

Political economy of inequality in Latin America 1960-2010

Economically, Latin America in the 1960s was heavily influenced by structuralist theorisation that rejected free trade expansion and highlighted the dangers of an income inelastic demand for primary products and the resultant secular decline. This led, among other things, to an emphasis on inward state-led industrialisation. Despite healthy results in terms of per capita output growth in some countries (see Figure 2), there was growing criticism that the policy of Import Substitution Industrialisation (ISI) had reached a limit and was having a muted impact on unemployment. Some structuralists became more radical and dependency analysis evolved. Such analysis was premised on the belief that the solution to inequality internationally and domestically was to cut all ties with the neo-colonial core. However, in the midst of the Cold War any turn to the left was viewed with great suspicion by the USA. This culminated in a series of coups against incumbent left-wing governments, for example in Argentina (1966 and 1976), Bolivia (1966), Peru (1968), Ecuador (1972), Chile (1973) and Uruguay (1973).

The 1970s brought a wider recognition of the importance of exports for growth, along with a greater role for multinational banks in lending capital to Latin American governments on the back of high oil prices. However, the debt crisis that followed in 1982 sunk the region into economic despair. Latin American GDP per capita growth contracted in three successive years: 1.8% in 1981, 3.6% in 1982 and 4.7% in 1983. In 1982, seventeen Latin American countries suffered economic contractions (Brid and Caldentey, 2009). The Bretton Woods institutions were able to lead renegotiations of debt repayments, forcing trade liberalisation, privatisation and reductions in state expenditure. This became Latin America's 'lost decade' and inequality increased markedly as the neoliberal model was imposed on the continent. The impact of this period on Latin American economies is obvious in Table 1, but it also had a dramatic bearing on the ideological landscape and power structure of the region:

“The Washington Consensus on market reform was indeed the consensus approach among the high-ranking policymakers, and although there were always organised interests, sectors of the population, and political parties (especially from the left) that rejected it, they were fairly marginalised in many nations and could at best exert defensive veto power.” (Weyland et al 2010, 1)

Table 1: Selected macroeconomic indicators for Latin America, 1960-2006

	1960 - 2006	1960 - 1979	1980 - 1990	1991 - 2001	2002 - 2006
Rate of growth of actual GDP per capita (%)	1.6	2.8	-0.4	1.4	2.2
Coefficient of variation of GDP per capita growth					
Latin America	1.56	0.47	5.75	2.25	1.26
East Asia and the Pacific	0.50	0.88	0.26	0.36	0.08
Middle East and North Africa	1.77	1.10	8.47	0.78	0.59
South Asia	0.94	3.28	0.36	0.46	0.37

Source: Brid and Caldentey (2009, 36), using Titleman, Perez-Caldentey and Minzer (2008)

Following the end of the Cold War and the restoration of democratic administrations in the 1990s there was a shift to a more centrist policy across the continent. Despite some evidence for an economic recovery in the second half of the 1990s, Latin America continued to suffer from economic fluctuations which aggravated inequality. Brid and Caldentey (2009) suggest that these fluctuations occurred on average every two years after 1980. A series of crises has dogged the region, including the Mexican crisis (1994), the Asian crisis (1998), the Brazilian crisis (1999) and the Argentinean crisis of 2000-1.

Bárcena (2010) calculates that a boom period was experienced from 2003 to 2007 with regional GDP expansion of 5% annually, and per capita growth exceeding 3%. This led to the evolution of centre-left governments which sought to tackle inequality and poverty explicitly. Weyland et al (2010, 1) comment of this period that “the first decade of the third millennium has seen a striking move to the left in Latin America.” By this time left-leaning governments led approximately two-thirds of the entire population of the region.

This boom and the shift to the centre-left were rudely interrupted by the financial crisis of 2007, which “cut short the longest and most vigorous phase of economic growth seen in Latin America and the Caribbean since the 1970s” (ECLAC 2010, 15). In the same report it is estimated that Latin American net capital inflows in 2008 decreased by US\$52.6 billion on their 2007 level, and foreign direct investment (FDI) shrank by 37% - the sharpest decline in 30 years. The indications are that this period has had a negative impact on poverty and inequality, with unemployment rising sharply in many countries. Interestingly, Bárcena (2010) sums up her post-crisis reflection with the statement that “it is also universally agreed that the State will have to play a more significant and assertive role” (26). This sits alongside another ECLAC paper by Brid and Caldentey (2009), which suggests the need for a ‘third way’, combining market and state intervention.

