

## POVERTY AND INEQUALITY IN CHILE: OFFSPRING OF 25 YEARS OF NEOLIBERALISM

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*This paper attempts to show the close relationship between the neoliberal economic model imposed in Chile since 1975, firstly by the military regime and then by the democratic governments that followed from 1990 on. Primary causes of poverty of more than 60% of the Chilean population and the unequal distribution of income, assets and power are: dismantling of state institutions capabilities that shifted objectives of socio-economic public policies from the common good towards attending the interests of rich minorities; Notwithstanding rapid economic growth over 12 years, income distribution remained unchanged, with benefits of higher productivity and production going to the wealthiest through various means; opening of the economy helped to weaken the capacity of employment creation, due to increasing imports of industrial and agricultural goods; worsening of labor conditions plus increased unemployment, and severe environmental deterioration. All these aspects will be examined within the context of overall macroeconomic policies.*

### THE CHILEAN VERSION OF THE COLD WAR: A BRIEF HISTORICAL OVERVIEW

When the Chilean armed forces, through a bloody coup, (in coordination with right wing political parties, the blessing of the U.S. Government, and the direct participation of its intelligence services), put an end to the democratically elected regime of Allende's Popular Unity in September 1973, the scene was set for a radical transformation of the political and economic structure that had prevailed in Chile for the previous 50 years.

In fact, policies that had been implemented since 1920, with the objective of raising living standards of the lower income strata of the population, were profoundly modified after the 1973 coup. Most of the socially-oriented policies were abolished, to give place to the notion that the basic rules governing the "new social and economic order" would be dictated by the market, and not by the state and its institutions. The Executive Branch, that had so far been led by a democratically elected President every six years, was substituted by a Military Junta, which also took the powers of the Legislative Branch. Thus, in a most oppressive and repressive climate, a new Constitution was adopted in 1980 by a mock "popular plebiscite", and a President — General Pinochet — was "officially" nominated, again

through a mockerish “popular election”.

In the course of the period 1920-1973, although not in a linear way, a clear trend towards social progress existed, notwithstanding the various crises that had to be overcome, such as the Great Depression of the thirties and the effects of the Second World War during the forties. A crucial milestone in that direction was the creation, in 1939, of the Corporation for the Development of Production and Reconstruction, a state agency that laid the basis for the economic modernization of Chile, through the establishment of the steel, hydroelectric energy, oil, sugarbeet industries, plus a number of other activities in different areas during the forties and fifties. In addition, a clear democratization process was set in motion, with the right of women to vote, the right of workers to organize, the right of people to join left-wing parties, the right of workers to social security, to free education, etcetera.

During that period the political orientation of the government had not remained constant, with a sort of pendular movement: from right to left, again to the right and once more to the left, and so on. But with every movement the trend towards center-left, and, finally, towards the left-left, became more noticeable. Notwithstanding such political oscillations, the successive democratic régimes continued to be based on strong governmental intervention in all aspects concerning economic and social development, although living conditions of the poorer segments continued to deteriorate. This situation, combined with political divisions within traditional parties helped to develop inflation at a rapid pace. Around 1956, a U.S. economic team (the Klein-Saks Mission) was brought into Chile to elaborate an economic plan to stabilize the economy. Various policies and measures were adopted to such end, and the economy improved somewhat. However, the central issue of governmental leading role was not modified, even with the advent of a right-wing technocrat to the Presidency, who had been a former Finance Minister. The fact that he could not solve the social problems that had been gradually worsening, combined with the excellent performance in the 1958 election of the Socialist candidate Salvador Allende ( he lost by a margin of less than 3% ), forced the right-wing parties in 1964 to endorse the Christian-Democratic candidate, Eduardo Frei, and have him elected, notwithstanding his call for “ A Revolution with Freedom”. Allende ran for a third time, and obtained over 33% of the electoral vote. For the right-wing parties this had been a menacing signal; thus, they turned their support to Frei, allowing him to win with 57% of the total vote. In order to counteract the possibility of an Allende victory, the U.S. Government, through the CIA, devoted approximating three million dollars “to influence the outcome of the 1964 Chilean presidential election” (United States Senate, 1975: 1)

Frei did not submit his policies to the wishes of the right and followed his own programme, with a deep inroad into the agrarian reform issues and, in general, into a number of other social problems that had been affecting the majority of the Chilean population for a long time. But his reforms fell far short of what he had promised. Deeper reforms needed to be carried out, but the Christian Democratic Party, in a sort of middle-of-the-road position, was struggling between the growing demands coming from workers, peasants, and other poor segments, and the opposition presented by the right-wing political parties. Furthermore, the Christian Democratic Party suffered the loss of a large fraction of its youth, who formed a new party, with a clear leftist orientation. By the 1970 election, the political division into three fractions was kept, each with its own candidate: Allende, supported by a coalition of left-wing parties; Alessandri, by the Conservative and Liberal Parties, from the right, and Tomic by the centrists Christian Democrats. This time there was no concession from the right towards the center, possibly because they were sure to win, with Alessandri, the former President. Thus Allende won by a relatively small margin, with Tomic in a distant third place.

