

KEYWORDS

Economic development
Income distribution
Employment
Productivity
Family incomes
Economic indicators
Social policy
Development strategies
Chile

Chile: towards inclusive development

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This paper suggests that Chile needs to adopt a renewed long-term development strategy tending towards inclusive development with increasing equity in order to supersede the undesirable effects of the current economic growth pattern, namely the persistence of unacceptable inequality in incomes, living standards and quality of life and a growing feeling of social exclusion. To address these issues, it first charts the development of inequality over the past two decades. It then goes on to analyse the characteristics of the production structure in the Chilean economy, as these are believed to be a determinant of inequality. Drawing on this analysis, it outlines a renewed strategy designed specifically to include the different production and social strata involved in the growth process. Lastly, it identifies the policy areas critical to inclusive development.

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I

Introduction

In the past 20 years, Chile has enjoyed solid economic growth that has resulted in a doubling of per capita income and a large reduction in absolute poverty. However, there is still an unacceptable level of inequality in incomes, living standards and quality of life, while the perception of social exclusion is increasing. This paper will attempt to show that these outcomes will probably persist in the future unless we undertake an examination of today's style of economic growth and adopt a renewed long-term development strategy conducive to inclusive development with increasing equity.

In what follows, selected indicators will be used to show the evolution of inequality since the early 1990s. This will be followed by an in-depth analysis of the characteristics of the production structure in the Chilean economy, which we consider to be a much overlooked determinant of inequality. Setting out from this analysis, we outline a renewed strategy designed specifically to include the different production and social strata involved in the growth process. Lastly, we identify the policy areas that we consider critical to inclusive development.

II

Growth with inequality

Thanks to exceptional economic growth averaging 5.5% a year, per capita incomes in Chile rose by 96% between 1990 and 2007. This was combined with decisive and effective social policies, so that absolute poverty fell by almost two thirds over the period, from 38.6% to 13.7% (MIDEPLAN, 2007). Not only this but, among other advances, the country became a dynamic participant in globalization and achieved an extraordinary expansion of infrastructure and public services as well as education coverage, housing, health care and social security.

However, there is a considerable social deficit. The unemployment rate has remained high (8%), as has the level of informality (38% of the employed population). Occupational insecurity increased in 1990-2006 as the proportion of wage earners without labour contracts rose from 14.3% to 17.3% of the total, the proportion of those not contributing to the social security system held steady at about 33% and

short-term contracts became more prevalent and job turnover remained high.

Furthermore, the share of labour in output diminished, as annual growth in real wages, at 2.9% a year, was lower than the increase in gross domestic product (GDP) per person employed (3.3%). The result of all this is that the highly unequal distribution of personal income characterizing the Chilean economy has remained practically unchanged: the autonomous income of the wealthiest 20% of the population is 13 times as great as that of the poorest 20%. This ratio falls to 11.2 if monetary income is the yardstick and to 6.8 if the overall effect of social policy on the autonomous income of households is considered (MIDEPLAN, 2006a).

In these circumstances, we believe it is indispensable to introduce the concept of relative poverty, as this still affects almost a third of the population. Unlike the concept of absolute poverty, that of relative poverty establishes social norms and standards of consumption that alter as average family incomes rise. Those living in relative poverty are defined as the group of people or families whose incomes are less than 0.6 times the average, and who thus represent the relatively disadvantaged sector of society. According to figures from the National Socio-economic Survey

□ The authors are grateful for the comments of H. Assael, S. Molina and O. Muñoz on an earlier version of this article, and for those of an anonymous reviewer.

(CASEN) (2006), this sector encompasses 25.6% of the population, or about 4.3 million people.¹

In summary, the prevailing social market economy model, as modified by the “growth with equity” strategy adopted in 1990 (Muñoz, 2007; Sunkel, 2006a), has worked very well for most Chileans but has not succeeded in reducing equality, and poverty levels remain high. Compensatory action by the State has been able to reduce them substantially, but a large irreducible rump remains (Contreras, 1998; Bravo and Contreras, 1999; Sunkel, 2006b).

According to the economic thinking now prevalent, the way to supersede this failing in the workings of the current model would be to increase the economic growth rate and improve social policies. Although something could be done in this way, the present paper argues that a different development strategy needs to be designed. The basic problem is not so much the speed of growth as its composition, meaning the enormous productivity and quality differences that characterize the production structure in both goods- and services-producing sectors.

As will be shown in detail in the following section, the (minority) social groups linked to the country’s competitive and highly productive modern segment (such as industries oriented towards external trade) and the geographical areas associated with it are expanding far more dynamically than the average, but levels of job creation are low.

Medium- and low-productivity segments (which include the bulk of informal and insecure employment), the (majority) social groups involved with them and the geographical areas in which they are located are associated with slow-growing activities that have few points of contact with the most advanced sectors. They participate only tangentially in growth, so that however rapid this is it fails to produce the desired results for micro, small and medium-sized enterprises and for the medium- and low-income social sectors they support.

This is a divergent dynamic with contradictory sociocultural and political effects. Those who participate in globalization are fully able to satisfy the sociocultural and consumption expectations this generates; they are the winners. Those left behind are swept along by globalization on a virtual level in the form of a television and advertising bombardment that generates wild expectations of consumption paid for “in handy monthly instalments”. An acute contradiction is thus generated between expectations and reality, heightened by the burden of rising debt caused not just by the overstimulation of consumption but also by the privatization of social services, which has hit middle-income sectors particularly hard. This may be one of the causes of rising social disaffection and dissatisfaction with democracy and even anti-establishment behaviour such as repeated violent protests, crime and drug addiction, which do not seem to correlate with the country’s successful economic growth (Calderón, 2008; Sunkel, 2008).

In this context, State action has centred on implementing public policies to benefit the excluded, especially the poorest. This has eased the plight of these social groups, but has not resolved the problems of relative poverty and equity. In other words, there has been no narrowing of the huge gaps between excluded social groups and those with higher income levels.

As recent experience shows, the social effects of this divisive and divergent dynamic can at best be mitigated by higher growth and greater and more effective social spending. To deal decisively with the problem, therefore, it is necessary to contemplate a radical shift in the focus of public policies with the adoption of an inclusive development strategy that can gradually diminish the structural heterogeneity prevailing in the different strata, sectors and regions of the country’s economy and society since, as this paper tries to show, this diversity, together with the concentration of wealth and a dysfunctional labour market,² is among the main obstacles to growth with equity and thus to greater civic harmony and democracy.

¹ The yardstick used to measure relative poverty is based on the methodology established in EUROSTAT (1998) to define the concept of exclusion. The study takes the following determinants into account: low incomes, labour market status and situation indicators associated with exclusion.

² On these topics, see Solimano and Pollak (2006).

