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## OVERCOMING POVERTY - AN EVALUATION AND FUTURE RECOMMENDATIONS

ALVARO GARCIA  
MARIANA SCHKOLNIK



### I. INTRODUCTION

During the seventeen years of military government, the country not only experienced political transformations, but also economic and social ones. Those years brought about a deep-rooted change in production, from a protected economy, in which the State played a central role in promoting development, to an open economy geared towards external markets and in which the private sector played a leading role. This change in the country's productive structure was long and costly, and, in the process of inserting itself into the world economy, the country experienced periods of deep recession and acute crises. It was only in 1984 that the export route really took hold and that the country's productive capacity began to be restored. The latter, which had been focused on the domestic market, now owes most of its vitality to the external sector.

This long period of economic adjustment had a high social cost; the rate of unemployment was consistently higher than historic levels, and for 15 years there was practically no increase in real wages. Reverting the country's productive sector went through several phases, and, as a result, the country's employment pattern suffered considerable changes, the informal sector grew, and there was more impoverishment.

The government's fiscal policy was not counter-cyclical; on the contrary, starting in 1974 a process of reductions in fiscal spending and the social budget began. In 1984, during the foreign debt crisis which affected most countries in Latin America, the government intensified its social welfare network aimed at helping people in conditions of extreme poverty, and ensuring that their basic needs were partially met through cash allowances and emergency employment programs. This network was set up in the context of reductions in overall social spending by the government.

From 1983 onwards, tightening of social spending increased. As a result, there was a freeze on new investments, on replacing and maintaining infrastructure and equipment, and also

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on wages in the health and education sectors; this caused an obvious deterioration in the quality of these social services.

Reductions in the public budget also affected investments in public infrastructure, causing a noticeable decline in the number of projects investing in and replacing pavements, bridges, ports, etc. In the housing sector, the contractionary policy caused an exponential increase in the housing shortage.

Finally, even the purchasing power of the welfare cash allowances created by the government declined. The same was also true of pensions, retirement pensions, unemployment benefits, and, in general, of all social security benefits.

During this period, the government instituted a social reform program, whose ultimate goal was to privatize the social services. As a result, in the areas of health and social security, a system of pension fund administrators (AFP) and a system of health insurance institutes (ISAPRES), both privately owned, were created, and all primary health care clinics were transferred over to the municipalities. Most social security contributors transferred over to the new system, while most pensioners remained in the old public system, generating a shortfall which was financed using treasury funds, and which currently represents 50% of the government's social spending. As far as the health sector is concerned, 20% of the population was incorporated into the private system, while public health services continued to be responsible for the remaining 80%.

In the area of education, public schools were transferred over to the municipalities, with the option of being administered by private backers or by the municipalities themselves, in both cases receiving State aid.

Thus, in Chile's case, reducing the role of the State was linked to two processes which do not necessarily have to go hand in hand - on the one hand, a budget reduction in social public spending, and, on the other, the creation of private services. In the case of the former, this meant a deterioration in the quality of those services which remained in the public sector. In the case of the latter, some of these services were privatized without increasing the State's powers to supervise, evaluate, and regulate them. As a result, the set up ended up as follows: A poor quality State-aided service for the population as a whole, and a private service with excessively high costs and, consequently, very restricted access for the beneficiaries.

Chile's productive and social transformation occurred in the context of a subsidizing State and deep recessions linked to external crises. Throughout this phase, and as a result of the changes in employment, wage control, and the reduction of allowances and pensions, the level of poverty in the country worsened. It can even be argued that the quality of life of the population deteriorated, both as a result of the regression in income distribution and of the aforementioned reduction in the State's social action, with the subsequent erosion of socially oriented services and infrastructure. In short, two conditions combined to precipitate a considerable increase in poverty: a per capita income similar to that of previous decades, but with a considerably worse distribution.

As a result, in 1989 Chile had more than five million poor, equivalent to 40% of the total population.

The first government of the Concertation of Parties for Democracy (*Concertación*) took office in 1990. It faced a series of challenges linked to fully restoring democracy, maintaining a sustained growth, and modernizing the country. One of the primary commitments of the new government, however, was to make headway in overcoming poverty.

The diagnosis made by the new government's team entailed an active strategy to reduce poverty, since it was obvious that growth per se was not enough to reduce the serious social inequalities which still persisted. The government of the *Concertación* proposed imprinting a greater degree of equality on economic growth.

Reducing poverty was understood to mean incorporating a large number of Chileans, who, during the period of opening up and privatizing the economy, had been consistently excluded from the productive system and its benefits, into the growth of the economy. This increased social integration would be achieved by a more active involvement by the State in drawing up social policies, and, simultaneously, by a sustained, stable, economic growth.

The country had been experiencing high growth rates over recent years. The need was to ensure the stability and sustainability of this growth, by strengthening the country's foreign relations and promoting a productive investment drive (public, private, local, and foreign).

As a matter of fact, from 1987 to 1990 modern sectors had evidenced significant growth in productive employment, which had helped to alleviate unemployment and poverty. This process had to continue in other productive sectors, and also in small and medium size businesses.

The second pivotal point in the government's attack on poverty would be a substantial re-definition of social policies. These would not only be a tool to be used for alleviating short-term crises, or situations of extreme need, but would also form part of an integral process of economic development.

The position on which this proposal is based is that, for economic growth to be sustainable, consistent investments need to be made in people, for which the country as a whole, and not the people themselves, is responsible. This involves investing in education, health, nutrition, job training, urban infrastructure, and other areas, which traditionally are considered to form part of social spending.

In making progress in this regard, the new government increased the quantity and quality of social action by the public sector, and also re-defined its goals and priorities in order to make it more efficient, participatory, and comprehensive.

In this article, we first evaluate the efforts made by the government, whose administration ended in March, 1994. This evaluation focuses on the subject of overcoming poverty, revealing the progress made and analyzing the factors which allowed these significant accomplishments to be achieved. This evaluation is then weighed against current income distribution, which continues to be extremely regressive. The evaluation includes the main programs and thrusts of the government's social policy, as well as the challenges still to come.

*Table 1. Evolution of Poverty in Chile*

|                    | 1990               | 1992    |
|--------------------|--------------------|---------|
|                    | (Number of people) |         |
| Destitute          | 1,790.0            | 1,199.9 |
| Non-destitute poor | 3,412.6            | 3,169.7 |
| Total poor         | 5,203.0            | 4,369.7 |
|                    | (percentages)      |         |
| Destitute          | 13.8               | 9.0     |
| Non-destitute poor | 26.3               | 23.7    |
| Total poor         | 40.1               | 32.7    |

Source: ECLA (1993), based on 1990 and 1992 CASEN surveys, MIDEPLAN (1994).

The second part of the document once again takes up the subject of pending challenges, in the shape of a proposed future agenda for overcoming poverty. This agenda considers two primary points; the first is to increase efficiency in designing, executing, and evaluating social programs, and the second consists of drawing up a proposal for increasing socio-productive equality by strengthening small and medium size businesses, as a strategy for overcoming poverty.