Social trends and changes

ECLAC (2007) reports that there has been significant improvement in quality-of-life indicators since the 1960s: life expectancy at birth has increased from 56 in 1960 to 74 in 2010 for example, infant mortality has decreased, and access to safe drinking water and basic sanitation services has improved, as has coverage of all levels of education. However, despite these notable advances, Latin America still continues to lag behind the OECD countries as Table 2 illustrates, and the trend in HDI improvement remains slow by global standards (see Table 3).

Table 2: Human Development Index (HDI), 2010

<i>Region</i>	<i>HDI</i>	<i>Inequality-adjusted HDI</i>	<i>Life expectancy at birth (years)</i>	<i>Mean years of schooling (years)</i>	<i>GDP per capita (PPP US2008\$)</i>
Arab States	0.588	0.426	69.1	5.7	7, 861
East Asia & Pacific	0.643	0.505	72.6	7.2	6, 403
Europe & Central Asia	0.702	0.607	69.5	9.2	11, 462
Latin America & Caribbean	0.704	0.527	74.0	7.9	10, 642
South Asia	0.516	0.361	65.1	4.6	3, 417
Sub-Saharan Africa	0.389	0.261	52.7	4.5	2, 050
OECD	0.879	0.789	80.3	11.4	37, 077
World	0.624	0.489	69.3	7.4	10, 631

Source: UNDP (2010)

Table 3: Human Development Index trends, 1980- 2010

	<i>Average annual HDI growth rate (%)</i>		
	<i>Change</i>		
	<i>1980-2010</i>	<i>1990-2010</i>	<i>2000-2010</i>
Arab States	1.32	1.12	1.14
East Asia & Pacific	1.73	1.61	1.40
Europe & Central Asia	1.11	0.31	0.80
Latin America & Caribbean	0.68	0.68	0.64
South Asia	1.65	1.44	1.61
Sub-Saharan Africa	0.94	0.46	2.10
OECD	0.51	0.48	0.31
World	1.05	0.85	0.89

Source: UNDP (2010)

After a significant fall during the 1970s, poverty levels peaked during the ‘lost decade’; it has been estimated that the number of those living in extreme poverty increased by 44 million between 1980 and 2008. This sits alongside estimates that 180 million people are currently living in poverty (Bárcena 2010). High unemployment has persisted due to a slow-moving formal sector, placing a greater strain on already-inadequate social protection systems and further strengthening inequality. Weyland et al (2010) relate this situation to the moderate nature of the majority of left-wing governments:

“One main reason why the moderate left has acquiesced in the fundamental framework of the market system and has sought economic reforms inside these confines has been the hope to stimulate lasting economic development and thereby lay a substantial foundation for social progress – directly by boosting employment and income growth among poorer sectors, and indirectly by increasing tax revenues.” (pg 12)

Consistent with such political strategies is the recurring analysis of why the benefits of economic growth are not being equally distributed. ECLAC notes that: “In European countries, the income of the richest 10% exceeds that of the ninth decile by no more than from 20% to 30%, whereas in Latin America, the gaps between those two deciles is greater than 100% and sometimes even exceeds 200%” (2007, 63). Table 4 shows that from the 1960 to 2000 income inequality in Latin America was the worst in the developing regions.

Table 4: Distribution of household income or expenditures, decadal averages by region
(*Gini coefficient*)

<i>Region</i>	<i>1960s</i>	<i>1970s</i>	<i>1980s</i>	<i>1990s</i>	<i>Average</i>
Latin America & Caribbean	53.2	49.1	49.8	49.3	49.8
Sub-Saharan Africa	49.9	48.2	43.5	47.0	46.1
Middle East & North Africa	41.4	41.9	40.5	38.0	40.5
East Asia & the Pacific	37.4	39.9	38.7	38.1	38.8
South Asia	36.2	34.0	35.0	31.9	35.1
Eastern Europe	25.1	24.6	25.0	28.9	26.6

Source: Deininger and Squire (1996) from Ferranti et al (2004, 410)

World Development Indicators from 2010 in Table 5 illustrate that inequality is particularly marked in some countries. In Bolivia, Brazil, Colombia, Chile, Ecuador, Paraguay and Peru, the Gini coefficient stands at over 50. The proportional share of

income among the lowest decile is less than 1% in Colombia and Bolivia and stands at less than 2% in all of the Latin American countries reported in the table.