With Allende the basic reforms undertaken previously were reinforced, going much further towards solving the problems of the people than in any precedent period. The idea was to use the power of the State to modify the adverse relationship that existed in the distribution of wealth and income, in order to achieve a more equitable society in Chile. This attempt was considered by the extreme right as a dangerous revolutionary transformation, that would forever eliminate their traditional hold of economic and political power. To some extent this fear was shared by the rightist fraction of the Christian Democratic Party. But such a reaction was not confined to the Chilean political territory. The Nixon Administration in the U.S. saw Allende's accession to power as a direct confrontation with their traditional hegemonic policies towards Latin American nations. Even before the 1970 election, Nixon and Kissinger had stated that the U.S. would not allow the establishment of a second Cuba in Latin America. On September, 16th, 12 days after the election results were known, but before Chilean Congress had selected between the first two majorities, as indicated by the Constitution, Henry Kissinger outlined his concerns about such results. "Now it is fairly easy for one to predict that, if Allende wins, there is a good chance that he will establish over a period of years some sort of Communist government ...." (U.S. Senate, 1975: 27) Kissinger further warned that "the election of Allende would be irreversible, might affect neighboring nations, and would pose 'massive problems' for the U.S. and Latin America" (U.S. Senate, 1975:

58). After the coup in 1973, "CIA collaborators were involved in preparing an initial overall economic plan, which has served as the basis for the Junta's most important economic decisions," informs the US Senate in its Report on covert action in Chile U.S. Senate, 1975: 40).

It is easy to understand how the links between national and international interests opposing the basic transformation promised by Allende's coalition were formed even before Allende came to power, and how they continued to work throughout his almost 3-year period. I shall not go into details about Allende's period and his tragic downfall. But let me just say that a combination of internal factors, such as, for instance, inadequate monetary and economic policies, and the maintenance of fixed prices for essential consumer goods, together with a multiple exchange rate, which helped to create a black currency market (at a given moment the U.S. dollar reached a quotation of almost 10 times the official rate), and subsequently a black market for essential consumer goods. The latter point needs an additional explanation. In terms of dollars, the cost of basic products became extremely cheap. It was profitably for rich Chileans and foreigners from neighboring countries, who had dollars, to convert them into the national currency at the black market rate and then purchase basic goods at the low official prices. One could see a sort of stampede in reverse, from abroad and from inside, to buy as many goods as it was possible, so that, in a short period, a serious scarcity of many essential products developed. In addition, the U.S. Government, that poured dollars into Chile to help in the development of the black market and the total disruption of the Chilean distribution and economic system. Once a black market and scarcity — good companions — are established, then the population as whole is drawn into a state of panic, and then almost everybody begins buying in excess to normal needs. Long lines queus are formed, and people become impatient. This was extremely well exploited by the Chilean rightists and the CIA, that were making good the Kissinger strategy of "making the Chilean economy shriek". To end this episode, which is only one of many of the counter-revolutionary movement, let me just say that most, if not all, the formerly scarce or non-existent essential products appeared in many Chilean shops and homes immediately after the coup. It was clear that the scarcity had been manipulated for political reasons, to create a climate favourable to both the coup and, subsequently, the total change of the economic system.

This historical overview was intended to explain which were the main interests — both domestic and foreign — that intertwined to oppose a pro-socialist government and bring about the establishment of a neoliberal system in Chile. We shall not dwell on the atrocities committed by the military

dictatorship against a significant part of the population during its tenure of power (September 1973- March 1990), that included murders, torturing, imprisonment, exile, and other forms of oppression. We shall deal with the apparently less bloody methods of pushing salaried workers, peasants and self-employed people into a miserable condition, in order to extract from them the maximum contribution at the least cost. It was necessary, for the ruling groups, to revert the advances made by the working classes during the previous fifty years, so that a more convenient ratio between costs and earnings could be established. This was essential for improving the competitive position of Chilean exports in the world markets, and, in general terms, to let the market establish its own rules and operate them freely, without interference either by bureaucrats, workers or environmentalists.

We should state at this point that the economic philosophy of previous regimes (whatever their political inclinations) favoured the internal market as the driving force towards economic development. Thus, a number of incentives had been established, such as special subsidies, tax and tariff incentives, credit facilities, among others, to promote industrial and agricultural development geared to the satisfaction of domestic demand. The export sector, based on a few commodities, mainly copper, played a somewhat lesser role. The shortage of foreign exchange had been dealt with mainly through protective measures to diminish imports, rather than through measures to promote exports. It was the period when CEPAL's Import Substitution strategies were widely adopted. Such policies were abruptly reverted by the new regime in Chile.

## NEOLIBERAL PHILOSOPHY AND POLICIES

Among the basic tenets of the neoliberal doctrine, perhaps the most important is the abolition of all barriers to the free functioning of the markets, be they international markets or domestic ones. Thus, among the first measures adopted by the military government to change the old system, that had operated since the early 20<sup>th</sup> century, was to begin a drastic reduction in governmental participation in the economic field, together with the abolition of all kinds of social subsidies to workers, as well as benefits that these had obtained throughout a long period of fighting against exploitation. All price controls were abolished, since the market was the only "institution" to set the "correct" prices. Many state enterprises were privatized, after a period of transitional administration by civilians and military personnel in charge of the continued operation of such companies, some of which were public utilities. As a proof of the devious ways in which the privatization

process took place, it is worth remembering that those officials that had been in charge of the public enterprises, in the name of the state, became the major shareholders of the new private enterprises, at especially low cost. As said, most prices were left free, to be operated by market laws: wages, interest rates, sales prices of goods and services, etcetera. A few prices were controlled, directly or indirectly by the state, such as the rate of exchange, which was kept fixed for several years, until the foreign debt had mounted to such extremes that the military government was forced to devalue when it could not meet its external obligations.