III

The ECLAC concept of structural heterogeneity

The analysis of the economic structure of Chile presented later in this paper draws on the concept of structural heterogeneity originally formulated by the Economic Commission for Latin America and the Caribbean (ECLAC) in the 1960s (ECLAC, 1964) and subsequently developed by a number of authors (Pinto, 1970; Sunkel, 1971; Pinto and Di Filippo, 1974 and 1982; Sunkel, 1978; Souza and Tokman, 1979; Infante, 1981; Tokman, 1982). A similar approach was developed in the same period for heterogeneity in the manufacturing sector of developed countries (Salter, 1966).

ECLAC (1964) contended that the structural heterogeneity of Latin America manifested itself at that time in the differing productivity levels of workers in the various production strata, a characteristic of the region's economy that also lay at the root of its unequal income distribution. Thus, the economic structure was formed of three strata that had different levels of access to technology and markets and, in the 1960s, possessed the following characteristics:

(i) A traditional stratum with very low productivity and income levels. This segment included 36.4% of all workers and generated just 5.1% of the region's GDP (see table 1).

(ii) A modern stratum consisting of export activities and large industrial and services firms which operated on a large scale and had a decisive share of the local market, and whose productivity per worker was similar to the developed-country average. It absorbed just 13.1% of the employed workforce but produced 53.3% of GDP.

(iii) An intermediate stratum made up of sectors where worker productivity was close to the average for the countries. This accounted for the bulk of employment (50.6%) and generated a substantial share of GDP (41.6%).

The heterogeneity of the production system was manifested in the fact that output per worker in the modern stratum was four times the average, 29 times that of the traditional stratum and about five times that of the intermediate stratum. These productivity differences fed through into worker earnings and were thus a determining factor in the poor distribution of income in Latin America.³

³ See Cimoli, Primi and Pugno (2006). On the relationship between productivity and structural heterogeneity, see Cimoli (2005) and Rupfer and Rocha (2005).

TABLE 1

Latin America: output, employment and productivity by production stratum, 1960s
(Absolute values and percentages)

Production stratum	GDP		Employment		GDP per person employed		
	Level ^a	Percentage	Level ^b	Percentage	Level ^c	Index	
						Traditional = 1	Latin America total = 1
Modern	61.1	53.3	10.3	13.0	5.9	29.5	3.9
Intermediate	47.7	41.6	39.9	50.6	1.2	6.0	0.8
Traditional	5.8	5.1	28.7	36.4	0.2	1.0	0.1
<i>Total</i>	<i>114.6</i>	<i>100.0</i>	<i>78.9</i>	<i>100.0</i>	<i>1.5</i>	<i>7.5</i>	<i>1.0</i>

Source: authors' calculations based on Z. Slavinsky, "Anexo estadístico", *La mano de obra y el desarrollo económico de América Latina en los últimos años* (E/CN.12/L.1), Santiago, Chile, Economic Commission for Latin America and the Caribbean (ECLAC), 1964.

^a Billions of 1960 dollars.

^b Millions of workers.

^c Thousands of 1960 dollars.

IV

The economic structure of Chile

We shall now present an analysis based on the empirical findings of a recent study on the relationships between output and employment by production stratum (Lagos M., 2008), prepared using data from the latest input-output matrix of the Central Bank (dating from 2003) and 2007 data from the Chilean Internal Revenue Service.

The heterogeneity of the Chilean economy is clearly revealed when we examine the different productivity levels of the various production strata, the type of intersectoral relationships, the value added generated and primary income distribution, together with the contribution of each production stratum to the dynamic of the economic structure. Lastly, we show how the inequality generated by the heterogeneity of the production system has been partly reversed by a targeted policy of social spending.

1. Productivity differences by sector and by establishment size

To illustrate the heterogeneous character of the Chilean economy, we use 2003 output and employment data broken down by sector and by the size of establishments.⁴

The sectors (branches of economic activity) have been organized into three representative groups with three markedly different levels of productivity: low, medium and high (see table 2). Also included are productivity data for establishments by size, i.e. small, medium and large, by sector.⁵ Lastly, productivity indices are given for firms in each sector by size, revealing the intrasectoral (within each sector) and intersectoral (between sectors) heterogeneity of the economy.

Comparing productivity levels by sector reveals that mining is 15 times as productive on average as agriculture, while construction and industry are twice and four times as productive, respectively. Turning to intrasectoral differences, we find, for example,

that large agricultural producers are seven times as productive as small ones, a ratio that rises to 12 in the case of construction and to as much as 40 in that of mining. In short, the data show that intrasectoral productivity differences are substantially greater than intersectoral ones.

Meanwhile, the employment figures show that the sectors where small businesses have the greatest labour retention capacity⁶ (including informal activities and microenterprises) are the least productive of all (see table 2a). This is the case in the agriculture, community services and commerce sectors, which contain between 47% and 59% of all those employed in small businesses and low-productivity activities.

TABLE 2

**Chile: output per worker by sector^a
and by establishment size, 2003**
(Small business index, agriculture = 100)

Sector	Establishment size			National total
	Small	Medium	Large	
<i>Low productivity</i>				
Agriculture	100.0	114.8	718.2	100.0
Community services	100.0	146.6	408.4	103.5
Commerce	100.0	102.5	914.8	139.7
<i>Medium productivity</i>				
Construction	100.0	246.7	1 270.5	217.7
Transport/commerce	100.0	435.0	1 761.1	356.8
Manufacturing	100.0	262.1	2 458.9	426.2
<i>High productivity</i>				
Financial services	–	–	–	636.0
Electricity, gas, water	–	–	–	1 503.3
Mining	100.0	427.6	3 976.3	1 509.7
<i>National total</i>	<i>100.0</i>	<i>189.2</i>	<i>1 383.8</i>	<i>238.5</i>

Source: International Labour Organization (ILO) and C. Lagos M., "Desarrollo inclusivo. Matriz de insumo-producto sectorial en una economía heterogénea: Chile 2003", *Proyecto Chile 21. Desarrollo incluyente*, Santiago, Chile, Fundación Chile 21, 2008.

^a Gross output value per worker.

⁴ To carry out this estimate, use was made of a 2003 input-output matrix covering nine sectors, by establishment size. See Lagos M. (2008).

⁵ This comes close to the original concept of traditional, intermediate and modern strata.

⁶ In small businesses, most employment is in informal activities. From here on, these businesses will be treated as part of the informal sector.

Conversely, the greater a sector's ability to absorb formal employment in medium-sized and large establishments, the higher its productivity (see table 2a). Thus, in the medium-productivity stratum, including the construction, transport and industry sectors, the share of formal workers in total employment,⁷ or formality rate, is between 53.2% and 59.5%; in the high-productivity segment, to which the electricity, finance and mining sectors belong, this rate is 89%. This tells us that the greater the average productivity of these sectors, the more formal employment they will absorb.