## II. EVALUATION OF THE SOCIAL ACTION OF PRESIDENT AYLWIN'S GOVERNMENT - MAIN ACCOMPLISHMENTS AND CHALLENGES.

### 1. PRIORITY FOR REDUCING THE LEVEL OF POVERTY

The most important result of the action of the first government of the *Concertación* is linked to reducing the level of poverty. Between 1990 and 1992, this was reduced from 40.1% to 32.7%, with 4,369,000 people still below the poverty line; of these, 1,200,000 were destitute, since the percentage of destitute dropped from 13.8% to 9.0% of the population. This means that more than 800 thousand people climbed out of poverty during that period, 590,500 of which were destitute. This result, projected over the four years of government, means that poverty was reduced possibly by nearly one million people.

Table 2. Evolution of Income and Employment 1990-1992

| Income Quintile | Average cash income | 1990-1992 | Rate of unemployment var. (%) | Employment 1990-1992 | Employed by home 1990-1992 | Income Distribution    |                | Total Cash income | Contrib. Social action |      |
|-----------------|---------------------|-----------|-------------------------------|----------------------|----------------------------|------------------------|----------------|-------------------|------------------------|------|
|                 |                     |           |                               |                      |                            | Earned income var. (%) | Self-earned(a) |                   |                        | 1990 |
| I               | 26.1                | 30.3      | -8.7                          | 16.1                 | 10.9                       | 3.8                    | 4.1            | 6.0               | 6.5                    | 41.9 |
| II              | 18.4                | 18.5      | -3.3                          | 11.1                 | 5.5                        | 8.5                    | 8.6            | 9.8               | 10.0                   | 20.5 |
| III             | 16.6                | 17.3      | -2.8                          | 10.0                 | 4.6                        | 12.8                   | 12.7           | 13.3              | 13.2                   | 11.5 |
| IV              | 16.7                | 17.7      | -0.9                          | 11.5                 | 6.6                        | 19.1                   | 18.9           | 18.6              | 18.4                   | 5.3  |
| V               | 17.8                | 16.7      | -0.3                          | 5.1                  | 5.8                        | 55.8                   | 55.7           | 52.2              | 51.8                   | 0.8  |
| AVERAGE         | 17.8                | 17.6      | -2.9                          | 10.2                 | 6.3                        | 100                    | 100            | 100.0             | 100.0                  | 7.7  |

Source: Drawn up based on 1990-1992 CASEN surveys, MIDEPLAN 1994.

(a) Retirement payments and pensions; capital earnings and other self-earned income.

*EARNED income and*

The combination of a high economic growth rate and good results in the effort to achieve greater equality meant that faster progress was made in overcoming poverty than in previous years. Whereas from 1987 to 1990, for each percentage point of growth of the domestic product, poverty was reduced by 0.26%, from 1990 to 1993, it was reduced by 0.94%.

Economic growth generated an increase in jobs and wages which had a considerable effect on reducing poverty; however, the social and political consensus reached regarding the tax reform and the increase in the minimum wage also had a positive effect on improving the quality of life of the poor.

As it was, after a political agreement was reached, the tax reform was passed in 1990 for the specific purpose of increasing social spending in all social sectors. The increase in allowances and pensions meant an increase in the income of the most poor; the basic agreement reached by workers, employers, and the State to raise the minimum wage had a similar effect.

Between 1990 and 1992, the poorest homes experienced a significant improvement in the level of the family income. The income of the homes of the poorest 20% of the population increased by 26.1% during these years, while the average income of the country's homes increased by 17.8%.

This situation is explained by three mutually complementary factors. First of all, the increase in wages, especially the minimum wage; in second place, a lowering of the national rate of unemployment and the rate of unemployment of the poorest sectors; and, in third place, an increase in the percentage of the population participating in the work force.

As far as income per home is concerned, the item with the highest increase in the poorest sector of the population is earned income - 30.3%; the average increase in earned income for all homes was 17.6%. Earned income accounted for 67% of the increase in income of the poorest quintile. The increase in other income, such as allowances and pensions, is important, but earned income represents approximately 77% of the cash income of homes from the first quintile, and 83% of that of homes from the second quintile, and is, therefore, much more important when it comes to reducing the level of poverty.

A large part of the increase in earned income is accounted for by the increase in the minimum wage during this period (21%), as well as also the increase in low bracket wages (12.1%), which was higher than the average wage increase (See Table 1).

The other two significant factors in reducing the level of poverty in the short term are, as was mentioned above, the increase in employment levels, and the increase in the percentage of the population participating in the work force. Although the latter is still very low in the bottom quintiles - 43% vs. 63% -, it rises by 0.9% in the poorest homes. This process is more clearly evident in the increase in the percentage of employed workers per home, which is 10.9% in the poorest 20%, and 6.3% on average in all homes.

The most important circumstance in this regard is the increase in the number of employed workers in the poorest quintile; even though the number of employed workers per home is still below the number in the other quintiles, its rate of increase is relatively higher. The level of employment grew by 16.1% in the poorest segment, and by 10.2% on average in all homes. (See Table 2).

For its part, the rate of unemployment dropped by 8.7 percentage points in the poorest homes, and by 2.9 percentage points on average in all homes; this explains to a large extent the number of homes climbing above the destitute line. As a matter of fact, 20% of the increase in income of the homes of the poorest quintile is the result of increased employment.

## 2. INCOME DISTRIBUTION

It is in the escalation of personal income distribution that the progress made in the 1989-1993 period is less significant, since the income spread between the I and V quintiles is 12.3 times more. Even in 1992, the poorest quintile of the population earned 4.6% of all the cash income of the country's homes, and the highest income quintile earned 55%. Even so, functional income distribution was slightly fairer - wages, which in 1989 represented 36.7% of the GDP, in 1993 represented 37.9%.

Moreover, as we have seen, earnings of the poorest 20% of the population increased more than the national average. Nevertheless, their low share in the country's total income means that, in spite of this effort, personal income distribution has not experienced any meaningful change. The bottom quintile marginally increased its share in the homes' total income from 3.8% to 4.1%, if one considers cash income (excluding cash allowances from the State. See Table 3).



One must bear in mind, however, that re-distributive action during the 1990-1993 period was heavily concentrated on social policies, whose impact is not reflected in the above distribution figures.

The impact on distribution of the social policy, in other words, the percentage of government social spending actually received by homes through access to social programs, must be taken into account. "Consumption" of health, education, and free or subsidized housing provided by the State is measured by means of a specific survey of National Socio-economic Characteristics (See MIDEPLAN 1992, 1993, and 1994).

By appraising the share of social spending attributed to each home for consumption of these social services, and each home's access to cash allowances, additional (total) income for each quintile can be calculated. Thus, the poorest quintile's share in the country's total income increases from 4.1% to 6.4%, and the richest quintile's share decreases by an even greater proportion (from 55.7% to 52.1%). Space was also made for the middle quintiles to increase their share (See Table 3).