All these changes, with the exception of fixed exchange rates, were in line with the dictates of the International Monetary Fund and other international financial organizations. As is well known, at the beginning of the 1980s, Latin American countries, including Chile, faced serious balance-of-payments problems, which made them apply to the IMF and the World Bank for aid.

Just to show how the “new economic system” applied by the military dictatorship was in line with the policies of the two Bretton Wood “sisters”, aligned in turn with economic policies advocated by the USA, let me indicate briefly the main lines of action recommended by the IMF when it provides help to nations when they are facing major problems. The whole package of recommendations is generally called a stabilization programme because of its anti-inflationary emphasis. Although this institution, formally and legally, has no power whatsoever to intervene in domestic affairs in practice it does intervene whenever drawings exceed a certain amount, varying from country to country according to each individual quota. (Schatan, 1987: 35)

Even though details of each stabilization programme recommended by the Fund vary, the essentials of the economic policies that are considered “convenient” are always the same. The basic components are the following:

1. Abolition or liberalization of foreign exchange and import controls.
2. Greater hospitality to foreign investment.
3. Domestic anti-inflationary programmes, including: (a) control of bank credit: higher interest rates and sometimes higher reserve requirements; (b) control of government deficit: curbs on spending; increases in taxes and in prices charged by public enterprises; abolition of consumer subsidies; (c) control of salary raises (within the maximum force that is possible from a political point of view); (d) dismantling of price controls.

Such fundamental recommendations are in complete contradiction with the interest and well-being of the majority of the population in the nations concerned. In the first place, they provoke an immediate and strong eco-

conomic contraction, affecting more severely the poorer groups, without a clear indication about how the recovery is to take place. Secondly, 'liberalization' of exchange controls and imports causes a severe deterioration in the capacity of domestic productive activities to compete with imports. When coupled with a decrease or elimination of tariffs, such measures result in the elimination of a large number of small and medium-size enterprises, which are the main sources of employment. Therefore, increased unemployment is the inevitable result.

The IMF's general prescription to diminish inflation at the expense of employment and wages, pressing down popular consumption, which is anyway quite low, only tends to exacerbate people's miserable situation; besides slowing down economic growth. In the case of Chile, such policies have been in practice for the last 25 years. The change of political regime in 1990, when Pinochet was defeated at the 1989 presidential elections and democracy returned to Chile, did not mean a similar return to the kind of welfare state that had prevailed in the past. Although civil liberties were restored, and human rights began to be respected once more, the free market philosophy was retained as the lynchpin of national economic policies. As we shall later see, in spite of rapid national economic growth, the extremely unequal distribution of income and wealth remained intact. The number of people under the poverty line decreased only in comparison to the worst moment by the mid-80s, when open unemployment had reached about 30%.

At this point it is pertinent to comment on how harmful such policies that favour capital and income concentration, transnationalization and total reliance on foreign markets, can be in a moment of generalized global economic slowdown, as being experienced at present (2000-2001), even without considering the effects of the USA-Afghanistan war being fought at the time of writing this essay.

Chile is an example of the disastrous effects that continued policies following the neoliberal basic tenets can have on the national economy and overall well-being of the population. The slow but persistent deterioration of small and medium-size enterprises, coupled with the introduction of new technologies in the productive, financial and organizational areas, plus the crisis that affected South-East Asia in 1997-98, and spread throughout the world, resulted in a doubling of official, open unemployment figures, from around 300,000 to over 600,000 people; that is, from about 5% to over 10% of the total active Chilean population. These figures come from the National Institute of Statistics (NIS). However, other sources, such as the University of Chile Department of Economics, that has been conducting employment

measurements for the Large Santiago Area (with a total population of about one-third of the national figure), show figures that are about 50% higher than those of NIS for a similar geographical area. Other studies, carried out by various groups of researchers, but not officially published, arrived in 1999-2000 at a total figure of unemployed people, for the nation as a whole, of no less than 1.2-1.5 million. Such huge numerical contrasts, although being due to methodological differences, which we shall not discuss now, show, in any case, that growing unemployment, with a result of diminishing domestic demand, will multiply the adverse economic effects of shrinking foreign demand, whatever the causes of such foreign shrinkage might be.

In analysing the economic development processes of large industrial nations, the USA, the European Union, for example, one will discover that their openness to foreign markets has limits, and that protective policies are put in place, some hidden and some quite open. The best-known protective policies are those applied to agricultural products in Europe, but also in the USA through different mechanisms, as well as in Japan, concerning rice. No nation can depend exclusively on foreign markets, be it for reasons of food security, or for economic and social security. There must be some defence mechanisms to counterbalance problems that may arise in those external markets. One of such mechanisms is the strengthening of domestic demand — through higher employment, better wages, unemployment benefits, just to name a few — so that industries and businesses in general may continue selling their goods and services, notwithstanding a foreign economic decline.