2. Intersectoral relationships under conditions of heterogeneity

Economic linkages by productivity level are identified on the basis of information from the input-output matrices published by the Central Bank of Chile (2003).⁸

TABLE 2A

Chile: distribution of workers by sector and by establishment size, 2003
(Percentages)

Sector	Establishment size			Total
	Small	Medium	Large	
<i>Low productivity</i>				
Agriculture	51.8	34.3	13.9	100.0
Community services	46.7	25.7	27.6	100.0
Commerce	59.1	21.2	19.7	100.0
<i>Medium productivity</i>				
Construction	46.8	36.4	16.8	100.0
Transport/commerce	45.4	30.7	24.1	100.0
Manufacturing	40.5	34.0	25.5	100.0
<i>High productivity</i>				
Financial services	–	69.5	30.5	100.0
Electricity, gas, water	–	–	100.0	100.0
Mining	10.6	19.6	69.8	100.0
<i>Total</i>	<i>45.1</i>	<i>31.0</i>	<i>23.9</i>	<i>100.0</i>

Source: International Labour Organization (ILO) and C. Lagos M., "Desarrollo inclusivo. Matriz de insumo-producto sectorial en una economía heterogénea: Chile 2003", *Proyecto Chile 21. Desarrollo incluyente*, Santiago, Chile, Fundación Chile 21, 2008.

⁷ Employees in medium-sized and large firms as a percentage of each sector's total.

⁸ See its 2003 *Compilación de referencia*, hereinafter "CdR" (Central Bank of Chile, 2003).

The findings were arrived at using a sectoral matrix of the Chilean economy which covers nine sectors disaggregated by three levels of productivity (low, medium and high), the distribution of value added and final demand for these activities or sectors. Regarding final demand, domestic consumption includes consumption of locally produced goods and services by households and government. Household consumption, meanwhile, is broken down by per capita income into high, medium and low strata.⁹

(a) *The matrix of intersectoral relationships by establishment size*

The methodology indicated was used to obtain a summary matrix for 2003 that includes the economic relationships between the three strata defined by establishment size, i.e., by productivity level.

While the analysis of productivity differences by economic sector reveals the heterogeneity within and between sectors, only productivity differences by establishment size will be examined in what follows.

The data show that in 2003 the Chilean economy generated output of 97.4 trillion pesos (see table 3). In terms of destination, 38 trillion pesos of this output was accounted for by intermediate production, 25.7 trillion by household consumption, 6.1 trillion by government consumption, 8.2 trillion by gross investment and 17.5 trillion by exports.

Regarding the origin of output (97.4 trillion pesos), we find that value added accounted for 48.8 trillion (including 2.1 trillion in taxes, 21.1 trillion in wages and 25.6 trillion in return on capital) and intermediate consumption for 48.7 trillion (38.2 trillion in local inputs and 10.5 trillion in imported inputs). As the data indicate (see table 3), the bulk of total output (97.4 trillion) was generated by the large enterprise sector or stratum (77.9 trillion). The situation is similar for intermediate output. Meanwhile, the bulk of household consumption was by high-income strata,

⁹ The low stratum (income below 60% of the median) includes 26.4% of the population, the middle stratum (income between 60% of the median and the average) 48.3% and the high stratum (above-average income) 25.3%. Aggregate household consumption is given by the 2003 CdR. However, to disaggregate it into deciles (a necessity of the grouping used), and in the absence of more up-to-date information, use was made of National Institute of Statistics (INE, 1998) data on family budgets. Since this survey is known to have an underestimation bias for household incomes, consumption by decile was adjusted by the distribution of autonomous income for that decile as given by the National Socio-economic Survey (CASEN, 2003).

with the small and medium-sized enterprise strata producing a significant portion of this.

Although output and consumption were concentrated in the high-productivity and high-income sectors, respectively, most jobs (4.3 million out of total employment of 5.6 million) were in the low and medium-productivity strata. The data thus show marked disparities in intersectoral productivity (see table 3).

(b) *Intermediate production: the lack of integration in the production system*

The structural matrix (see table 3a) shows the high degree of heterogeneity characterizing the Chilean economy. In the case of intermediate relationships, we find that the high-productivity sectors produce 83.3% of intermediate goods and services, while the figure is just 8.6% for low-productivity firms and 8.1% for medium-productivity ones.

Meanwhile, spending on inputs by low- and medium-productivity firms goes mainly to high-productivity firms, since 71% and 77%, respectively, of their locally sourced intermediate consumption is supplied by these (see table 3d).

In summary, almost all intermediate output is generated by large firms, with the share of small and medium-sized firms being very small. Furthermore, the demand for intermediate goods and services is mainly supplied by high-productivity firms, revealing the limited capacity of small and medium-sized firms to supply inputs competitively.

This explains the differing shares of intermediate consumption in gross output value, with a figure of about 40% for low- and medium-productivity sectors and 52% for high-productivity firms (see table 3b).

These data reveal the lack of integration in the economy, something that particularly affects low- and medium-productivity firms. The low density of the production fabric manifests itself in intersectoral relationships that are characterized by very incomplete intermediate production linkages.

(c) *Consumption: output and income concentration*

Two different aspects are considered here. First, we examine the shares of the different productivity strata in output of consumer goods and services and, second, we rate the importance of households with different income levels (low, medium and high) for total consumption and thus for production levels at the different sizes of firm.

The data show that a large proportion of household consumption (73.4%) is of goods supplied by large enterprises. This is because, irrespective of household income level (low, medium or high), most household spending goes on goods and services produced by high-productivity sectors (see table 3d). The share of small and medium-sized firms in total household consumption is just 18.1% and 8.5%, respectively.

At the same time, and in consequence of the concentration of high wages and part of the gross surplus in high-productivity sectors, spending by high-income households represents 58.4% of total consumption, while the figure is 30.4% for middle-income households and 11.2% for low-income households¹⁰ (see table 3c).

The data also show that government consumption is even more concentrated than household consumption, since 98.7% of the goods and services consumed by public-sector bodies, i.e., almost the entirety, is produced by the high-productivity firms segment (see table 3b).

(d) *Investment and exports: a dynamic of concentration*

Investment and export heterogeneity is also extremely pronounced: 86.4% of capital goods production takes place in large firms, with small and medium-sized firms accounting for shares of just 7% and 6.6%, respectively.

Again, high-productivity firms generate 85% of all exports, with a figure of 6.5% for small firms and 8.5% for medium-sized ones (see table 3b).

Setting out from this information, it is possible to understand why the trade liberalization achieved by the country has not translated into direct benefits for small and medium-sized firms: (i) the group of non-large (i.e., small and medium-sized) firms accounts for only a small share of the export total (15%); (ii) if exports from these sectors were to increase, the weakness of the production fabric would mean that only 26% of intermediate consumption by small and medium-sized firms would be supplied by other firms of the same size, with the remaining 74% coming from large firms, and (iii) when the output of high-productivity firms increases (to supply the external

¹⁰ The low stratum (incomes below 60% of the median) includes 26.4% of the population, the middle stratum (incomes between 60% of the median and the average) 48.3% and the high stratum (above-average incomes) 25.3%.