Table 5: Selected social indicators in selected countries, 2010

	<i>Gini index</i>		<i>% share of income or consumption</i>	
	<i>survey</i>		<i>Lowest 10%</i>	<i>Highest 10%</i>
Argentina	2006	48.8	1.2	36.1
Bolivia	2007	57.2	0.7	45.3
Brazil	2007	55.0	1.1	43.0
Chile	2006	52.0	1.6	41.7
Colombia	2006	58.5	0.8	45.9
Ecuador	2007	54.4	1.2	43.3
Paraguay	2007	53.2	1.1	42.3
Peru	2007	50.5	1.3	38.4
Uruguay	2007	47.1	1.6	35.5
Venezuela	2006	43.4	1.7	32.7

Source: World Bank (2010)

Recent ECLAC figures, however, argue that the Gini index dropped in most countries in the region between 2002 and 2008, with only Colombia, the Dominican Republic and Guatemala's indices increasing (Bárcena 2010, 12). The record, however, is still extremely poor, and as Table 6 makes clear there has been little progress since the 1960s in a number of the countries.

Table 6: Latin American Gini coefficient in selected years, 1960-2005

	1960	1965	1970	1975	1980	1985	1990	1995	2000	2005
Argentina	43.4	36	40.9	34.7	40.8	39.8	44.4	48.1	50.4	50.3
Bolivia	-	-	54.7 (1968)	-	-	51.5 (1986)	54.5	52.7	63.3	50.5 (1968)
Brazil	52	-	63.8	63.5 (1976)	48.8 (1979)	58.6 (1983)	60.4	59.1	58.8	56.6 (2004)
Chile	46.2 (1964)	46.1 (1968)	50.1	47.1	52.6	53.2	55.1	54.5	55.2	54.6 (2003)
Ecuador	-	63	62.5	-	-	44.4 (1987)	56.2 (1988)	55.6	56	-
Mexico	53 (1958)	55 (1963)	57.4	57.4	-	47.1 (1984)	52.4 (1989)	52 (1996)	55.6	49.9 (2004)
Peru	64 (1961)	-	57.4	59.4	-	42.7 (1986)	49.1 (1991)	53.3 (1997)	49.6	52 (2003)

Source: World Income Inequality Database (2008)

Latin America has made respectable progress in economic growth and some quality-of-life indicators, and yet the gap between those who experience the benefits of this development and those who don't continues to widen. Chile is an example of this paradox that stands out particularly given its unprecedented and relatively high levels of economic growth.

Running to stand still: paradigmatic change and inequality in Chile, 1964 – 2010

As noted previously, Chile has experienced dramatic political transformations that have taken it through virtually all types of political ideology over the last five decades. Each of these successive administrations has conceived of and sought to deal

with inequality in different ways. What has been the effect of these paradigmatic shifts on levels of inequality and what does this tell us about what causes disparity and how it might be addressed? The following section deals with each of these periods and reviews the main policy direction and its impact on social and economic gaps.

Structuralism: Eduardo Frei (1964 – 1970)

Eduardo Frei Senior of the Christian Democratic Party conceived of the concept of inequality primarily as marginalisation from, and lack of participation within, society. He sought a transformation by engaging all Chileans in political and social processes, the key to which was his ‘*Promoción Popular*’. Frei wanted “a people that demands that its voice be heard and is respected in the dialogue of power...People needed to be subjects and not objects of their liberation” (Kirkendall 2004, 692).

“One of the major weaknesses of Chilean democracy in 1964, according to Frei and his allies, was the lack of incorporation of the Chilean peasantry into the larger political process...A relatively inclusive political system had been built in part by explicitly excluding the peasantry...One of Eduardo Frei’s central concerns as president was to change the marginal status of the roughly twenty per cent of the population that belonged to the peasantry.” (Kirkendall 2004, 691)

When Frei’s Christian Democrats, “waging a virulently anti-Communist campaign...won the elections by a wide margin with 56% of the vote” (Collins and Lear 1995, 16), they seemed to have a clear mandate for their ‘revolution in liberty.’ However the political environment into which Frei was elected was awkward. The Chilean system was clearly divided into left, centre and right-wing coalitions, meaning that no president could expect clear cooperation from across the spectrum. The situation was further complicated as the Right was able to argue that Frei actually agreed with the more radical candidate Salvador Allende on most policies: fairer income distribution, cheaper housing, open education and independent foreign policy, with only the ‘revolution in liberty’ slogan acting as his electoral point of difference.