**Table 3. Impact of Social Policy on Income of Homes by Income Quintile**  
(Percentages)

| Type of income               | Income quintile |      |      |      |      |      |      |      |      |      |       |
|------------------------------|-----------------|------|------|------|------|------|------|------|------|------|-------|
|                              | 1               |      | 2    |      | 3    |      | 4    |      | 5    |      | TOTAL |
|                              | 1990            | 1992 | 1990 | 1992 | 1990 | 1992 | 1990 | 1992 | 1990 | 1992 |       |
| I. SELF EARNED INCOME        | 3.8             | 4.1  | 8.5  | 8.6  | 12.8 | 12.7 | 19.1 | 18.9 | 55.8 | 55.7 | 100   |
| Earned income                | 3.9             | 4.3  | 9.0  | 9.1  | 13.2 | 13.1 | 18.6 | 18.6 | 55.3 | 54.8 | 100   |
| Other self-earned income (1) | 3.2             | 6.2  | 6.3  | 11.3 | 10.8 | 21.1 | 20.0 | 58.2 | 59.9 | 100  | 100   |
| II. CASH ALLOWANCES          |                 | 29.1 | 32.3 | 21.4 | 23.6 | 18.0 | 18.5 | 14.5 | 13.9 | 16.9 | 11.7  |
| 1. Welfare benefits (2)      | 46.9            | 50.8 | 24.0 | 24.6 | 17.9 | 14.1 | 8.7  | 8.1  | 2.5  | 2.4  | 100   |
| 2. Work benefits (3)         | 16.3            | 17.7 | 19.6 | 22.8 | 18.1 | 22.0 | 18.5 | 27.3 | 19.1 | 100  | 100   |
| III. CASH INCOME (I + II)    | 4.2             | 4.6  | 8.8  | 8.8  | 12.9 | 12.8 | 19.0 | 18.8 | 55.1 | 55.0 | 100   |
| IV. SOCIAL SERVICES          | 36.4            | 36.3 | 28.3 | 27.2 | 19.8 | 20.1 | 12.2 | 12.4 | 3.4  | 4.0  | 100   |

|                            |      |      |      |      |      |      |      |      |       |       |      |     |
|----------------------------|------|------|------|------|------|------|------|------|-------|-------|------|-----|
| Health                     | 49.5 | 49.3 | 35.2 | 33.4 | 21.2 | 23.5 | 6.4  | 4.1  | -12.2 | -10.3 | 100  | 100 |
| Education                  |      | 34.2 | 34.6 | 26.6 | 26.1 | 18.6 | 18.4 | 13.0 | 13.6  | 7.5   | 7.3  | 100 |
| Housing (*)                |      | 20.6 | 21.5 | 23.2 | 21.4 | 23.7 | 21.0 | 19.9 | 21.3  | 12.6  | 14.8 | 100 |
| V. TOTAL INCOME (III + IV) |      | 6.0  | 6.5  | 9.8  | 10.0 | 13.3 | 13.2 | 18.6 | 18.4  | 52.2  | 51.8 | 100 |

Source: Drawn up based on 1990-1992 CASEN surveys, MIDEPLAN 1994.

(\*) Tentative figures. The income specified is income allocated to homes as a result of their having received a housing subsidy, and, therefore, is not equivalent to the amount of public spending on housing subsidies during the year.

(1) Retirement payments and pensions; capital earnings and other self-earned income.

(2) PASIS and SUF.

(3) Family allowances; maternity benefit; social security, and others.

### 3. QUALITY OF LIFE AND SOCIAL POLICY

As we have mentioned, due to the way in which this indicator, which poverty's measured in Chile on people's regular cash income, increasing social spending is not going to have a short term impact on reducing the level of poverty. However, the effect which social programs have on the quality of life of the country's homes can be indirectly measured using the above CASEN survey (See Table 4).

It is well known that, by making it available for people to generate regular income by their own means, access to health, education, and housing enables poverty to be overcome in the medium term. This access, therefore, is a tool not only for improving the quality of life of the population, but also for sustaining an investment in people.

According to calculations made, by receiving cash allowances, the poorest 20% of the population increased its income by 12.8% in 1992. Moreover, health, education, and housing programs meant a contribution in services by the State which complemented the income of these homes by more than 59.2% (See Table 4).

This means that, in 1992, the government's social policy enabled the income of the poorest 20% of the population to be increased by 72.1%, in the shape of cash allowances or through the provision of social services. This percentage decreases as the homes' income increases, which shows how well escalated the programmes are.

The impact of investments in social infrastructure (paving, parks, street lighting, etc.), all items in which significant amounts have been invested in recent years, and which also have an impact on the quality of life of the inhabitants, should be added to the health, education, and housing programs, and to the allowances which contribute to the income of the country's homes.

Thus, the balance of the government's social action in the 1990-1993 period is favorable, both in terms of the size and quality of the efforts made and of the results achieved.

Sure enough, growth was reconciled with equity, achieving an average rate of growth of the GDP of more than 6% per year, and an increase of 32% in social spending per inhabitant between 1989 and 1993 (in real terms). As a result, social spending's share in the GDP increased from 14% to 15.3% (Marcel and Crispi, 1994).

This was achieved while, at the same time, reducing inflation to a third and maintaining a surplus in the treasury, and public savings of close to 4% of the GDP; moreover, the highest investment rate ever recorded in the country (27.2% of the GDP in 1993) was achieved.

**Table 4. Social Spending's Contribution to the Income of the Country's Homes**  
(Percentages)

| Type of income               | Income quintile |       |       |       |       |       |       |       |       |       |       |
|------------------------------|-----------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
|                              | 1               |       | 2     |       | 3     |       | 4     |       | 5     |       | TOTAL |
|                              | 1990            | 1992  | 1990  | 1992  | 1990  | 1992  | 1990  | 1992  | 1990  | 1992  |       |
| I. SELF EARNED INCOME        | 100             | 100   | 100   | 100   | 100   | 100   | 100   | 100   | 100   | 100   | 100   |
| Earned income                | 85.3            | 86.6  | 87.2  | 87    | 84.5  | 84.9  | 80.5  | 81.1  | 81.7  | 80.8  | 82.4  |
| Other self-earned income (1) | 14.6            | 13.4  | 12.8  | 13    | 15.5  | 15.1  | 19.5  | 18.9  | 18.3  | 19.1  | 17.6  |
| II. CASH ALLOWANCES          | 14.1            | 12.8  | 4.6   | 4.5   | 2.6   | 2.4   | 1.4   | 0.8   | 0.6   | 0.3   | 1.8   |
| 1. Welfare benefits (2)      | 9.5             | 8.9   | 2.2   | 2.1   | 1.1   | 0.8   | 0.3   | 0.3   | 0.0   | 0.0   | 0.8   |
| 2. Work benefits (3)         | 4.6             | 3.9   | 2.4   | 2.4   | 1.5   | 1.6   | 1     | 0.9   | 0.5   | 0.3   | 1.1   |
| III. CASH INCOME (I + II)    | 114.1           | 112.8 | 104.6 | 104.5 | 102.6 | 102.4 | 101.4 | 101.2 | 100.6 | 100.3 | 101.8 |
| IV. SOCIAL SERVICES          | 56.9            | 59.2  | 19.6  | 21.3  | 9.1   | 10.6  | 3.8   | 4.4   | 0.3   | 0.5   | 5.9   |
| Health                       | 18.2            | 20.3  | 11.6  | 6.6   | 2.3   | 3.1   | 0.4   | 0.4   | (0.3) | (0.3) | 1.4   |
| Education                    | 35.2            | 33.2  | 12.1  | 12    | 5.7   | 5.7   | 2.7   | 2.8   | 0.5   | 0.5   | 3.9   |