TABLE 3

Chile: intersectoral transaction matrix by establishment size, 2003
(Billions of current pesos and thousands of workers)

GOV component	Sector/size	Intermediate demand				Final demand						Total	GOV		
		S	M	L	Total	Households (low)	Households (medium)	Households (high)	Government	Gross Investment	Flow of stock			Exports	FISIM ^a
Intermediate consumption	Small (S)	428	336	3 124	3 888	519	1 377	2 739	59	542	25	1 133	0	6 394	10 282
	Medium (M)	572	391	3 935	4 898	193	534	1 469	22	510	117	1 490	0	4 335	9 233
	Large (L)	2 465	2 440	24 534	29 439	2 170	5 912	10 794	6 041	6 690	330	14 926	1 558	48 421	77 860
	National total	3 465	3 167	31 593	38 225	2 882	7 823	15 002	6 122	7 742	472	17 549	1 558	59 150	97 375
	Imports	693	786	9 039	10 518										
	Grand total	4 158	3 953	40 452	48 563										
Value added	Wages	4 361	3 222	13 518	21 101										
	Capital	1 657	1 854	22 122	25 633										
	Taxes	106	204	1 768	2 078										
	Value added	6 124	5 280	37 408	48 812										
Output	Gross output value (GOV)	10 282	9 233	77 860	97 375										
Workers (thousands)		2 683	1 623	1 332	5 638										
GOV/worker (millions of pesos)		3.8	5.7	58.5	17.3										

Source: C. Lagos M., "Desarrollo inclusivo. Matriz de insumo-producto sectorial en una economía heterogénea: Chile 2003", *Proyecto Chile 21. Desarrollo incluyente*, Santiago, Chile, Fundación Chile 21, 2008.

^a Financial intermediation services indirectly measured (imputed banking charges).

TABLE 3A

Chile: intersectoral relationship matrix by establishment size, 2003
(Horizontal percentages)

GOV component	Intermediate demand				Final demand					Total	GOV			
	S	M	L	Total	Households (low)	Households (medium)	Households (high)	Government	Investment			Flow of stock	Exports	FISIM ^a
Small (S)	4.2	3.3	30.4	37.8	5.0	13.4	26.6	0.6	5.3	0.2	11.0	0.0	62.2	100.0
Medium (M)	6.2	4.2	42.6	53.0	2.1	5.8	15.9	0.2	5.5	1.3	16.1	0.0	47.0	100.0
Large (L)	3.2	3.1	31.5	37.8	2.8	7.6	13.9	7.8	8.6	0.4	19.2	2.0	62.2	100.0
National total	3.6	3.3	32.4	39.3	3.0	8.0	15.4	6.3	8.0	0.5	18.0	1.6	60.7	100.0
Imports	6.6	7.5	85.9	100.0										
Grand total	8.6	8.1	83.3	100.0										
Wages	20.7	15.3	64.1	100.0										
Capital	6.5	7.2	86.3	100.0										
Taxes	5.1	9.8	85.1	100.0										
Value added	12.5	10.8	76.6	100.0										
Gross output value (GOV)	10.5	9.5	80.0	100.0										

Source: C. Lagos M., "Desarrollo inclusivo. Matriz de insumo-producto sectorial en una economía heterogénea: Chile 2003", *Proyecto Chile 21. Desarrollo incluyente*, Santiago, Chile, Fundación Chile 21, 2008.

^a Financial intermediation services indirectly measured (imputed banking charges).

TABLE 3B

Chile: intersectoral relationship matrix by establishment size, 2003
(Vertical percentages)

GOV component	Intermediate demand				Final demand					Total	GOV			
	S	M	L	Total	Households (low)	Households (medium)	Households (high)	Government	Investment			Flow of stock	Exports	FISIM ^a
Small (S)	4.2	3.6	4.0	4.0	18.0	17.6	18.3	1.0	7.0	5.3	6.5	0.0	10.8	10.5
Medium (M)	5.6	4.2	5.1	5.0	6.7	6.8	9.8	0.4	6.6	24.8	8.5	0.0	7.3	9.5
Large (L)	24.0	26.4	31.5	30.2	75.3	75.6	72.0	98.7	86.4	69.9	85.0	100.0	81.9	80.0
National total	33.7	34.3	40.6	39.3	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Imports	6.7	8.5	11.6	10.8										
Grand total	40.4	42.8	52.0	49.9										
Wages	42.4	34.9	17.4	21.7										
Capital	16.1	20.1	28.4	26.3										
Taxes	1.0	2.2	2.3	2.1										
Value added	59.6	57.2	48.0	50.1										
Gross output value (GOV)	100.0	100.0	100.0	100.0										

Source: C. Lagos M., "Desarrollo inclusivo. Matriz de insumo-producto sectorial en una economía heterogénea: Chile 2003", *Proyecto Chile 21. Desarrollo incluyente*, Santiago, Chile, Fundación Chile 21, 2008.

^a Financial intermediation services indirectly measured (imputed banking charges).

TABLE 3C

Chile: intersectoral relationship and consumption matrix by establishment size, 2003
(Horizontal percentage composition of intermediate demand and household consumption)

GOV ^a component	Sector/ size	Intermediate demand				Household consumption			
		S	M	L	Total	Low	Medium	High	Total
Intermediate consumption	Small (S)	11.1	8.6	80.3	100.0	11.2	29.7	59.1	100.0
	Medium (M)	11.6	8.0	80.4	100.0	8.8	24.3	66.9	100.0
	Large (L)	8.2	8.0	83.8	100.0	11.5	31.3	57.2	100.0
	<i>Total</i>	<i>9.1</i>	<i>8.3</i>	<i>82.6</i>	<i>100.0</i>	<i>11.2</i>	<i>30.4</i>	<i>58.4</i>	<i>100.0</i>

Source: C. Lagos M., "Desarrollo inclusivo. Matriz de insumo-producto sectorial en una economía heterogénea: Chile 2003", *Proyecto Chile 21. Desarrollo incluyente*, Santiago, Chile, Fundación Chile 21, 2008.

^a GOV = Gross output value.

TABLE 3D

Chile: intersectoral relationship and consumption matrix by establishment size, 2003
(Vertical percentage composition of intermediate demand and household consumption)

GOV ^a component	Sector/ size	Intermediate demand				Household consumption			
		S	M	L	Total	Low	Medium	High	Total
Intermediate consumption	Small (S)	12.4	10.6	9.9	10.2	18.0	17.6	18.3	18.1
	Medium (M)	16.5	12.3	12.0	12.9	6.7	6.8	9.7	8.5
	Large (L)	71.1	77.1	78.1	76.9	75.3	75.6	72.0	73.4
	<i>Total</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: C. Lagos M., "Desarrollo inclusivo. Matriz de insumo-producto sectorial en una economía heterogénea: Chile 2003", *Proyecto Chile 21. Desarrollo incluyente*, Santiago, Chile, Fundación Chile 21, 2008.