Frei’s focus was influenced by ECLA’s structuralist thought (Kay 1989); his policies were directed at the patterns and processes that sustained unequal power relations. This was particularly evident in 1964, when Frei allowed workers the rights to form unions, conduct strikes and collectively bargain, “which dramatically shifted the balance of power in a countryside long dominated by a handful of large estate owners.” (Collins and Lear 1995, 17). Union membership almost doubled from 270,542 members in 1964 to 533,713 in 1970. By that year, roughly half of the entire rural labour force belonged to a union (Kirkendall 2004, 711).

In 1967 the government announced an agrarian reform programme. Frei believed that any such reform needed to be more than just a redistribution of land; instead it needed to be viewed as a “social and human investment” (Frei 1966, 331), which would drive a greater inclusiveness for the Chilean peasantry. In 1964, 7% of farms controlled 80% of agricultural land, and the reform placed limitations on the size of agricultural holdings, while attempting to put in place worker cooperatives on expropriated estates. Frei had hoped that this redistribution would affect 100,000 peasants, but at the end of his term in 1970 only one fifth of this figure had been involved, with the reformed sector only accounting for 15% of the country’s agricultural land (Oppenheim 2007, 24).

Frei also put social service reforms into place, allowing greater access to services. His *Promoción Popular* (Social Promotion) included the *Reforma Educacional* (Education Reform), which placed a strong focus on primary enrolment as well as access to tertiary education. Kirkendall comments that “literacy training was an essential part of Christian Democrat efforts to promote agrarian reforms and rural unionisation and incorporate the peasantry into the Chilean political system” (687). Indeed, in his presidential message of May 1966, Frei established expectations that 100,000 adults could learn how to read and write at 2,600 new local community education centres, allowing “active and creative participation of people in the solution of common problems” (ibid, 696). Ultimately, Frei’s term brought a 5% increase in the population that could read and write in a campaign that explicitly sought to precipitate a change of consciousness.

The *Promoción Popular* expanded its drive for participation to mothers by creating “*centros de madres*, where women learned about nutrition and child care and were taught handicraft trades to augment their incomes” (Oppenheim 2007, 25). The administration was also responsible for fifty-six new hospitals and an increase in public spending on health care by 80%, despite GDP rising only about 30% from 1964 – 1970. Indeed, Frei drew up Chile’s first national health plan, and training programmes were also put in place for doctors, including incentives for practice in rural areas (McGuire 2001, 107).

The results were significant: between 1964 and 1973 maternal mortality fell from 238 to 123 per 100,000 live births, while the infant mortality rate fell from 104 per 1000 live births in 1964 (in 1953 it was 105) to 82 in 1970 (ibid., 95). Frei’s presidency was severely restricted by political tensions from both the right and the left. However, considerable progress was made in his expressed objective of increasing participation throughout Chilean society, especially for the peasantry:

“In terms of its impact on politics, the 1960 – 1970 period had awakened great expectations on the part of the poor – workers, peasants, and the urban poor – who expected the state to enact programmes that would help change their life circumstances. In this, they were disappointed...The popular expectations, however, were to play an important role for the next administration, that of Socialist Allende.” (Oppenheim 2004, 26)

Socialism: Salvador Allende (1970 – 1973)

The success of Allende’s fourth bid for the presidency brought him the opportunity to bring about *La via chilena al socialismo* (the Chilean path to Socialism). Allende ran his presidential campaign on the ‘Unidad Popular (UP) Programme’, written by the six parties in the left-wing coalition. It promised redistribution towards the poor, deeper agrarian reform, and improved social welfare programmes. Allende’s views on inequality were Marxian and the “revolutionary transformation of society was based on changes in ownership of the major means of production: large farms and major industrial and financial enterprises” (ibid., 43).

Allende expanded the previous administration’s policy of land expropriation and redistribution. Peasants had taken over landed estates, and during the first six months of Allende’s term, almost 1.5 million hectares of land had been seized. These actions exacerbated existing tensions between landowners and peasants and Allende’s socialization of the means of production exacerbated these conflicts. He raised wages and froze prices, leading to an initial increase in economic growth of 8.6 % and a

decline in inflation (from 34.9% to 22.1%) and unemployment (down to 3.8%). The short-term boom proved unsustainable however, and inflation rose by 140% the following year. Many manufacturers refused to produce at the fixed prices, there were boycotts by transport workers, and black markets in basic commodities proliferated. The tensions led to protests – encouraged by the right and centre-right – such as the ‘March of the Empty Pots and Pans’ in 1971. Allende, though, was determined to continue with his aim of redistributing wealth. He had continued his predecessor Frei’s work by completing the ‘Chileanisation’ of the copper industry, and buying up the main Chilean banks and large-scale industries to break up the oligopolised industrial sector. Table 7 indicates that such policies were partially successful in terms of producing a more equal income distribution; it shows a clear improvement in Chile’s Gini coefficient within Allende’s term after an increase under the final years of Frei’s government.