However, in Chile, the neoliberal dogma has been pushing exactly in the opposite direction, with the result that unemployment, poverty and inequity have continued growing. Would the Chilean government still have some of the power of economic initiative that it exercised in the years before the advent of the “Free Market”, it could be injecting public money to promote local investment, to open markets for small enterprises, perhaps to associate with them in the case of new, risky projects, etc. But the government is “subsidiary” to the free, private market.

## EXPLOITATION, INEQUALITY AND GLOBALIZATION

I shall turn now to a more detailed analysis of the inequality issue, brought about by the prevailing economic system, within the framework of expanding globalization. Although equal to with poverty, I shall deal with this last subject in a subsequent section.

Let me start with the following question: What do we mean by “global-



ization”? I shall put my answer in this way: globalization is that diffusive and confusing process that has succeeded in invading almost all corners of the world house, covering practically all spheres of human activity. At its root lies the false premise that, thanks to the capacity to disseminate news, ideas, propaganda — commercial, political or cultural — with the speed of light, the underdeveloped nations of the world, the South, will be able to participate in the banquet that the developed nations of the North have been enjoying for a long time. These Northern “banqueteers”, together with some privileged partners from the South, are in constant need of new guests, even if they will be served with less abundant and sophisticated dishes, since the banquet table must be incessantly enlarged. For this reason, they are vigorously promoting the establishment of free markets, free trade, free capital movement, in sum the concept of a “ free and democratic world”. All this in the name of universal welfare. To achieve it, it is imperative that all, everybody, should join the Global Market.

But these promises and premises are utterly false. What the promoters of this idea are pursuing is the enlargement of their share in the already very unequal distribution of the fruits generated by human activity on the planet Earth. This principle is at the root of the purpose and survival of the already gigantic — but still growing — transnational corporations that control a large fraction of the world economic activity. Technological innovation makes domestic, and even regional markets, too small for absorbing their goods and services. So, they must conquer new markets as well as larger shares in the expanding global market. To this end, which requires increasing productivity, these conglomerates have to diminish costs in order to compete with advantage. They use a number of tools to achieve this purpose, such as takeovers, purchases of whole or part of companies, or simply eliminate them through disintegrating competition strategies. As Frank Hinkelammert, a distinguished European social scientist says “you cannot have competitiveness as the central criterion of economic development. Competitiveness makes that there is always somebody who wins and somebody who loses. For the one who loses that means a death penalty. The market decides through death penalties. Competition is a kind of war, with all the consequences of a hot war. Generalized development is only possible by intervening in the markets, so that who loses the competition is not condemned to the death penalty (Hinkelammert, 1997: 26).”

Inequality exists at both international and domestic levels, although the connection between the inter and the intra levels sometimes is difficult to disentangle. Ruling interests within nations are closely linked to the interests of large transnational corporations. Thus, national borders and sover-

eignty are easily surpassed by means of commercial and financial opening; many national states are losing their capacity to exercise any kind of control over transnational corporations.

This process of gradual dissolution of national, cultural and socio-economic autonomy has been facilitated by technological advances, especially in the areas of information and biotechnology, and can be perceived mainly through the penetration of consumption and production models, whose ultimate end lies in the obtention of the maximum possible monetary profit within the shortest possible period of time, by those who provide the goods and services that will be consumed by people all over the world.

What are the results? Nefarious for the majority of the population!

To start with, each transaction involves, in general, a large degree of inequity, particularly in the sharing of the global benefits of human activity. The largest part of the benefits — as I'll show for the case of Chile — go to relatively few pockets, those of the rich and super-rich of different nationalities. At the opposite side we find poverty in various degrees (nearly two-thirds of the Chilean population).

Secondly, we find the increasing destruction of natural resources, plus soil, air and water contamination. A large fraction of what is considered as "progress" or "development" according to measurement by the National Account System is only a fiction, since they measure with a positive sign what should be discounted from the National Domestic Product, as it is patrimonial destruction.

So, the assumed benefits of the globalized neoliberal process are, in the main, no other thing than the accumulation of increased exploitation of both human beings and natural resources. We shall examine four categories of exploitation, which are closely interlinked, taking the case of Chile as an example.

Let us consider firstly the classical exploitation of workers, under various modalities: formal wage earners, permanent and temporary; informal, sub-contracted, among others. The variety of contractual and hiring methods has increased enormously in recent years, in the majority of cases to the detriment of workers, as a result of "modern" managerial / administration techniques, that are constantly being transmitted to "native" operators by experts coming from well-known U.S. universities. Salaries are generally low for wide categories of workers, in different sectors of economic activity, accompanied by long working hours. In areas such as the fishing industry, fruit and horticulture for export, and various other agricultural sectors, it is not rare to find that men and women have to work over 10-12 hours a day (the legal maximum is 8 hours a day, for six days a week), to obtain a total

net monthly income of 100 to 150 thousand pesos ( about 150 to 200 U.S. dollars per month at the present rate of exchange of roughly 700 pesos per dollar). This would represent between 75 cents and one dollar per hour worked , considering the legal 200 hours per month .