^a GOV = Gross output value.

market, for instance), the inputs they require come preponderantly (78.1%) from other large firms.

Under these circumstances, if the aim is to turn small and medium-sized firms into suppliers of large firms oriented towards the external market, it will be necessary to invest heavily in substantial improvements to the integration of the production system. Given the heterogeneity of the production structure, a strategy of export-led growth, even when very successful as in this case, has proved clearly inadequate to bring about balanced, equitable development.

3. Value added and primary income distribution

The heterogeneity that can be seen to characterize intermediate relationships and final demand is also manifested in the sphere of work, i.e., in jobs and wages.

A large proportion of the aftertax value added in low-productivity sectors is accounted for by the remuneration of labour, which represents 72.5% of value added in small firms and 63.5% in medium-sized ones (see table 3b). However, remunerations in these two types of firms represent just 20.7% and 15.3%, respectively, of total wages in the economy. Furthermore, low-productivity activities (small and medium-sized firms) absorb 47.6% and 28.8%, respectively, of total employment in the economy.¹¹

In high-productivity firms, conversely, remuneration of labour constitutes 37.9% of aftertax value added

¹¹ This is because of differences in average wages in the various sectors reflecting, first, the marked productivity differences between small and medium-sized firms and large ones (see table 3) and, second, the fact that workers in the latter are more highly organized.

and represents 64.1% of all wages in the economy, while their share of total employment is only 23.6% (see table 3).

Wage differences are largely explained by the unequal productivity of labour in the different strata of the economy. In aggregate terms, while labour output in low-productivity sectors is 3.8 million pesos, in high-productivity ones it is 58 million. In other words, output per worker is almost 15 times as great in high-productivity sectors as in low-productivity ones. This productivity difference means that gross remuneration per worker in small and medium-sized firms is between a fifth and a sixth of that earned by workers in high-productivity firms, and largely explains the inequity of distribution in the Chilean economy and its persistence over time.

The share of the gross surplus in value added, meanwhile, is 63.1%. The bulk of returns on capital go to high-productivity firms, which account for about 86.3% of the gross surplus in the economy. The high proportion of wages and of the gross surplus accounted for by large businesses means that they generate the bulk (76.6%) of value added in the economy.

In short, wages and the gross surplus are highly concentrated in large firms, while people employed in small and medium-sized firms, who are the great majority (76.4%), receive a very small portion of value added (23.3%).

4. The dynamic of the economic structure: the dominance of large firms

One of the advantages of input-output matrices is that they can be used to simulate the reaction of the economy to different scenarios. The economic coefficients of one of these matrices allow us to identify the contribution made by each of the factors of production (inputs, capital and labour) to the production of a final good supplied in the economy.

If output increases, the demand for factors of production will increase proportionately.¹² This process is iterative for each economic sector, since it is at once a source of supply and demand for goods, services or both. Thus, inverse input-output matrix mechanisms can be used to simulate the static effects of different changes in aggregate demand in the economy and ascertain how total production varies in a heterogeneous economy like that of Chile.

¹² On the assumption that technology is fixed (which is reasonable in the short term).

We shall now measure the effect a 10% rise in final demand, for example, would have on output in the different production strata of the economy. It is interesting to determine how much the economy would grow if: (i) aggregate demand from small and medium-sized firms increased at the rate indicated and (ii) aggregate demand from high-productivity firms increased by the same amount.

The estimates show that if final demand from all small firms increased by 10%, the output of the economy would rise by only 1%. This is because low-productivity sectors have such a small impact on intermediate relationships and final demand.

Again, if demand from high-productivity firms rose by 10%, this would induce higher production in the other sectors (via demand for inputs), but primarily in those with the same level of productivity,¹³ whose output would grow by 9.4%.

Lastly, the estimates highlight how little impact medium-productivity sectors have on the results. It must be remembered that the medium- and low-productivity sectors account between them for 17% of intermediate consumption and 23% of gross output value. If demand for goods and services in these sectors grew by 10% (as the result of an investment plan, export promotion or higher private spending, for example), total output in the economy would rise by only 1.7%.¹⁴

In summary, the Chilean economy, and thus Chilean society, are divided into differentiated and largely unconnected worlds. The first, the world of high-productivity firms, is the one that drives the economy and pays good wages, while the others, the worlds of medium- and low-productivity firms, do not greatly influence growth, even though they absorb the bulk of the workforce. Consequently, as postulated, heterogeneity is reproduced even under conditions of rapid economic growth.

5. Redistributive and distributive policies: the limitations of social spending

The poor distribution of income generated in the labour market because of the heterogeneity characterizing the workings of the economy has been systematically corrected by the policy of social spending.

¹³ High-productivity firms generate 64% of all intermediate transactions.

¹⁴ Under the same conditions, the output of low-productivity (small) firms taken by themselves would increase by 1%.

Social policy is one of the redistributive mechanisms that have been applied to improve people's living standards, particularly in more disadvantaged social groups, by supplementing income from households' employment with subsidies for such things as health care, education and housing, and with cash transfers. This kind of policy entails a number of risks, however. The first is that the ability to expand redistributive policies of this kind depends on the fiscal situation, particularly the tax burden. Secondly, the high proportion of income now provided by social spending in the poorest households means that earnings count for little there and so families' and individuals' living standards are increasingly dependent on public resources rather than work (Infante, 2007a).

The data show that in households in the first quintile, only 28.8% of total income is from work (see table 4). This figure rises to 52.3% for households in the second quintile. When both quintiles are considered (40% of the population), it transpires that only part (40.5%) of these households' total income derives from work, while the bulk (59.5%) is from social spending.

Under these conditions, many people are enabled to participate in society basically because they are provided with a level of income that makes an acceptable minimum standard of consumption possible, but are not linked to society through work, which is the main factor in social integration and citizenship.