Table 7: Gini coefficient, Chile 1966 – 1975

1966	45.2
1970	47.5
1973	44.1
1975	41.1

Source: World Bank (1998)

The national unified educational system that was introduced during Allende’s term, the *Educación Nacional Unificada (ENU)*, proved controversial however. While some aspects of the policy were widely applauded and accepted – such as increased scholarships, more schools, a decrease in illiteracy, and children’s day-care facilities – Allende’s desire to have greater control over private schools caused considerable opposition among the elite. Table 8 shows the clear expansionary impact of Allende’s educational policies between 1970 and 1973 at all levels. By the end of his three years in power, however, Allende had achieved a great deal in extremely complex circumstances (circumstances which were exacerbated by the United States’ cutting of all of the credit and aid programmes it had previously directed towards the country.)

Table 8: Students registered at educational institutions 1964-1975

	Pre-school		Primary		Secondary		Tertiary
	<i>Public</i>	<i>Private</i>	<i>Public</i>	<i>Private</i>	<i>Public</i>	<i>Private</i>	
1964	22,740	4,901	820,000	355,709	183,873	108,820	34,217
1970	43,322	15,668	1,580,167	464,424	237,871	70,251	76,795
1973	57,608	21,875	1,843,967	472,912	362,878	82,984	146,451
1975	66,406	26,548	1,877,716	421,282	364,740	84,171	147,049

Source: Updated version of Barro and Lee (2000), from Ferranti et al (2004, 417)

Neoliberalism: Augusto Pinochet (1973 – 1990)

Tension mounted and the September 11 coup brought an early end to Allende’s term in 1973. Following the coup, a military junta was immediately established and Pinochet led a junta that would, by 1975, apply the most neoliberalised policy framework ever seen, which intended to reverse the reforms of the Allende years. From 1973 to 1975 there was little direction in terms of economic policy. A drastic currency devaluation and the liberation of commodity prices increased inflation, causing unemployment to swell and forcing prices up by 375%. By 1975 the junta had solicited the advice of the Chicago Boys, a collection of economists educated at the University of Chicago, who were determined to convince Chile’s leadership of the value of neoliberalism and the ‘trickle-down’ effect. Collins and Lear argue that:

“Starting in 1975, Chile was turned into a laboratory for free-marketeters. And their experiments in Chile have been more thorough than elsewhere because their patron was General Augusto Pinochet, whose long and ruthless dictatorship ruled out effective opposition.” (1995, 4)

These experiments became increasingly radical as the initial reforms failed to convince, prompting the call for Chile to undergo a ‘shock treatment.’ This entailed the majority of government-owned banks being sold off, reduced import tariffs, and constraints on profits being expropriated by foreign corporations being scrapped. Healthcare endured a 40% decrease in government funding, education was reduced to 73% of its 1974 level, and public housing support shrank by 60%. Evidently, reducing inequality was not a short-term concern for the neoliberal administration but, despite the extensive health care cuts, he “channelled much of what was left to infants, young children, pregnant women and new mothers, using a ‘poverty map’ to target the poorest areas of the country” (McGuire 2001, 1678). McGuire attributes this incongruent policy to a combination of state paternalism, protest deterrence and to enhance international reputation. Whatever the reasons, and ignoring the disastrous impacts on other areas of health coverage, from 1974-1984, infant mortality rates fell, life expectancy at age one rose, and a higher proportion of babies were born to more educated mothers. Regrettably however, by the end of Pinochet’s presidency in 1989, the infant mortality rate was only barely below the 1985 rate, as these targeted policies fell away in the increasingly neoliberal fervour.

Between 1979 and 1982 – a period of solid economic growth – ‘Seven Modernisations’ were enacted. These “took the reform of welfare institutions to a new level. Where possible, market mechanisms were introduced to service provision in order to recast socialised provision into atomised and apolitical relationships between individuals and private service providers” (Taylor 2006, 98). Subsidies were given to private schools, the impact of which is evident in the consistent fall in public school enrolment over the term of Pinochet’s dictatorship in Table 9. The national public healthcare system was dismantled out of preference to private insurance companies, and new labour policies curbed labour rights.