|                            |       |       |       |       |       |       |       |       |       |       |       |       |
|----------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Housing (*)                | 3.4   | 5.6   | 1.7   | 2.7   | 1.2   | 1.8   | 0.7   | 1.2   | 0.1   | 0.3   | 0     | 1.1   |
| V. TOTAL INCOME (III + IV) | 171.0 | 172.1 | 124.2 | 125.8 | 111.7 | 113.0 | 105.2 | 105.6 | 100.9 | 100.8 | 107.8 | 108.4 |

Source: Drawn up based on 1990-1992 CASEN surveys, MIDEPLAN 1994.

- (\*) Tentative figures. The income specified is income allocated to homes as a result of their having received a housing subsidy, and, therefore, is not equivalent to the amount of public spending on housing subsidies during the year.
- (1) Retirement payments and pensions; capital earnings and other self-earned income.
- (2) PASIS and SUF.
- (3) Family allowances; maternity benefit; social security, and others.

The 1990 tax reform was a decisive factor in making this strategy viable, since the increase in public revenue by a sum equivalent to 2% of the GDP generated resources which were allocated exclusively to strengthening the government's social action. Close to 80% of this additional revenue came from the highest income quintile of the population. The above was combined with a concerted effort to reduce tax evasion.

As a result of this increase in social spending's share in the domestic product, it ended up as the equivalent to 11.8% of the GDP and 66% of public spending, further proof of the priority given to this task.

To sum up, an effort was made to make the social policy more consistent with the goals of equality and incorporation of the population as a whole into the process of development. To that end, an effort was made to modify the structure of social spending, strengthening in particular those programs geared towards generating increased opportunities in the most vulnerable sectors and groups. During the period from 1990 to 1993, these experienced an increase in resources of 153.4%, while the budget allocated to welfare programs increased by 38.8%, and that allocated to basic social services increased by 48.4% (See Table 5).

#### **A. Welfare Programs**

Welfare programs are understood to refer to those programs designed to ensure that the basic needs of the poorest groups of the population, and in particular the destitute, are met.

These programs include cash welfare pensions, family allowances, and flat-rate family allowances. Some welfare and emergency housing programs are also included.

The government sought to increase its contribution to these subsidies by adjusting them on several occasions. This meant that their amount increased in real terms, even though at the same time their share in overall social spending decreased.

The Flat-rate Family Allowance (SUF) increased from \$1,100 in 1990 to \$1,800 in 1993, which was an improvement in real terms, since in 1993 it was equivalent to 60% of its value in 1980, the year in which it was created. For its part, in 1993 the Welfare Pension (PASIS) increased from \$8,067 to \$14,057, practically restoring this pension to its real value when it was created in 1981. The unemployment benefit rose in accordance with inflation, except for 1990, when it increased by 50% in real terms.



Adjustment of the family allowance was staggered, giving priority to workers in the lower income bracket (those earning less than \$100,000). This measure enabled spending on family allowances for the 40% highest income homes to be reduced (from 31.5% to 26%).

This increase in allowances by income bracket shows how interested the government was in reinforcing proper focusing of these allowances; as a matter of fact, from 1990 to 1992, the poorest 40% of the population increased its share in welfare allowances from 70.9% to 75.4%, and in work benefits from 35.9% to 40.5% (See CASEN 1990 and 1992, and MIDEPLAN, op. cit.).

Table 5. Evolution of Social Spending 1990-1993

| Classification of social spending by type of activity 1990 and 1993 | Social Spending Mill.\$ |           |       | Percentage of Total |             |       | Real % Growth |             |      | Percentage of GDP |             |  |
|---|-------------------------|-----------|-------|---------------------|-------------|-------|---------------|-------------|------|-------------------|-------------|--|
|   | 1990                    | 1993      | 1990  | 1993                | 1990 - 1993 | 1990  | 1993          | 1990 - 1993 | 1990 | 1993              | 1990 - 1993 |  |
| 1. SOCIAL WELFARE (1)   | 84,624                  | 182,608   | 7.85  | 7.37                | 38.8        | 1.00  | 1.13          |             |      |                   |             |  |
| 2. CONTRIBUTORY BENEFITS (2)  | 449,128                 | 941,577   | 41.65 | 38.02               | 34.8        | 5.30  | 583           |             |      |                   |             |  |
| 3. BASIC SOCIAL SERVICES (All-embracing Programs)                   | 347,888                 | 802,496   | 32.26 | 32.41               | 48.4        | 4.10  | 497           |             |      |                   |             |  |
| A. Education  | 171,757                 | 331,978   | 15.93 | 13.41               | 24.3        | 2.03  | 205           |             |      |                   |             |  |
| B. Health   | 117,275                 | 295,557   | 10.87 | 11.94               | 62.1        | 1.38  | 183           |             |      |                   |             |  |
| C. Housing and Urban Devel.   | 58,856                  | 174,961   | 5.46  | 7.07                | 91.2        | 0.69  | 103           |             |      |                   |             |  |
| 4. INVESTMENT IN INFRASTRUCTURE                                     | 12,277                  | 78,871    | 1.14  | 3.19                | 313.2       | 0.14  | 049           |             |      |                   |             |  |
| 5. EQUALITY OF OPPORTUNITIES (Selective Programs) (3)               | 53,557                  | 187,083   | 4.96  | 7.55                | 153.4       | 0.64  | 116           |             |      |                   |             |  |
| 6. SOCIAL SECTOR ADMIN.(4)  | 80,928                  | 208,917   | 7.50  | 8.44                | 66.0        | 0.95  | 123           |             |      |                   |             |  |
| 7. OTHERS UNCLASSIFIABLE  | 50,061                  | 747,83    | 4.64  | 3.02                | (3.9)       | 0.59  | 0.46          |             |      |                   |             |  |
| TOTAL SOCIAL SPENDING   | 1,078,463               | 2,476,335 | 100.0 | 100.0               | 47.7        | 12.72 | 1532          |             |      |                   |             |  |

Source: Drawn up using Table 6 categories, based on data from Marcel and Crispi, 1994.