These extremely low figures should be contrasted to the very high incomes recorded by the owners and executives of large companies. The ratio might range between 100 and 500 times, and in some cases even more. A study on the functional income distribution in Chile, carried out until the mid-90s by the Central Bank, showed that the distribution of total disposable income between the total mass of wages and the total capital surplus (earnings), excluding amortization of capital and indirect taxes, had changed dramatically during the last 25 years, to the detriment of workers. While in 1970 the relationship between wages and earnings was 1.38, in 1993 the relationship had decreased to 0.79; by 1997, according to our own estimates (the Central Bank had stopped publishing — or, maybe, elaborating — such information in 1993), the relationship had further decreased to 0.72. It is likely that by now, with a deep economic downturn, it must have probable fallen below the 0.70 mark.

Chile has one of the worst records in the area of socio-economic inequality in Latin America. According to studies I carried out a few years ago (Schatan, 1998:144-148), on the basis of data published every two years by the Ministry of Planning (Socio-economic Surveys, CASEN), where I divided the universe of householdings into 20 strata (instead of the usual division into 5 or, at the most, 10 strata) it could be seen that in 1996 the average per capita income of the top 5% was about 100 times larger than the average for the poorest 5%. Slightly over half a million people belonging to the top 5% concentrated about 30% of total disposable national income, equivalent to the overall income of nearly 10 million people, two-thirds of the total population of Chile.

Such inequalities are repeated in other measurements. For instance, from a gender point of view, it can be detected that a wide disparity exists between incomes received by men and women. The average income of working women is about 40% lower than that corresponding to men; for salaried workers the relationship improves somewhat, with women receiving, on the average, 20% less than men. These ratios varies widely between different geographic areas, ranging from around 46% to a low of 17% for working persons, and 58% to a low of 9% in the case of salaried workers.

Incomes vary widely according to educational levels, as is found almost everywhere, since higher education allows people to occupy positions of greater responsibilities and, therefore, higher incomes. Although salary con-

ditions vary widely between different branches of activity, recent information on salaries of top management officials in large companies show that the general manager of a bank, for instance, receives a monthly gross salary equivalent to nearly USD 30 thousand, without considering bonuses and other special participations in earnings, while a cashier may get the equivalent of 300-400 dollars per month. This means a ratio of between 80 and 100 times, quite close to the overall figure mentioned above, although bank cashiers do not belong to the poorest 5% of the Chilean population.

But exploitation is not limited to low salaries and long hours of work. When people change their roles from workers to consumers, they are exploited again through the high profit margins charged by producers, wholesaler and retailers, and by other intermediaries in the long chain between the primary producer and the final consumer. We have to add the sometimes exorbitant rates of interest charged to consumer credits, be it by banks or retail stores, or both. In the case of Chile, over 60% of the population is indebted to varying degrees. In 1997, the poorest 20% was indebted to the equivalent of three quarters of their income; in other words, their expenditures were 75% higher than their income. Besides, a certain portion of their total expenditures was devoted to the purchase of a number of useless goods and services that they are incited to consume by the massive commercial publicity (financed by producers and/or distributors) that flood our societies. With market liberalization and globalization, a large number of exotic and superfluous articles have reached the distant Chilean territory, together with undesirable consumption habits, such as junk foodstuffs, which are rich in fats and sugar, provoking the spread of a number of diseases, such as obesity. Chile is rapidly becoming a nation of obese people, which was not the case 30 years ago.

Agricultural land that could be used to directly feed hungry and undernourished people, are utilized instead to feed cattle which is used to fatten people, many of them ending up in hospitals and private clinics. Once more, we see absurd malutilization of resources at the two ends of the chain.

In other words, for companies that produce and distribute goods and services, and for those that elaborate the propaganda that is spread all over the world to help them sell those products, or for those companies that provide the inputs that permit the production and distribution processes to take place, including the extremely important financial inputs, human beings are considered primarily — if not only — as the final destiny of those goods and services: that is, as consumers. Obviously, what counts is the capacity of people to buy those products. Those who do not have such capacity are induced to obtain credit. Those who are not credit-worthy, are practically

discarded from “modern” human society.

A third form of exploitation is that exercised by large commercial chains with regards to their small suppliers, who do not have sufficient negotiating power to obtain adequate price and payment conditions. In Chile, as in many other nations, with the transnationalization of the economy, the large purchaser can impose the conditions at his will. This kind of exploitation is beginning to be recognized, but very little has been done so far. These days we have witnessed in Chile a serious confrontation between milk producers, who are many, and the few large milk processors, among them Nestle, because of the decrease in milk prices paid to the producers. Here we can see the nefarious effects on national production that the irrational trade opening and a bad exchange policy can do when prices of imported milk powder have become so cheap that they can advantageously compete with Chilean milk. But let us not be driven by the arguments of free trade worshippers in the sense that smaller input prices are transferred to the consumers, because in the main they are not. A large fraction of that smaller cost is used by the producer to advance production techniques, be it for the manufacturing of new marketable products (many of which are fantasy products with little nutritional value) or for the reduction in personnel.

This last point, added to the unemployment created at the Chilean milk producing end, helped to enlarge the mass of people with a small, if any, income and purchasing power, that is the discarded people. So, what really are the benefits to the society at large from such utter opening policies? The final result is, of course, the enlarging of profits made by Nestle and the other three big milk processors.

This scheme is repeated in the cases of large chains of pharmacies and supermarkets, or home and construction goods, that have concentrated a very large proportion of the aggregate final supply to consumers, regarding their own suppliers. Of course, this cannot be done easily with firms such as Nestle, or Lever, or Coca Cola, to cite just a few strong ones, but is carried out with thousands of small and medium-size suppliers, who are not in a position, as said, to negotiate equitable conditions of unit prices, payment conditions, etc. We must bear in mind that such small-medium suppliers provide employment for a large proportion of the total working force of Chile. Thus, inequitable terms-of-trade between them and the buyer chains are transferred down to their workers.