Table 9: Students registered at secondary schools, by type of school 1975-89

	<i>Pre-school Public</i>	<i>Pre-school Private</i>	<i>Primary Public</i>	<i>Primary Private</i>	<i>Secondary Public</i>	<i>Secondary Private</i>
1975	66,406	26,548	1,877,716	421,282	364,740	84,171
1980	91,501	35,893	1,743,964	442,618	406,374	135,265
1985	114,163	88,089	1,406,767	655,577	397,011	270,786
1989	111,477	101,723	1,233,457	754,301	383,150	358,860

Source: Updated version of Barro and Lee (2000), from Ferranti et al (2004, 417)

The 1982 Debt Crisis had an immense influence on the development of Chile. Pinochet opted to intervene in the private and financial sectors, taking control of sinking companies, absorbing the external debts of private business and setting up emergency work programmes. One in eight Chilean workers ended up on these programmes, working for less than the minimum wage. Unemployment reached its low point in 1982 at 41.8% (Montenegro and Pagés, 2004). This exacerbated the trend towards increased income inequality that had begun from 1973 (see Table 10).

Table 10: Gini coefficient, Chile 1973-1988

1973	44.1
1976	47.2
1980	49.1
1984	54.2
1988	53.7

Source: Montenegro and Pagés (2004)

To climb out of the crisis from 1985 Pinochet issued propaganda of a second miracle in GDP growth. In reality, growth was based on the exploitation of a re-employed but poorly paid workforce. As Table 11 illustrates, as a consequence of nearly two decades of neoliberalism, the ratio of the highest to lowest quintile was considerably higher during the Pinochet period than under the previous two governments.

Neostructuralism: The Concertación (1990 – 2010)

Ousted in the 1988 plebiscite, Pinochet made way for a new government formed of an alliance of Christian Democrats, Socialists and other centre-left parties. This coalition, or *Concertación*, talked of ‘continuity with change’, ‘growth with equity’ and ‘politics within limits’, working within the restrictions of the neoliberal project and the legacy of the 1980 constitution left by Pinochet that ensured the continued influence of the military and the right-wing. This approach became known as neostructuralism: a marriage of the market and an equal society.

“While the Concertación ...maintained neoliberal and technocratic solutions to socio-economic issues in an attempt to promote continued capital accumulation, this...occurred alongside an emphasis on building social institutions that correct market failures and promote social inclusion.” (Taylor 2006, 114)

The neostructural approach involves the correction of market failures through strategic state intervention. By playing a role in stimulating innovation and value-added production, and thus developing a workforce capable of contributing to economic development through education and health expenditure, it was envisaged that growth and equity could be attained simultaneously. Such ‘middle-of-the-road’ strategy faces inherent internal contradictions:

“‘Growth with equity’ represents a complex political strategy that emerged unevenly from the clash between popular pressure to mitigate the inequalities and insecurities associated with neoliberal restructuring and the constraints imposed by the vastly asymmetrical power relations that characterise post-dictatorship Chile.” (ibid., 116) The first President of the *Concertación* period Patricio Aylwin (1990-1994) increased corporate and income taxes – an “important mechanism for the government to increase its revenues so that it could increase funding of social programmes” (Taylor 2006, 223). The national labour union was also recognised, while the minimum wage was increased from 18,000 to 26,000 pesos a month. Aylwin’s successor, Eduardo Frei (junior), chose to focus more on modernisation and efficiency than on conspicuous social policies. However important reforms were made during his tenure, including job creation and judicial systems that went a long way towards the concept of democracy and participation becoming re-normalised in Chile. Economic growth during the first ten years of the *Concertación* was high, fuelled in part by booming copper prices and free trade agreements. Aylwin and Frei’s policies did reduce poverty substantially

(Kousary et al 2008), but this failed to flow on to income distribution, as the gap remained consistent through the 1990s and significantly higher than in the late 1960s.