- (1) Cash allowances, low-cost housing, and welfare and emergency programs.
- (2) Retirement payments, pensions for widows and orphans, free choice curative medical services, recognition bonds.
- (3) Improvement of basic services, nutrition, keeping students in school, youth and adult job training, support for vulnerable groups and small-scale producers.
- (4) Supervision, administration of allowances and benefits, social planning and administration.

As far we are concerned, welfare allowances (PASIS and SUF), which as can be seen in Table 3 are received by homes in all quintiles, should only be received by homes in extreme poverty, that is to say, by the poorest 10% of the population. The need persists to target them even more, and to tie payment of these benefits to a more active involvement by the beneficiary in improving his situation.

Likewise, allocating these allowances should be an extremely flexible and expeditious process, in other words, it should adjust rapidly to given economic situations. This means handling them primarily at municipal level. Currently, municipalities have very little independence when it comes to deciding amounts and coverage of welfare benefits, and also very limited expert capabilities.

On the other hand, maternity benefits, family allowances, and pensions should be studied in light of other criteria, because they cannot be concentrated on a specific segment, they are not allowances in aid of the extremely poor, nor are they welfare payments, but rather payments owed by the State to workers from the formal sector, covering, in the case of the first, pre- and post-natal periods, and in the case of the third, retirement.

The family allowance has become an allowance for poorer workers, thanks to graduated adjustments over the last few years, which have been targeted from the V and IV quintiles to the others (Table 3). Pensions cover those workers who remained in the public system and most pensioners, and, as can be seen, are received basically by higher income IV and V quintiles. Something similar happens with maternity benefits, which are paid to women from the V quintile. In the case of maternity benefits, the problem does not lie in the fact that they are paid to highest income sectors, because most working women, and those who earn higher wages, are from those sectors. The problem lies in the fact that this benefit is financed by the State, even though most of the beneficiaries contribute to the private health system. In this regard, the problem that needs to be addressed is the method of financing this benefit, and not the segment in which it is concentrated.

#### **B. Increasing Opportunities**

This includes programs of several different types, which in some way or another make up the area of new social programs developed by this government.

The decision to set up specific programs for vulnerable groups was based on the realization that traditional programs did not meet the new requirements and increasingly more specific needs of given groups. These sectors were identified based on the diagnosis made as one of the government's first tasks. This diagnosis detected particularly serious problems related to ill-treated or abandoned children, the 300 thousand young people who were not involved in any type of activity, were not looking for work, and were not studying, the 100 thousand women who were heads of households and who, being either poor or destitute, could not work because they lacked the necessary qualifications and had no way of delegating their responsibilities in the home and the care of their children. There was also a large sector of old and elderly living in conditions of extreme need because of low pensions, or the lack of a social security system.

The main aim of these programs was to improve the possibilities and expectations of these particularly vulnerable social groups of making progress and being integrated into society.

This line of social action can be exemplified in the series of programs put forward by the Social Solidarity and Investment Fund (FOSIS), the National Youth Institute (INJ), the National Bureau of Women (SERNAM), and the National Bureau of Minors (SENAME), as well as also by agencies which drew up programs for small and medium size businesses. Nevertheless, traditional government agencies also drew up a large number of new programs aimed at solving specific problems.

Programs such as, for example, the job training program were a distinguishing feature of this government's social action.

The program with the most coverage was the youth job training program, which was coordinated by the Ministry of Labor. During its first four years, the program trained a total of 100 thousand young people. The program was aimed at unemployed and inactive young people, or those marginalized from the educational system, and its main goal was to train young people who had never had the opportunity in basic skills so that they could hold down a job. After completing their training, most of these young people found work during this period.

Another important program aimed at creating opportunities for young people from poor sectors was the program providing support in terms of credits, training, and technical aid to young people from rural areas interested in setting up productive small size businesses. This

project was coordinated by INDAP and FOSIS, and by 1993 was estimated to have directly or indirectly benefitted about 400 thousand young people throughout the country.

As far as equality of opportunities is concerned, when President Aylwin's government began, the attrition rate in secondary education was perceived to be extremely high and a cause of, or inducement towards, vagrancy, drug addiction, and even delinquency among the poorest sectors. With that in mind, the government designed a program aimed at keeping young people from the poorest sectors in school, by encouraging improvements in their educational achievement via the provision of several benefits: school meals, a fund for helping with medical expenses, and provision of school materials. By 1993, the program had benefitted 100 thousand young people between 16 and 20 years of age.

A series of health and prevention programs were also implemented. These were specifically aimed at young people and teenagers, and included programs for preventing drug addiction and alcoholism, community mental health centers, prevention of teenage pregnancies, and AIDS prevention.

Another item linked to the search for greater equality of opportunities is the signing by the government of Chile of a commitment to children for the year 2000. This commitment, known as the *National Plan for Children*, sets specific goals for the year 2000 in such areas as health, education, protection against abuse and ill-treatment, etc. These goals should be met for every strata of society, but are concerned primarily with those who, according to the indicators, are in a worse condition.

Most of the new programs set up for women, and especially the legal reforms instituted by the government of the *Concertación* via the National Bureau of Women (SERNAM), have to do with equality of opportunities. In fact, SERNAM instituted a series of legal reforms in civil matters (ownership of marriage assets), penal matters (bill on intrafamily violence), and labor matters (compensation for women working unpaid domestic services in private homes, and modifications to the law on individual work contracts).

SERNAM also instituted a special program for supporting women who are heads of households. The program's aim was to provide them with comprehensive care in order to give them the opportunity to be incorporated into the process of development, and improve the quality of their lives. This program included areas such as housing, health, job training, etc.

In addition, a job training program specifically geared to women was implemented. During the first government of the *Concertación* this program trained more than 4 thousand women.

Finally, a series of programs covering different areas of need for women from the poorest sectors was implemented; these included, among others, open centers for caring for the children of seasonal workers, improved points scoring on housing applications for women heads of households, and the nationwide network of information centers on women's rights (CIDEM).

Programs implemented by FOSIS fall into the same category. This recently created institution generated programs specially aimed at vulnerable groups, and poor areas and places. Among others, we can mention the afforestation and irrigation programs, whose beneficiaries are poor peasant farmers and the country's indigenous communities. In another program specially designed for poor communities, in order to be eligible for funds, the communities have to compete by submitting projects aimed at improving the capabilities and abilities of the inhabitants of these poor communities. Finally, another area to which FOSIS contributed was in supporting vulnerable groups, especially young people. In short, FOSIS was geared towards benefitting specially the country's poorest communities, poor, indigenous and peasant, farmers, and small businesses.

Other institutions were also involved in supporting small and medium size businesses by providing these productive sectors with increased opportunities. Such is the case of the Support Program for Small and Medium Size Businesses; this program was concerned primarily with making it available for these productive units to have access to bank loans, providing CORFO guarantees for these loans, and also making available financial aid subsidies (SUAF) for hiring consultants capable of designing investment projects, etc. In addition to the above, the goal was set to increase the technical competence of the PYME; with this aim in mind, a Technical Aid Fund (FAT) and CORFO's Technological Development Fund (FONTEC), which was dedicated to promoting technological innovation in productive companies, were set up.