Thus, we might well say that, in the various phases of the economic process in Chile, we see a confrontation between David and Goliath. The difference with the biblical story is that in the present case the final triumph goes to Goliath. Therefore, we could maintain that “globalization” could

well be spelled “goliathization”. The battle for a larger share in world markets forces companies to cut costs or offer new products, or both. To such end they buy or take control of other companies, through various ways, creating larger entities. This process is accelerating. We read every day about new takeovers, in the USA, in Europe, in Asia, in Latin America, between regions, between nations, within nations. In a few years only a few very large conglomerates will probably dominate the markets in almost every branch of economic activity. With each takeover or enlargement through purchase of companies the first item in cost cutting is the number of salaried workers, at different levels of responsibility. Until recent years, the first to go were unqualified workers; now, personnel cuts also include high level officials, without regard to experience, age, specialization. We can detect now the emergence of the “literate unemployed”, who, however, at 45-50 years of age, finds it difficult to find a new position, elsewhere, after having worked at the mother enterprise for two decades or more. If replaced, the newcomers are young, with up-to-date specialized knowledge and, the most important thing, at a much lower salary. For the mass of workers, with fewer academic titles, if any, the situation is much worse. Their possibilities for some sort of “reconversion” to other jobs and technical requirements are scant. Promoters of globalization are ardent supporters of labor “reconversion”, together with the trend towards transforming workers into micro-entrepreneurs. They show this kind of “do-it-yourself” as a way to become liberated from the yoke of salaried work. It is a way to “sweeten the pill” of discarding people from decent work, from a decent living condition.

In a book published a few years ago in France (Forrester, 1997: 54-56), the author describes in a most vivid way the human drama lived by those expelled from the working force. I cannot resist the temptation of quoting a few sentences: “... the era of liberalism has begun ... its domination imposes a totalitarian system, that is now still hidden in democracy, and therefore limited, disguised, softened, without ostentation .... Truly, we live the violence of calmness. The effects of this system can be criminal .... People are left to decay and die, and the responsibility is theirs, of the crowd of unemployed who supposedly should be working or trying to get a job, and who are ordered to search for a job, although it is of public knowledge that employment sources are exhausted .... Everything becomes fragile, including lodging. The street becomes closer. To be thrown to the street because you cannot continue paying the rent, since you are unemployed, is a punishment coming from madness, from deliberate perversity ....”

These dramatic words come from a person living in a European country, where the social protection net is relatively reasonable. What would

Forrester say in the cases of Chile or Argentina, the latter a paradigmatic case of “neoliberal madness”? I am sure her story would be even more horrendous!

Let us turn now to the fourth kind of exploitation, that which destroys the natural base that sustains life on this planet.

Both at national and regional Latin American levels, economic growth has been largely based on the unrestricted utilization of natural resources — minerals, fisheries, forestry, agricultural, water and others — that have been transferred from the South to the North. During the 15 years prior to 1999, Chilean GDP grew at extremely high rates, pushed by exporting sectors, especially of raw materials of natural origin, with a low degree of processing. It was maintained that export growth was essential for our economy — and, therefore — our standards of living would substantially improve. But this has not happened. Living conditions of the majority of the Chilean population have not improved as benefits of growth have been pocketed by a small minority, both Chilean and foreign. In addition, in the course of such periods of rapid growth we have been “eating” a good part of the Chilean natural patrimony, that, to a large extent, is not recoverable, such as mining resources. But still our authorities, and many economists at large, have accounted that destruction as an increment in Chilean gross national product, in global national income. This aberration is one of the worst abuses that the neoliberal system has committed against Chilean citizens.

Furthermore, the progressive transnationalization of exporting companies has meant that such companies do not show any interest in going into a phase of processing their raw materials and thus export more elaborated products, which obtain a much higher price at world markets and, therefore, generate higher profits. But such a move would be against the interests of the mother company, since she is the one that keeps the processing phases and therefore the difference in profits. Such a scheme also means that the branch in Chile, or in any other peripheral country, by showing a smaller profit, pays smaller taxes. So, globalization and transnationalization of enterprises clearly condemn our countries to remain exporters of the raw materials that are needed by industrialized nations.

Such patterns will not change, in my opinion, with the subscription by Chile to a Free Trade Agreement with the United States, which is mainly interested in assuring the supply of natural resources at a low cost, and enlarging the market for their agricultural and industrial surpluses.

Chile is facing since 1996 a severe crisis in the fishing industry due to the drastic decrease of the marine biomass of several species, caused by overexploitation by greedy entrepreneurs. A large part of the agricultural soil-

around two thirds — is seriously affected by erosion and desertification. Moreover, the occupation of the best lands, even irrigated soils, by urban expansion as well as by forest artificial plantations, produce good earnings to the pulp and cellulose factories, but, at the same time, do not provide an adequate habitat for wildlife, both animal and vegetal. Destruction of native forests, are induced by profit motivations on the one hand, and by the sheer poverty of small peasants, who have to cut trees in order to have firewood to cook and heat their extremely modest homes.