Low per capita household incomes are due, in turn, to the poor labour-market positioning of people

TABLE 4

Chile: origin of total household income by quintile, 2006
(Percentages)

Income and subsidies	Autonomous income quintile					Total
	I	II	III	IV	V	
Household earnings	28.8	52.3	66.0	77.2	86.4	78.5
<i>Average autonomous income (a)</i>	<i>35.0</i>	<i>61.6</i>	<i>78.2</i>	<i>90.2</i>	<i>99.2</i>	<i>91.2</i>
Welfare pensions (PASIS)	7.3	2.5	1.2	0.5	0.1	0.7
Household subsidy (SUF)	1.8	0.5	0.2	0.1	0.0	0.2
Chile Solidario voucher (CHS)	0.5	0.2	0.1	0.0	0.0	0.0
<i>Drinking water subsidy (SAP)</i>	<i>0.6</i>	<i>0.4</i>	<i>0.3</i>	<i>0.1</i>	<i>0.0</i>	<i>0.1</i>
<i>Targeted subsidies</i>	<i>10.2</i>	<i>3.6</i>	<i>1.8</i>	<i>0.7</i>	<i>0.1</i>	<i>1.0</i>
Family allowance	1.5	1.5	0.9	0.4	0.1	0.3
Unemployment subsidy	0.1	0.1	0.1	0.0	0.0	0.0
<i>Non-targeted subsidies</i>	<i>1.6</i>	<i>1.6</i>	<i>1.0</i>	<i>0.4</i>	<i>0.1</i>	<i>0.3</i>
<i>Total subsidies (b)</i>	<i>11.8</i>	<i>5.2</i>	<i>2.8</i>	<i>1.1</i>	<i>0.2</i>	<i>1.3</i>
<i>Monetary income (a+b)</i>	<i>46.7</i>	<i>66.9</i>	<i>80.9</i>	<i>91.3</i>	<i>99.3</i>	<i>92.5</i>
Imputed rent	5.1	5.1	5.4	5.0	3.2	4.6
Nursery education	3.7	2.5	1.7	0.9	0.2	0.6
Basic education	20.0	12.2	7.6	4.3	0.9	3.1
Intermediate education	7.8	6.3	3.9	2.2	0.4	1.4
Adult education	0.4	0.4	0.2	0.1	0.0	0.1
<i>Total education (c)</i>	<i>31.9</i>	<i>21.4</i>	<i>13.4</i>	<i>7.5</i>	<i>1.5</i>	<i>5.2</i>
Health-care subsidy	20.6	11.3	5.3	1.0	-0.9	2.1
Supplementary food programme	0.6	0.4	0.2	0.1	0.0	0.1
Older adult food programme	0.2	0.1	0.1	0.1	0.0	0.0
<i>Total health care (d)</i>	<i>21.4</i>	<i>11.8</i>	<i>5.6</i>	<i>1.2</i>	<i>-0.9</i>	<i>2.2</i>
<i>Total income (a+b+c+d)</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>

Source: Ministry of Planning (MIDEPLAN), "Distribución del ingreso e impacto distributivo del gasto social", *Análisis de resultados de la Encuesta CASEN* series, No. 2, Santiago, Chile, 2006; and "Metodología de valorización de los subsidios en salud, educación y monetarios", *Casen 2006*, Santiago, Chile, 2006.

with the capacity to work. The data show that 48.3% of workers in quintile I households are employed in low-productivity activities and 14.5% in sectors with a medium-low level of productivity (see table 5). In other words, 62.8% are in lower-productivity strata, while in quintile II households the figure is 56.7%. In sum, about 60% of workers from the country's most disadvantaged households are not in decently paid, productive jobs. Unless this situation changes, a large and growing volume of resources will have to be devoted on a permanent basis (via social spending) to income transfers so that less well-off sectors can

attain an acceptable standard of living. However, policies of this type could depend on the availability of fiscal resources, with the tax burden being one limiting factor.

Consequently, it seems vital for redistributive policies to be progressively supplemented with distributive ones to narrow productivity divides and thus improve the autonomous incomes of the most disadvantaged sectors. Distributive policies could thus bring about a real reduction in inequality both of incomes and of access to opportunities between the different groups in the social structure, as indicated below.

TABLE 5

Chile: workers by establishment size and income quintile, 2006
(Percentages)

Productivity/establishment size	Autonomous income quintile					Total
	I	II	III	IV	V	
<i>High productivity</i>	17.2	21.3	26.9	27.7	35.8	27.2
Manual and clerical workers (firms of 200 people and over)	16.6	20.7	25.7	26.1	29.2	24.7
Employers (firms of 200 people and over)	0.0	0.0	0.0	0.0	0.3	0.1
Own-account workers (professional and technical)	0.6	0.6	1.2	1.6	6.3	2.4
<i>Medium productivity</i>	34.6	37.1	33.6	32.3	29.4	33.0
Medium-low	20.1	21.9	19.1	18.0	16.3	18.8
Medium-high	14.5	15.2	14.5	14.3	13.1	14.2
<i>Low productivity</i>	48.2	41.5	39.5	39.9	34.9	39.8
Manual and clerical workers (firms of 6 to 9 people)	7.8	6.1	6.3	4.4	3.2	5.2
Employers (firms of 6 to 9 people)	0.1	0.1	0.2	0.3	1.8	0.6
Informal	40.3	35.3	33.0	35.2	29.9	34.0
Employers (firms of 5 people or less)	0.3	0.5	1.0	1.8	5.0	2.0
Manual and clerical workers (firms of 5 people or less)	15.3	13.0	10.5	7.2	4.7	9.3
Own-account (not prof. or technical) and unpaid family workers	24.7	21.8	21.6	26.2	20.1	22.7
<i>Total</i>	100.0	100.0	100.0	100.0	100.0	100.0

Source: authors' calculations based on data from the Ministry of Planning (MIDEPLAN) and the 2006 National Socio-Economic Survey (CASEN).

V

Socially inclusive development

As already noted, the current economic model relies on the *a posteriori* redistribution of a (small) share of the revenues generated by growth. If progress is to be accompanied by increasing equity, it is necessary to devise a renewed development strategy whose central goal is productive employment and satisfactory social participation in the production process and in the

actual structure and workings of the socio-economic system, thereby ensuring better primary distribution of income at source (Sunkel and Infante, 2006).

This means viewing the dynamic of development in terms not only of modern export sectors but also, and categorically, of less productive sectors. Today's strategy is working quite well for the former, although

it needs reinvigorating with products that incorporate increasing value added and technological density. Underlying this strategy, however, is the erroneous belief that the country has a fairly homogeneous production system, and this has blinded us to the exceptional priority and importance that ought to be attached to the second group of sectors. What is required, then, is a renewed strategy built essentially upon efforts, first, to enhance the current export process by dynamizing it through diversification and, second, to reduce heterogeneity by narrowing productivity differences by establishment size, sector and region.

Consideration should therefore be given to implementing an ambitious programme of long-term (15 to 20 years) structural transformation that would enable less advanced sectors to gradually raise the

productivity and earnings of those working there and to improve the quality of life of relatively disadvantaged families (Infante, Molina and Sunkel, 2007).

In summary, the development strategy proposed would include new forms of reciprocal action between the State and market, on the basis of a long-term strategic vision, and between the State and citizens, civil society, solidarity and grass-roots organizations and regions and localities; a greater emphasis on effectiveness, flexibility and decentralization; and an overriding concern with technological, institutional and organizational issues (Sunkel, 2006c). What is proposed, in short, is that social participation should be expressed in the first place through productive activities that provide a basis for and are eventually transformed into greater social and political participation by relatively disadvantaged groups in society.