Specific programs for non-industrial fishing, small-scale mining, small farm owners, and also small urban property owners, were implemented.

Even though this area of social policy, known as "generating opportunities," was the one which experienced the largest increase in resources - consistent with the government's priorities -, it still represents a very low percentage of the social budget (only 7%. See Table 5).

In the context of increasing opportunities, four important challenges have become evident. The first is to channel more resources to these groups, because their resources are still extremely few; this would mean possibly reducing the budget in other, more welfare oriented, areas of social policy, and promoting improvements in efficiency and segment targeting concentration, or searching for shared funding of more traditional programs which already have all-embracing coverage.

The above is linked to the possibility of moving on to a stage that involves programs with greater coverage, since most of the programs implemented in the 1990-1994 period were experimental in nature - pilot programs -, and only covered very small percentages of the groups identified as vulnerable.

In third place, there is an obvious need to make much more real headway in the necessary reforms for the municipalities to develop enough capability to be able to manage and finance this type of program, once the priorities of the communities within the municipality have been identified. As a matter of fact, most of the programs aimed at specific groups - women who are heads of households, unemployed youth, the elderly, small-scale producers, etc. - should function at municipal level, taking into account the specifics of each particular case.

Implementing programs of this type at municipal level is also desirable because municipalities are especially apt for generating agreements with the private sector, and also involvement by the community. Thus, they could obtain the necessary projects and human and financial resources to implement the programs from the municipality, the central government, the private sector, or the community.

Another challenge presented by these programs is *devising methods for evaluating their impact*. During this period, only a few of them have been subject to evaluations; the actual results of most of these programs are still not known; in other words, we still do not know whether the desired changes in the conditions of the beneficiaries were brought about.

### **C. Basic Social Services for Maintaining an Investment in People**



This area includes traditional health, education, and housing programs, which are related to the State's obligation to ensure that the population's basic needs are met, and maintain a permanent investment in people which enables them to be productively incorporated into society.

At this stage of the country's development, social programs should not only ensure the subsistence of the population, or its access to basic services - as in previous stages of development -, but should also serve to provide the country with human resources capable of participating in the productive sphere and increasing the country's international competitiveness.

These programs are aimed, therefore, at fully developing people and ensuring their productive incorporation into society, as well as also permanently improving the quality of life of the population. The services included here should be available to all the population; in that sense, they are all-embracing programs, even if access to them by one sector of the population is private, and by another is free or via shared financing. In any case, the State's role is to ensure equal access to these services by the population, that they are of uniform quality, and that minimum levels are complied with.

During the four years of President Aylwin's government, emphasis was placed on the quality of the services, since in most cases the problem of coverage had already been resolved. Coverage by the country's health and educational systems was high.

For example, in education, an initial program to improve the quality of the country's 900 poorest schools (P-900) was implemented. Then, the Program to Improve the Quality and Equity of Education (MECE) was put into effect. This program was aimed at reducing the difference in the quality of the education provided by proprietary private schools and that provided by municipalized schools (both private and public). This was done by means of various mechanisms enabling resources for infrastructure, equipment, and teaching material to be increased, and also by stressing teacher training to bring their erudition up to date, and implementing a significant increase in the teachers' considerably depreciated wages.

The results of the educational quality test (SIMCE) show that there has been an overall improvement in school achievement between 1988 and 1992. According to MIDEPLAN, this progress is particularly significant in the poorest schools where the special programs (P-900) were applied.

The main efforts made during President Aylwin's government were aimed at primary education. Serious problems persist in secondary education, and these must be tackled during this administration. Another of education's tremendous challenges is the low coverage achieved by pre-school enrollments; this still persists, and a considerable cost is paid when the children enter first grade.

As far as this latter point is concerned, given the high cost of formal infant schools and the difficulties involved in setting them up in a comprehensive fashion, proposals have been made to create daily care homes for pre-school age children.

For its part, the health sector began a process of recovery at every level, including both primary care clinics and hospital facilities. All were seriously deteriorated by the lack of new investments, obsolete equipment, and the lack of materials. The lack of personnel, and the extreme precariousness of the sector's wage scale, also contributed.

During the period under study, the Ministry of Health implemented an extensive program of investments in hospital infrastructure, increased the number of personnel, instituted a wage increase, and made a tremendous effort in the area of health prevention. However, the size of the deficit, and the extreme backwardness of the public health sector, point to a need to institute extensive reforms in financing, management, and use of resources, in order to increase efficiency.

Housing has made tremendous progress as far as reducing the housing shortage is concerned; as a matter of fact, historic levels of housing construction were doubled. The government also made a tremendous effort to provide parks and public squares in poverty stricken areas, pave streets and pavements in popular housing developments, and increase coverage by drinking water and sewage systems.

However, the construction boom - both private and public - aggravated an already complex situation in several towns around the country, exposing the lack of policies and plans based on a comprehensive vision of an integrated town. As a result of decades without this kind of investment, and during which there were no State regulations nor rules governing housing construction, there are tremendous deficiencies in this area.

The urban planning process, which will be this area's main challenge in the future, has only just begun, and has already clearly exposed multiple problems of inter-ministry coordination, and coordination between central and municipal governments.

In short, progress made during the period in question was due basically to increases in the amount of social spending, in the number of jobs, and in earned income. The main challenge for the future is to improve the quality and efficiency of these resources. In this regard, standard criteria need to be defined for designing social programs; in addition, the capacity to coordinate the programs, and confront significant changes in the allocation of resources and in the way in which the services are handled, needs to be developed.

If the chosen alternative is to strengthen an investment in people, then spending on welfare benefits needs to be reduced; in addition, these benefits need to be better targeted so that they are received by extremely needy sectors, and, where possible, they need to be linked to social integration programs. A second priority would be to re-allocate more resources to programs aimed at specific groups classified as most vulnerable; at the same time, coverage of these programs should be extended, and the method for evaluating their impact should be refined. Finally, in order to improve social action aimed at investing in people, budget allocations to programs that are understood to be all-embracing need to be reviewed, and possibilities of co-financing need to be analyzed in depth. In areas of health, education, and housing, public spending covers every strata of society, and many of these are perfectly capable of contributing their own financing in order to improve the quality of the services. That would enable the State to upgrade the coverage and quality of those services caring for the very needy. As far as services which cover middle income sectors are concerned, the complementary relationship between the public and private sectors, and the way in which these services should be managed, still have to be discussed.

### III. AN AGENDA FOR THE FUTURE

The first conclusion to be inferred from this analysis is that Chile is passing through a positive stage whose distinguishing feature is a stable growth. This means that the challenge of reducing the level of poverty can be faced and, in addition, fairer progress can be made.