Table 11: Income Distribution in Chile, 1965-1989, income shares per quintile, %

<i>Group</i>	<i>Frei 1965 - 1970</i>	<i>Allende 1970 - 1973</i>	<i>Pinochet 1974 - 1989</i>
1st quintile	3.2	3.1	2.7
2nd quintile	7.1	7.5	6.4
3rd quintile	11.4	10.6	10.6
4th quintile	19.7	21.5	18.3
5th quintile	58.6	55.4	62.0
Ratio of 5th quintile over 1st quintile	19.5	17.9	23.0

Source: Bosworth et al. (1994, 220)

While the *Concertación* is a centrist coalition, both Lagos and Bachelet ran as Socialist candidates. Their approaches to inequality were more explicit, and much more aligned to the works of Rawls and Sen, than either of their predecessors. The political environment was more conducive to such policies as the shadow of the military was effectively removed internally and in Latin America as a whole there was a shift to the centre-left as the post Cold War democratic consensus took hold. Ricardo Lagos (2000-2006) set up plans to provide universal health coverage (*AUGE*), unemployment insurance and antipoverty operations (*Chile Solidario*), and undertook wide ranging educational reforms. In terms of health reforms by 2006 the impacts were becoming clear in terms of coverage which approached 70 of the public sector for the first time.

Michelle Bachelet (2006-10) built on these programmes, in promising to increase the coverage of *AUGE* to eighty illnesses in 2010, and using the high copper prices to finance a focused social programme. Inequality and poverty reduction, pension and health-care reform, expanded day care and women's rights, and the provision of social housing were focal points from the beginning of her term. She outlined a citizens' government (*Gobierno Ciudadano*), which, in symbolic terms marked the end of the transition from dictatorship to leadership through consensus. Based on the success of such ventures and as testimony to her ability to balance the interests of different social groups, and the good fortune of high copper prices that helped to cushion some of the impacts of the global financial crisis, she left office as the most popular president in the history of Chile. But frustratingly, by 2009, the distribution of income was only slightly better than it was at the start of the democratic period in 1990 (see Table 12).

Table 12: Gini coefficient, Chile: household income per equivalent adult, 1990- 2006

1990	0.56
1996	0.56
2000	0.56
2006	0.53

Source: CASEN 2009

Conclusion - Growing apart?

Income inequality in Chile is as high now as it was during the late 1960s, if not higher. There was a slight improvement during the Allende period undone dramatically during the dictatorship despite significant economic growth. Following the return to democracy we have witnessed an explicit concern with attaining growth with equity, especially during the 2000s under the Lagos and Bachelet governments. This neostructural approach has been widely criticised (see Murray and Pastor 2008), as

dealing with social mal-distribution in only rhetorical ways. Yet, there is some evidence that over the last ten years inequality has fallen slightly and that the social reforms of the *Concertación* more generally are coming to fruition. There can be little doubt that unprecedented economic growth until 2007 – and now restored – has reduced poverty. Following an inevitable rise in inequality in the post-crisis environment, and assuming buoyant copper prices, it is likely that the policies of Lagos and Bachelet will continue to slowly close gaps over the next decade. Undoubtedly the current centre-right/neo-Populist President, Sebastian Piñera, will seek to take credit for this, but the foundations of any reduction in inequality that occurs in the 2010s were quite clearly laid during the 2000s.

The undeniable conclusion remains: that despite experiments across the whole range of political ideologies, Chile's income inequality remains amongst the worst in the world, regardless of very rapid economic growth and progress in poverty reduction. This would seem to suggest two things. Firstly, that economic growth and improvements in income distribution are not necessarily positively correlated. In fact, a case might be made for a negative correlation, particularly in neoliberal-like environments where wealth accumulation takes place in an environment where the means of production are controlled by a small elite that wields disproportionate political power. Secondly, and linked to the preceding point, that targeting the symptoms rather than the causes of inequality lies at the heart of the common failure of successive Chilean governments. Chile remains highly skewed in terms of the ownership and control of the means of production – notably in terms of land and capital – and this has ramifications in terms of economic and political concentration.

The concentration of ownership is related to the continued over-specialisation on primary products for economic growth, control of which is especially unequal. When these factors are combined with the inheritance of the binomial political voting system from the dictatorship, which institutionalises resistance to profound reform in the Congress and Senate, it is unsurprising that inequality has not been successfully tackled over the last two decades. For now, given a boom in demand in China, high mineral prices hide the continued structural impediments that have existed for decades. Unless they are addressed, when mineral demand is satiated Chile is likely to face a social, economic and political crisis. In proposing the tackling of impeding patterns and processes, rather a fixation on symptoms, we make the call for policy that counters the fundamental structural problems that have inhibited growth with equity for decades and threaten to do so in perpetuity if left unreformed.