VI

The strategic areas of inclusive development

As indicated, the divisive and divergent dynamic characterizing today's development will not be solved by higher growth rates or greater and better applied social spending. What is required is a change of approach: public policies that gradually diminish the structural heterogeneity of the different sectors and regions of the country's economy and society, since this is the main obstacle to growth with equity (Sunkel and Infante, 2006). These policies would have to gradually level out the asymmetries in productivity between advanced activities and unproductive ones such as informal micro and small enterprises, thereby reducing wage differentials as well. This would have a real impact on inequality, both in access to opportunities for the different groups in society and in income distribution.

At the same time, the recent financial crisis, having originated in the United States and quickly spread to all other industrialized and emerging economies, is bound to have a negative effect on Chile in the short term. The effects have already shown up in substantial downward revisions to growth forecasts and in rising unemployment.

Given the marked heterogeneity of the production structure, the fall-off in activity can be expected to have the greatest effects on the lower-productivity strata (small and medium-sized firms), which account

for the bulk of employment. As a result, the labour market is highly likely to deteriorate as informal working and unemployment rise and real wages fall. If this happens, the costs of the current crisis will fall mainly on the low- and medium-income sectors of the population, reinforcing the tendency towards income concentration already discussed.

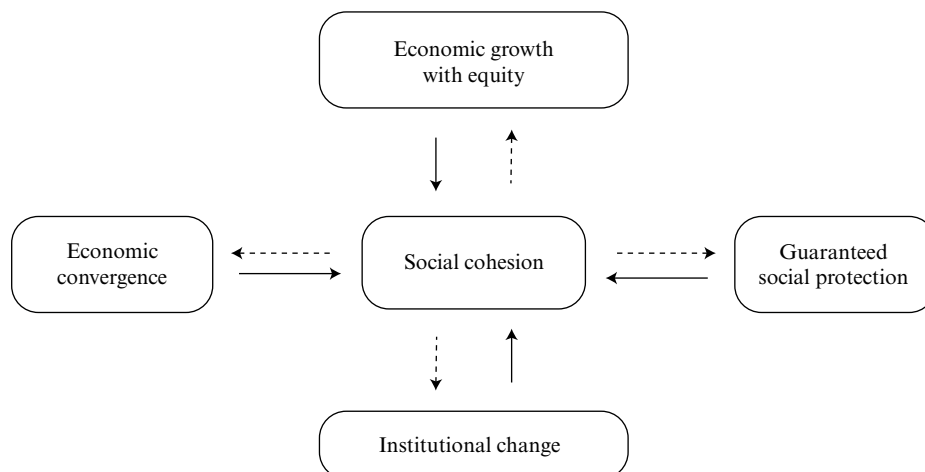
A preliminary (and highly provisional) version of the proposed inclusive development strategy takes account of at least four closely interrelated elements: economic convergence, guaranteed social protection, the institutional changes required and sustained economic growth with equity. If these pillars functioned properly, they would strengthen social cohesion by ensuring the well-being of a growing proportion of the population and minimizing disparities by preventing polarization (see diagram 1).

1. Convergence

The success of a strategy to integrate people better into society depends crucially on measures to deal with the marked heterogeneity of the economic system.¹⁵

¹⁵ This is one of the main lines of ECLAC work, and the most recent results can be consulted in ECLAC (2008).

DIAGRAM 1

Inclusive development

Source: prepared by the authors.

In the effort to achieve economic convergence or the gradual homogenization of productivity in the different production strata, smaller firms (micro, small and medium-sized) have an important role to play in dynamizing growth, creating jobs and reducing informality.

It is well worth studying the extraordinary experience of the European Union, where the goal of industrial convergence was achieved by putting in place conditions and factors that improved growth and very substantially narrowed the gaps between member States and less developed regions within them. The priority was to raise productivity and there was special emphasis on improving the environment for small and medium-sized enterprises.¹⁶ We shall now discuss some issues of critical importance if productive convergence is to be attained in Chile.

First, gradual homogenization of the economic structure will be viable only if the “business model” followed by large firms in their dealings with smaller ones includes powerful incentives for business development in medium-sized and small enterprises.

The idea is to create a more competitive environment in which small businesses can expand. This would be done by applying a set of pro-competition rules designed

to encourage the proliferation of such firms in the long run. Another aim is to carry out programmes of investment in new social sectors, i.e., to develop a “social economy” that generates employment specifically for workers in informal sectors and is oriented primarily towards meeting the social needs of lower-income strata, an issue that has already been mentioned as one of the criteria of action for a forward-looking approach to the crisis. A strong and sustained effort will be needed here, as will State coordination, and all this will have to be reflected in the commitment of a large volume of resources over a long period. Decisions about the amount and destination of these resources would have to be arrived at through social dialogue (Infante, 2006).

Another proposal is for the creation of regional production clusters with a local structure underpinned by solid institutions capable of enhancing innovation capacities, reducing risk aversion, disseminating market information, technology and know-how, fostering workforce training and providing a pool of shared experience. It is local institutions that make it possible to develop synergies and sustain cluster economies. Local actors would thus be taking responsibility for their own development (Guardia, 2007; Muñoz, 2008).

The State has a central role to play in redistributing public resources, but on the basis of a strategy in which the regions take the main responsibility for their own development. There is a vital aspect here that needs spelling out: regions, or rather territories, acquire

¹⁶ See European Union (1997) and Commission of the European Communities (1993). See Infante (2008) on industrial homogenization policies in the European Union.

economic and social significance to the extent that they are recognized as constituting both geographical and social entities.

2. Institutional change

Institutional changes in the economy, the labour market and social dialogue are required when formulating a new conception of national development with a comprehensive medium- and long-term approach involving the State, citizens' organizations, workers and businesses.

Where economic institutions are concerned, the current business model needs to be amended to overcome one of the basic obstacles to the effective application of an economic convergence policy. The effect of this model has ultimately been to weaken larger and larger segments of the medium-sized and small business segments,¹⁷ creating bottlenecks which the State has then had to step in and resolve.

Public policies need to change and give priority to raising productivity, with a special effort to improve the environment for small and medium-sized businesses, as these create the bulk of productive employment.

One requirement of institutional change is that the new business model applied by large firms in their dealings with small ones should include, among other things, powerful incentives for micro, small and medium-sized enterprises to develop and integrate into production clusters. This means creating a more competitive environment in which smaller firms can grow their businesses by developing a set of pro-competition rules designed to favour the proliferation of smaller business units over the long term (Román, 2008).

Another important challenge for an inclusive, socially just development strategy is to construct solid institutions in the labour market. The new regulatory framework for collective negotiations should have a flexible structure that encompasses both the new paradigm of the globalized firm (outsourcing) and contractual asymmetry between large and small firms, particularly where production chains are concerned (Feres and Infante, 2007).

The new ground rules should lead to a more equitable distribution of the costs and benefits

associated with the commercialization of final products. In particular, paying low wages and flouting employment rights should no longer be seen as legitimate factors of competitiveness.¹⁸

To be effective at the different levels of civic participation, the new social dialogue will require institutional renewal. To this end, a participatory structure should be created through a network of grass-roots social institutions. This is perhaps the most important task facing the State and society if they are to lay the groundwork for inclusive development with higher-quality jobs and equity (Sunkel and Infante, 2006).