In the short term, one could say that the "easy" stage in the process of reducing the level of poverty has been completed. The prevailing conditions in 1990, when President Aylwin's government took office, were extremely favorable for reducing the level of poverty. The

prevailing conditions included, among other factors, a relatively high rate of unemployment, and salaries which had fallen considerably behind in relation to past increases in productivity. The economy had just been deflated, and still had tremendous potential for growth and a considerably under-used installed capacity.

In future, this much leeway will not be available, especially as far as the capacity to generate employment at the same rate as in the 1990-1994 period is concerned, since the rate of unemployment has dropped to a very low level. This, however, is not the main problem. The main problem is that the additional flow of resources to increase social spending provided by the 1990 tax reform will not be available again. As a matter of fact, the new reform, which was approved towards the end of 1993, involves a reduction of 1% of the GDP in the tax effort (although the growth in the domestic product is expected to more than compensate for this loss of tax revenue).

Consequently, in order to continue reducing poverty at the same rate, the economy will have to continue growing, and, given the restricted possibilities for increasing jobs, productivity will have to be increased to the extent of generating an increase in wages in real terms. This is the only mechanism which will enable income distribution to be improved.

From the above, two challenges for public action are evident. First of all, given the restrictions imposed on an increase in fiscal spending, and considering the tasks still to be accomplished in terms of social policies, efficient use of public resources must be improved.

In second place, the State can make progress towards greater equality in the socio-economic system, by increasing the opportunities and capabilities of impoverished workers employed in small businesses or in the informal sector, as well as also the bargaining power of those who are employed by larger companies.

#### 1. A MORE EFFICIENT SOCIAL ACTION

Executing a more efficient and fairer social action means strengthening the public system and differentiating between its various responsibilities. Several challenges, which are illustrated in the above section, still persist.

##### A. Delimiting the State's Role

An essential task is to improve the coordinating, guiding, evaluating, and informative role of the social policy's regional and central authorities. In order to do so, the role of the public sector and its interrelation with the private sector needs to be much more clearly defined. If the State's role is regulatory, then the private sector should assume responsibility for some of the social services, under proper supervision and evaluation by the public sector, while the State concentrates its efforts on setting policies and funding subsidies which ensure that the whole population has access to these social services (See Table 6).

It becomes increasingly more obvious that, even though the State no longer plays the role of supplier and producer of all social services, it should nonetheless strengthen its regulatory role so as to ensure, on the one hand, that all the population enjoys equal access to these services, and, on the other, that the quality of the services continues to improve. This means that the State should be the primary actor in formulating policies, and also the creator of mechanisms for evaluating the impact of social programs.

#### **B. Improving Efficiency in Allocating Social Spending**

The goal of achieving greater efficiency in allocating social spending is directly related to the search for mechanisms which ensure that spending is properly allocated.

This not only means that the public sector's capacity for evaluation should be increased, but that the instruments which enable proper distribution of social spending (for example, the CASEN survey) should be used more efficiently.

Efficient spending distribution means in practice that welfare benefits can be targeted more effectively according to income - in other words, that they can be paid to the most needy -, that "selective" programs can be allocated according to the priorities of the most vulnerable groups, and that programs which entail investing in people can actually be applied to the whole population.

**Table 6. Social Policy Mix for Sustained Growth and Reduction of Poverty**

| <i>Type of policy</i>            | <i>Role of the State</i> | <i>Goal</i> | <i>Type of program</i> |
|----------------------------------|--------------------------|-------------|------------------------|
| <i>according to target group</i> |                          |             |                        |

**ALL-EMBRACING**

Financing, Production, and Supply are separated.

- \* Regulating
- \* Designing
- \* Evaluating programs are maintained.

**Maintain Investment in Human Capital**

1. Insure access to social services for the whole population.
2. Improve quality and flexibility.
3. Improve quality of life.

- \* Prevention
- \* Health
- \* Education
- \* Housing

**Welfare**

1. Counter-cyclical.
2. Distributive, and complement income.
3. Meet basic needs.

- \* Cash Allowances
- \* Welfare Programs
- \* Meals

**FOCUSED (according to income)**

Use of expert allocating mechanisms.

**Equality of Opportunities**

1. Ensure greater equality.

Decision making and executing level:  
LOCAL

**SELECTIVE (according to other criteria)**

2. Help to incorporate

- \* Aid Funds
- \* Training programs

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**\_Source:** Schkolnik, M. and Bonnefoy, J. (1994).

Thus, priority should be given to ensuring access to the services by the poorest quintiles, whose true condition remains obscured behind the national averages. In addition, criteria for geographical allocation of resources should be standardized.

Evaluating social programs should be increasingly more closely linked not only to the amount of resources spent, but also, first of all, to the goals being pursued by each social program (welfare, re-distributive, production development, equality of opportunities, etc.); in second place, whether or not the programs are actually getting to the groups for which they were designed should be evaluated (age group, gender, area, or income level. See Table 6). Finally, the actual impact on the target group should be evaluated.

#### **C. Improving the Quality of the Services**

Another challenge closely linked to funding prospects and improving the equality of the services provided is improving their quality. According to the indicators, the basic social services have good coverage, but their management needs to be greatly improved, as does the quality of the product delivered by the public sector.

The public sector alone is not very likely to be able to pool the necessary resources to enable all the population to enjoy access to social services, while, at the same time, financing meaningful breakthroughs in terms of their quality.

The most important subjects still pending include establishing the extent to which these programs are free. A nationwide discussion should be initiated regarding the possibility of shared financing in conjunction with the private sector, and especially with the beneficiaries themselves (such as co-financing in the case of education), with a view to improving the quality and even modernizing some of the public services.

#### **D. Setting up a Constituted Social Authority**

One of the goals which the first democratic government never succeeded in accomplishing was to make social programs more comprehensive and better coordinated. It is, thus, a task still pending for the future.

Coordination would be best achieved by setting up a central social authority. This authority would ensure that the correct priorities were set when it came to social action; it would also ensure that any social action would be propitiously financed, efficiently managed, and decentralized; it would also ensure consistency in the social policy measures adopted.

The institution acting as the social authority would also be responsible for evaluating the actual impact of the social programs, as well as their equality and distribution; it would also be responsible for generating an interrelationship between the various ministerial programs and those originating from other agencies and services within the public sector, as well as fostering consistent, complementary actions between private (private business community, social organizations, NGOs) and public sectors with a view to providing social services.

This social authority would be the most appropriate body for pinpointing successful, efficient programs, and promoting constant improvement in the social return of public programs. In this way, priority could be given to those which best contributed to increased participation or integration, and which had a multiplier effect on improving the quality of life (See the article by Sergio Molina in this book).

#### **E. De-centralizing Social Action**

Finally, effectively de-centralizing the financing, drafting, and implementation of social programs is a top priority task. In order to do so, middle decision making levels should be strengthened, in particular the municipalities, which are extremely good places for identifying specific needs - around which pockets of poverty develop -, and for summoning a wide-ranging group of social actors and sources of funding.