References

- Bárcena, A. (2010), 'Structural constraints on development in Latin America and the Caribbean: a post-crisis reflection', CEPAL Review 100, available at: <http://www.eclac.org/cgi-bin/getProd.asp?xml=/revista/noticias/articuloCEPAL/4/40524/P40524.xml&xsl=/revista/tpl-i/p39f.xsl&base=/revista/tpl-i/top-bottom.xsl> (Accessed 24 October 2010).
- Bosworth, B.P., Dornbursch, R. and Labán, R. (eds.) (1994), *The Chilean Economy: Policy Lessons and Challenges* (Harrisonburg, Virginia: R.R. Donnelley and Sons Co.).
- Brid, J.C.M and Caldentey, E.P. (2009), *Trade and economic growth: A Latin American perspective on rhetoric and reality* (Mexico: United Nations).
- CASEN (2009) *Encuesta de Caracterización Socio-Económica Nacional* (Santiago: MIDEPLAN).
- Collins, J. and Lear, J. (1995), *Chile's Free-Market Miracle: A Second Look, A Food First Book* (Oakland, California: The Institute of Food and Development).

- de Ferranti, D., Perry, G.E., Ferreira, F.H.G and Walton, M. (2004), *Inequality in Latin America: Breaking with History?* (Washington DC: The International Bank for Reconstruction and Development/The World Bank).
- ECLAC (2008), 'Structural Change and Productivity Growth: 20 Years Later: Old problems, new opportunities', Thirty-second session of ECLAC, Santo Domingo (Santiago, Chile: United Nations).
- ECLAC (2010), 'Time for Equality: Closing gaps, opening trails', Thirty-third session of ECLAC, Brasilia (Santiago, Chile: United Nations).
- Frei, E. (1966), 'Segundo mensaje del Presidente de la República de Chile don Eduardo Frei Montalva al inaugurar el período de sesiones ordinarias del Congreso Nacional', 21 May (Chile:Departamento de Publicaciones de la Presidencia de la República).
- Kay, C. (1989), *Latin American Theories of Development and Underdevelopment* (Routledge: London and New York).
- Kirkendall, A.J. (2004), 'Paulo Freire, Eduardo Frei, Literacy Training and the Politics of Consciousness Raising in Chile, 1964 to 1970', *Journal of Latin American Studies*, 36:4, 687–717.
- Kousary L., Murray W. E. and Barton J. R. (2009), 'Land of Miracles? A critical analysis of poverty reduction strategies in Chile 1975-2005', submitted to *International Development Planning Review*. McGuire, J.W. (2001), 'Social Policy and Mortality Decline in East Asia and Latin America', *World Development*, 29:10, 1673–1697. Montenegro, C. E. and Pagés, C. (2004), 'Who Benefits from Labour Market Regulations? Chile 1960 – 1998', in Restrepo, J.E. and Tokman, A., *Labour Markets and Institutions* (Santiago, Chile: Central Bank of Chile).
- Murray, W.E and Pastor, R. (2008), 'Neostructuralism in Chile: outward orientation', in Murray, W.E (ed.) *Latin America Today* (Wellington: NZ Institute for International Affairs).
- Oppenheim, L.H. (2007), *Politics in Chile: Socialism, Authoritarianism and Market Democracy*, Third Edition, (Boulder, Colorado: Westview Press).
- Rawls, J. (1971), *A Theory of Justice* (Cambridge, MA: Belknap Press of Harvard University Press).
- Sen, A. (1992), *Inequality Reexamined* (Cambridge, Massachusetts: Harvard University Press).
- Taylor, M. (2006), *From Pinochet to the 'Third Way': Neliberalism and Social Transformation in Chile*, (Pluto Press: London).
- Titelman, D., Pérez-Caldentey, E. and Minzer, R. (2008), 'Comparación de la dinámica e impactos de los choques financieros y de términos de intercambio en América Latina en el período 1980-2006', Serie financiamiento del desarrollo 203 (Santiago: CEPAL).
- UNDP (2010) Human Development Report (UNDP: New York).
- Weyland, K., Madrid, R.L. and Hunter, W. (2010), *Leftist Governments in Latin America: Successes and Shortcomings* (Cambridge: Cambridge University Press).
- World Bank (1998) *World Development Indicators* (New York: Oxford University Press).
- World Bank (2010) *World Development Indicators* (New York: Oxford University Press).
- World Income Inequality Database (2008), World Institute for Development Economics Research, United Nations University,

___<http://62.237.131.23/wiid/wiid-documentation1.php> (Accessed 8 July 2008).