These few sectorial examples, presented in a nutshell, are given to show the degree of patrimonial destruction caused by the neoliberal system. But there is more to it.

In studies I have done some years ago (Schatan, 1987: 23) and more recently (Schatan, 1998: 84), I attempted to calculate what would be the amount of physical resources that Latin American nations would have to extract and export just to pay the interest of the overall regional external debt. I assumed different hypotheses on unit export prices of the different commodities included in the basket of products I selected, and on international rates of interest, and considered a given rate of growth of total debt. The latest calculation gave an astonishing result: taking a period of 20 years, the yearly average resulted to be 200 million tons of the basket for the minimal hypothesis and 500 million tons for the maximal one. Let us think how such figures would increase if we add all the resources that would be needed to pay for useless imports. Even considering that these estimated numbers are just an approximation to the real figures, they present us with a very clear indication of the utter impossibility of achieving a certain degree of sustainable development under the present economic model.

## POVERTY

There are structural factors that push the concentration of wealth and incomes in Chile. When analysing the distributional curve, no matter what the stratification of the population universe, the curve pattern is almost identical: a smooth upswing at the beginning and a brisk jump between the penultimate and top strata. Even within the top decile we can see that a big jump is found between the 99<sup>th</sup> and the 100<sup>th</sup> centiles. Besides, there are ominous signs that such patterns may not change for the better but for the worst.

On the one hand, we have seen that, in spite of very high rates of growth until 1999, the relative distances between rich and poor did not change significantly; but the absolute distances have increased astronomically, due to



the high rates of growth of the economy as a whole. This tends to deepen the cultural and other barriers between rich and poor. Besides, there is a clear indication that the relationship between overall economic growth and the creation of employment is declining severely, having reached a point where the elasticity GDP/ Employment is getting close to zero.

In discussing poverty, we might ask, as we did with respect to globalization: What is poverty? There are many factors that are at the basis of poverty: economic, social origin, ethnic, educational, behavioral, etcetera.

But none of these, studied separately, or even in conjunction, may give us an adequate reply to our question. The problems concerning social attitudes, e.g. discrimination or exclusion because of sex, religion or race, may have little, if anything, to do with wealth, or family origins, or education, can relate to poverty, but from a different standpoint. So, understanding the difficulties in defining poverty, we shall not try to answer the initial question; the "what"; the qualitative issue concerning poverty. For the sake of this essay ( and also because of professional bias) I shall restrict myself to analyse the issue of poverty from the point of view of economics, particularly with regards to the officially accepted form of measuring poverty in Chile and other nations.

Some UN bodies have considered that people whose daily per capita income is less than one dollar are "poor" and such measurement is widely used in Asia and Africa. But in the case of Latin American countries, the methodology used is quite different, formulated by the Economic Commission for Latin America of the United Nations (CEPAL) in 1987. Its process of calculation is much more complex and we shall analyze both the method and results for Chile in this essay.

The CEPAL approach consists of devising a Poverty Line, which corresponds to a certain level of monthly income, below which all people are considered to be poor, with different degrees of severity. The basis for defining this line is the Basic Food Basket (BFB), which is calculated as follows: taking into account local food consumption habits and expenditures by income groups, the BFB is composed of a representative group of products that are normally consumed by the population, which must jointly yield the minimum daily calorie requirement for the population of that country. In the case of Chile this number is of about 2,300-2,400 calories, which is an average of the different requirements by the various members of the family group ( children require less calories than adults, pregnant women have a much larger requirement than men, there are changes according to different activities, climate, etc.). Such averages have been elaborated after a detailed analysis of the composition of family groups, activities, and other factors, at

national level, for each country. The value of the daily BFB is calculated each month on the basis of individual food prices collected, in the case of Chile, by the National Institute of Statistics (NIS). There are two groups of BFB, one for urban areas and the other for rural areas (UBFB and RBFB, for further reference).

The value of the one UBFB is the sum of resulting values for each selected product, their respective quantities (average of the family group: i.e. total household consumption divided by the number of family members, excluding paid domestic service) multiplied by the monthly average price of each product. This gives a result in money terms, equivalent to what we might call the "subsistence family income" (daily or monthly value). People who receive an income that is equal to or lower than one UBFB, are considered indigent; they are quite below the Poverty Line. In order to calculate the Urban Poverty Line (UPL), the CEPAL method just doubles the value of one UBFB. It is considered that the sum of all other expenses that a family has to make — based on Surveys of Family Expenditures, which in the case of Chile is carried out approximately every ten years — is equivalent to all food expenditures. But, as we shall see, there is a gross misrepresentation of real non-food expenditures by the lower income strata.

The RBFB is calculated as follows: the UBFB value is reduced by a certain percentage, probably on the basis that food costs in agricultural areas are lower than in the cities; in the case of Chile that percentage is about 35%. This means that if the Urban Indigence Line is equivalent to 1,000, then the Rural Indigence Line would be only 650. To estimate the value of the Rural Poverty Line, the non-food expenditures are valued at 75% of RBFB. In order to obtain the national average, the corresponding urban and rural components are indexed by the respective population percentages.