In order to help in this task, increasing the amount of investments allocated to the regions is essential; so too are the program planning agreements reached between central government and the various regional governments, as well as also the transfer of executive authority from the regional government to the municipalities.



Just like the central government, the Intendancy should guide, coordinate, and evaluate whatever social action is executed, or at least that which is undertaken using resources allocated to the municipality. The latter means supporting poorer municipalities in terms of financial and human resources, and considering the possibility of coordinating the actions of several different municipalities when these cover a vast territory, or have a very scattered population.

One of the main restrictions affecting the municipalities is that they do not have resources which they can readily allocate to direct social programs. This deficiency could be corrected by means of a Municipal Social Fund for which the community could compete, financed by the central government but freely available at community level. A priority source for these resources could be current public allowances, which should be selected through the municipalities. This Fund could be complemented by new resources for as yet non-existent programs, such as daily care homes for pre-school age children, youth training institutes, small businesses, etc. All these projects should be geared towards encouraging community involvement and social organization.

A crucial factor for efficient and fair social actions is that they should be completely transparent; in other words, the maximum possible amount of information on the work performed by the public sector should be made available, and people should know where and how the resources were used, and what results were achieved. Keeping the community informed is an efficiency factor and, at the same time, builds commitment towards the activity being performed.

## 2. IMPROVING THE EQUALITY OF THE ECONOMIC SYSTEM

If poverty is being incapable of supporting oneself by ones own means, then the best way to overcome poverty is for people to develop the capacity to generate a suitable income. In other words, the necessary conditions should be created for adults to be able to participate in the market economy in a skilled and stable fashion, and for ensuring that, once they have been incorporated into the economy, they can earn adequate wages.

### A. Investment in People

An extremely good instrument for overcoming poverty and encouraging social integration is increasing the investment in people. This is essential if people are to overcome their underprivileged situation by being incorporated into the development process by their own efforts. This process is expedited by economic growth, an efficient labor market, and increased productivity. Investing in people was one of the foundations on which the social action implemented by the first government of the *Concertación* was based, but it is still not enough for a country which evidences such a rapid rate of growth.

As far as education is concerned, the conditions have been created for improving both quality and relevance; the effort made should be intensified, especially at pre-school level - where coverage is low -, but above all in secondary education, which is in dire need of in-depth reforms and modernization.

Something similar occurs with job training; coverage by current programs is not enough. This coverage could be expanded via a Job Training Fund, linked to the private business sector, which would finance at least part of the costs of training young people looking for work for the first time, the unemployed, or workers employed by small and medium size businesses which, because of their low sales volume, do not qualify for the tax concessions set up for that purpose.

Increased investment in people is achieved by increasing the number of citizens who enjoy access to education, training, information, incentives, health, and personal motivation to form part of the development process. This enables workers to benefit from the expansion of the economy, and, at the same time, increases productivity.

As a matter of fact, the main differences between the different income levels of the country's homes depend on their insertion into the labor market. The rate of unemployment of the bottom quintile is 2.5 times higher than the national average, and 10 times higher than the richest quintile. At the same time, the percentage of participation in the labor market is 43%, while that of the highest income quintile is 63%. In addition, the poorest families tend to be more numerous.

To the above must be added the fact that a greater percentage of poorer workers belong to the informal sector. 76% of employed workers from that quintile have a work contract, and only 45% pay contributions into the social security system. According to the MIDEPLAN's CASEN survey, 60% of employed workers from the destitute sector are involved in small businesses.

**B. Development of the PYME**

The fight against poverty faces the tremendous challenge of supporting small businesses, both rural and urban, and those who work in them. Thus, current coverage - only 10% of small businesses are supported by public programs - should be increased considerably, with efforts being concentrated on three strategic areas: legalization of small businesses, full support for small-scale businessmen, and strengthening their ties with the market and larger companies.

The steps to legalize these productive units should be simplified, so that they can enjoy obstacle free access to loans and to the market. In order to encourage this process of legalization, municipalities should set up a single department or office for handling all the formalities. Likewise, it would be advantageous to simplify taxation during these productive units' first years of legal existence.

Any full support program for small businesses should begin by improving coordination of the various training and technical aid programs already in force. This could be achieved by creating a privately run Institute for Small and Micro Businesses, which would be concerned with researching, compiling, and, above all, disseminating appropriate technologies, and developing accounting and organizational systems.

At the same time, access to the subsidies - irrigation and afforestation - provided by the public sector should be simplified, and the requirements and criteria for public investments should be adapted in light of the existing circumstances and needs of small businesses. As far as the latter point is concerned, a percentage of the FNDR could be allocated to investing in productive infrastructure for these businesses.

Small and micro businesses should be granted terms which simplify their access to credit. Second-tier financing for private institutions - such as banks, cooperatives, and non government organizations, which is already being done - should be increased, and a system for re-insuring credit risks that allows the system to operate smoothly should also be set up.

Finally, ties between small businesses and internal and external markets should be strengthened. The association of small producers can play an important role in this regard, instituting closer ties with larger companies. This would be made easier by the formation of

groups of small businesses; these groups could also share in the use of technological, training, and infrastructure resources related to production and sales.

### **C. Reinforcing the Bargaining Power of the Workers**

Legally instituted social actors whose powers are in balance are needed for introducing greater equality into the way in which the economic system operates. Particular advantage would be gained by strengthening the trade unions, which currently are in a much weaker bargaining position, and, hence, not as capable of benefitting from the fruits of progress. This can be achieved either via legal means, or through public policies which stimulate harmonious labor relations, which, in turn, ensure fair and efficient results.

On a legal plane, collective bargaining needs to be extended to such sectors as seasonal, casual, construction, and piece workers, as well as also to workers employed by small businesses; most Chilean workers are included in these sectors, which are ineligible for collective bargaining. At the same time, compliance with collective bargaining and trade union rights needs to be ensured, eradicating unfair practices which hinder their operation and expansion. Finally, the workers' right to be kept informed needs to be provided for; this will improve labor relations, ensuring greater efficiency and equality.

Thus, labor relations will be able to continue developing, forming part of a new type of company that is more participatory and develops more horizontal and flexible relationships, which, in turn, encourage everybody to contribute to the effort of achieving greater quality and productivity. Care must also be taken to ensure that the company is completely free from any kind of discrimination; currently, access by women to the labor market is made more difficult by the shortage of places where they can leave their children to be cared for, and by the excessive rigidity of the working day.

At the same time, increased flexibility must be combined with a system of unemployment benefits which enables workers to be relocated in more competitive sectors.

Furthermore, public sector policies should stimulate, disseminate, and encourage bipartite relationships in areas which improve job quality, such as skills development, better working conditions, and technological research and development. This could be achieved by

giving priority, or a special bonus, to State granted subsidies for technological innovation (FONTEC) or professional skills development.

Finally, in our opinion progress can be made towards more modern labor relations, by strengthening trade unionism through such agencies as the recently created Trade Union Education and Outreach Fund.

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