An initiative of this kind should involve broadly based participation by the private sector and civil society organizations in each region and locality, which is where productivity differences and the specific characteristics that need remedying are manifested in practice. A task of this magnitude would require a new social contract in which decisions about the quantity and allocation of resources were taken at the appropriate levels by means of social dialogue between workers, businesses, government and civil society representatives to provide the best possible response to the expectations and actual needs of citizens.

3. Guaranteed social protection

This is about constructing a society capable of providing everyone with equitable access to opportunities for progress and social protection.

Broadly speaking, the idea is that there should be combined action by the State, the market and society to improve opportunities of access to the social capital needed for material and moral progress and the best possible social protection that can be achieved given a country's income and development levels. The guarantee concept encompasses all the opportunities and basic protections a society is in a position to provide to everyone through public policies (Lagos E., 2008).

The State has prime responsibility for developing consensual policies that use public and private instruments to guarantee the protection of citizens' rights and make available the resources necessary for this, to the extent that the state of the economy allows. The idea is that the scope of guaranteed and enforceable rights should expand along with the resources yielded by economic growth. Thus,

¹⁷ By business model is meant the whole system of regulations and business practices, whether based on common sense or on legal provisions, that allow particular market structures and their operating methods to exist.

¹⁸ On these subjects, see Infante (2007b).

guaranteed social protection coverage is constrained by the degree of development that is sustainable. A guaranteed social policy should include health care, education quality and economic and social rights, among other aspects.

Although substantial and consistently applied high-quality redistributive policies in the fields of education and health care, for example, could lead to changes in the factors underlying inequality and thereby help to bring about a more equitable society, social spending cannot be relied upon exclusively to counteract the tendency towards income concentration that arises when those with more resources of every kind compete with those who have been denied access to even a minimum of opportunities. In the quest for more equitable income distribution, redistributive policies and measures need to be combined with others of a distributive type like the economic convergence policies and institutional changes proposed, as these act upon incomes at source and thus have permanent effects (Assael, 1998).

Another consideration is the kind of citizen that guaranteed social protection might tend to produce. The idea is for society to create citizens through work, which is the main factor in social integration, and not through welfarism financed by social spending, as happens now.

4. Economic growth with equity

Rapid and sustained growth in output of consumer goods and services is a direct and essential condition for better living standards in the population. Having hitherto been non-inclusive and benefited mainly a minority of the population, this growth must meet a number of special requirements if development is to be inclusive.

The growth rate needs to be fairly high, of course—well above the rate of population increase, so that society clearly perceives it and feels encouraged to work for and cooperate in pursuit of social cohesion. Historical experience around the world suggests it is reasonable to expect growth rates to range between 5% and 6% a year (Ffrench-Davis, 2003). Higher rates could hardly be sustained for long periods without generating inflationary pressures and other disequilibria, while lower rates would be almost imperceptible to the population and insufficient to meet its aspirations and expectations. Growth within the range indicated is also needed to achieve reasonably high levels of employment.

One essential condition for growth is the expansion of production capacity, i.e., investment. History shows, once again, that investment has to be in excess of 25% of GDP for the rates of consumption growth indicated above to be attained. Furthermore, strong investment is also needed to sustain a high level of employment, which is the main source of income for most of the population, and to incorporate technological progress, which is an essential prerequisite for improved productivity and competitiveness. Again, achieving convergence in the production system will mean investing heavily in modernization and productivity improvements in the less advanced segments of the country's production structure.

In countries like Chile where science and technology are not well developed, technological progress comes essentially from the outside, incorporated into imported capital goods and services. Consequently, another essential requirement for inclusive growth is to foster a strong export dynamic that generates financing not only for these imports but also for those of consumer goods and services which the country does not produce, or does so only very inefficiently, and of high-technology products which the local economy is unable to produce and for which demand is very dynamic. In other words, the export sector has to be the equivalent of the sectors producing capital goods and technological progress in the developed countries, whence the critical strategic importance of developing more dynamic, diversified and stable exports.

The export pattern of Chile and the Latin American countries in general is notoriously dominated, however, by raw materials or commodities deriving from mining, agriculture, forestry and fisheries. These have traditionally been undynamic and very unstable in international markets and the trend of their terms of trade has been a deteriorating one, although this has been reversed in recent years because of the arrival of new actors on the international stage.

The critical importance of developments in the export sector has meant that its average growth rate has decisively influenced the medium-term growth rate of the economy, so that the frequent sharp fluctuations which are a feature of global commodity markets have translated into a succession of booms and busts. The latter have become severer in recent decades because of the unbridled expansion of the international financial system, which has been a very major contributor to instability in the international economy and lies behind today's deep crisis. This global instability has led in

turn to sharp oscillations in wage and employment levels, with all the negative effects these have had on living conditions for most of the population, and especially lower-income strata —another key factor in poverty and inequality in Chile.

Lastly, the new macroeconomic policy should not only give priority to reasonably high and sustained growth, but should also guide incentives and basic prices towards the goal of convergence in the production system. The policy applied should concentrate not just on basic equilibria and growth as such, but also on addressing the vulnerability of growth to changes in the international economy. This would make it possible to avoid the underutilization of production capacity and the negative productivity effects of fluctuations in economic activity, with all their various consequences for the different production strata and the employment and income levels of those who work in them.

5. Social cohesion

The problems of inequality, community integration, family life, environmental protection, security and quality of life are receiving greater and greater attention (Machinea and Uthoff, 2004). When it comes to addressing these new demands, the shortcomings of the current model are obvious. Here we should cite the example of the European Union, where social cohesion is essentially rooted in a State that guarantees its citizens equal access to certain fundamental rights and does

not naively trust that the market will automatically yield the desired results.

Applying the inclusive development strategy proposed should strengthen social cohesion as the different aspects composing it (economic convergence, institutional change and growth with equity) interact with one another.

It is generally recognized that employment is one of the main routes towards social inclusion in any country. The quality of work in the different sectors of society will determine their level of inclusion and whether this inclusion is of a more or less beneficial type. This is why job creation policies aimed at lower-productivity sectors, particularly the unemployed and the poor, are the main instrument in social inclusion strategies, which are an essential underpinning of democracy.

In short, even at the risk of repeating ourselves, we must stress that a social integration strategy relying on high-quality job creation requires a strong and sustained commitment of resources to promote economic convergence over a prolonged period, and decisions about the level and allocation of these resources should be taken through a process of social dialogue. An approach of this kind calls for a social covenant encompassing agreements to increase fiscal revenues and use accumulated national savings so that the inclusive development strategy has the financial sustainability it needs to ensure social cohesion in the medium and long term.

(Original: Spanish)

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