Let us look now at some numbers. According to the CASEN figures, poverty would have diminished substantially between 1987 and 1998, a period that coincided with very high economic growth rates. By the mid-eighties the number of poor was over 5 million persons, about 45% of the total population, with a large proportion of indigents. In 1998, the number of poor people had declined to approximately 3 million, close to 20% of the total population, but still with a substantial proportion of indigents. By 2000, according to preliminary figures, poverty and indigency have apparently increased, due probably to the increase in unemployment caused by the economic downturn affecting not only Chile but other Latin American countries, especially Argentina and Brasil. This resulted from the South East Asiatic crisis that struck this continent very hard from 1999 onwards, and that, currently, has worsened because of the general economic crisis affect-

ing the whole world.

But official figures, because they are so aggregate, and because of methodological faults, tend to obscure the true dimension and gravity of the poverty problem. Let us take first the issue of excessive aggregation. As indicated earlier, in my work on income distribution I divided the household universe into 20 strata of 5% each. I transformed their respective per capita monetary income into its equivalent in BFB (urban-rural average). The results were almost unbelievable: for the lowest 5% of households, with a total of 800 thousand people or nearly 6% of the total population (poor families tend to have a larger number of members than richer ones), their average income was of only 0.48 BFB, less than one-half of one Basic Food Basket. So, these people were far below the Indigence Line, so we might well call them "Super-Indigents". The following 5%, with almost 885 thousand people, was just on the border of indigence, with 1.02 BFB. The third 5% (in ascending order) was at 1.32 BFB, and so on. According to my calculations (Schatan, 1998: 145, table 26), the Line of Poverty was reached at the level of the 6<sup>th</sup> stratum (2.14 BFB) with a total of nearly 4.9 million people. We can immediately detect the very large difference between our results and those published by official sources. Even if we stop at the 5<sup>th</sup> stratum, with an average of 1.86 BFB, the total population under the Line of Poverty would stand at over 4 million, a figure which is higher than the official number by around one million. I must confess that I cannot explain such a huge difference, since all basic data are the same and come from the same sources, except for the value of the BFB, although this value also comes from official sources.

Anyway, whatever the reason for such disadjustment, there are other factors that make the official figures on poverty quite unrealistic. These factors have to do with some of the methodological aspects that were mentioned earlier. Firstly, it is wrong, in my opinion, to arbitrarily reduce the value of the RBFB. Rural inhabitants do not eat exclusively vegetables produced at home or some chicken or pig meat, that they may also produce in their small lots, but many processed foods that have to be bought somewhere in the next village or small town, where prices are usually much higher than in the cities. Although it is easier today for a peasant or the small farmer to travel to the city, and go to a supermarket to buy his goods, he (or she) has to pay the cost of transportation, and spend a lot of time to make his (her) purchases. Therefore, I think the cost of a RBFB is subvaluated. Secondly, I do not think that non-food costs in rural areas should be valued at only 75% of the BFB, as rural people have to spend more money in services, such as education and health, transportation, communications, than urban inhabi-

tants, especially because their unit cost is usually higher. If all these adjustments were to be introduced, the average BFB value would increase by a certain proportion, small in the case of Chile, because the rural population is less than one-fifth of the total population. But, anyway, there would be an increase of around 6% in the value of the average BFB, and of 7% in the monetary value of the Poverty Line.

But the most important shortcoming of the present methodology is that of only doubling the BFB to define the Poverty Line. The present methodology is based on the assumption that people of lower income strata spend about half their income on food and another half on non-food products and services. But this is not so anymore. Recent household income surveys show that, at the lower strata, the relationship is between 2.5 to 3 between non-food and food expenditures. Therefore, even taking the lower proportion, the Poverty Line should be fixed at 2.5 times the value of the corrected BFB. For a more "dignified" Line, we should set it at no less than 3:1. The more modest alternative would push the Line up to a level between the 7<sup>th</sup> and 8<sup>th</sup> twentieth; the "dignified" alternative would push the Line up to the 9<sup>th</sup> stratum. These two alternative levels would mean that in 1996 the number of poor would have been 6 million in the first one, and 7.1 million in the second alternative. This means that the real figures for poverty would be between double and more than double the official figures.

Just to have an idea of how miserable are such a large number of people in Chile, I have calculated, on the basis of the official figures so far mentioned, how many years it would take for the lowest strata to reach the poverty line, under the assumption that the income distributional pattern does not change. In order to make this calculation one has to assume a certain rate of economic growth for the country as a whole. When I first did this exercise, some four years ago, the Chilean economy was still growing at a robust pace, so I used a "reasonable" rate of 6% a year (or. 4.5% per capita). Even at that assumption, which today would seem crazy, the average person of the lowest 5% would need over 30 years to just reach the PL of two BFB. If we were to adjust the assumption on growth to a more realistic one of 4% global and 2.5% per capita, that same person would need 56 years — two generations — for the honour of becoming "poor" and not "superindigent" as at the beginning of such a long survival race. Well, let us assume that the PL is pushed up a little bit to, say 2.5 or 3 BFB, then, with growth at 4% (which is not bad for a long period) and no change in distribution, that same person would need about 72 years to reach the target. This is certainly unacceptable. Therefore, the clear conclusion of this exercise is to demonstrate that, unless a drastic readjustment is achieved in the structure

of income distribution, the majority of the Chilean population will be condemned *per secula seculorum* to dire poverty. But this is a political problem, not a technical or philosophical one, that sooner than later will have to be addressed by the government and people of Chile.

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