Inequality and Poverty since the 1970s*

Inequality has once again become a major public policy issue in Chile. Despite effective efforts made from the 1990s to reverse the ramping inequality of the 1970s and 1980s, poverty is still a fact of life for too many Chileans; a sharp inequality in opportunities, wealth, and income still prevails. Lack of equity is a marked feature of the Chilean economy and society.

Significant changes in poverty and income distribution have been recorded over the past one-third of a century. Its evolution can be summarized in the following four points:

1. In the 1970s and 1980s, during Pinochet’s dictatorship, income distribution deteriorated sharply, and the share of the population living under the so-called poverty line rose to 45% in 1987; that situation, associated with the crises of 1975 and 1982, was the result of the higher concentration of wealth, worsening of real wages, increased unemployment, and the fall of per capita social expenditure.

2. Poverty was reduced substantially from 45% of the population in 1987 to 14% in 2006.

3. After the great deterioration recorded during the dictatorship, income distribution exhibited an improvement in the first half of the 1990s, but it stepped back partially with the Asian crisis contagion; subsequently, partial progress has been recorded, due to some economic reactivation and new quite significant social reforms, moving closer to the best level reached in the first half of the 1990s.

4. Today income distribution is less unequal than in the 1980s, rather similar to the 1970s, and more regressive than in the 1960s. The ratio

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rich/poor quintile (GINI), which was around 13 times (GINI 5 49) in the 1960s, worsened to 20 (GINI 5 57) in the 1980s, and in recent years has averaged about 14 times (GINI 5 52).

Notwithstanding the significant social improvements achieved during the two decades of democracy, the net balance of income distribution, comparing the 1960s and recent years, indicates that Chile lost ground over the past four decades rather than progressing towards greater distributive equity. Equity and *macrosocial balances* (that is, employment, wages, social programs, sense of partnership in the national society, with life conditions improving in a sustainable manner) are essential ingredients of modernization.

In this chapter, I review the most outstanding distributive developments over recent decades. Several social policies can affect poverty and distribution. They include, among others, pensions, family allowances, the minimum wage, incentives to job search for women, health and housing subsidies, and unemployment insurance. But, in a developing country, the top priority is to improve the performance of the labor market, creating better job opportunities for mid and low income workers; generating “decent jobs,” with rising real incomes. Three aspects are stressed in this area. Two of them are structural, the need (i) to improve the quality and quantity of investment in people, or human capital, and (ii) to enhance productive investment and its link to productive employment. Both factors contribute to raise productivity across society, and thus to spread opportunities to larger segments of the labor force. The third aspect is (iii) the attainment of sustainable macroeconomic balances of the real economy.

The efficient approach for obtaining both growth and equity implies a comprehensive definition of macroeconomic equilibria. This includes far more than low inflation and a sustainable fiscal balance. It also requires equilibrium of the real economy; that is, making full use of available productive capacity, avoiding excessively fluctuating and outlier real interest and exchange rates, and securing a favorable macroeconomic environment for productive investment. I show that the sharpest setbacks in income distribution and poverty have been caused by critical macroeconomic imbalances: the hyperinflation of 1973, and the recessions of 1975 and 1982. To these should be added the cases in which macroeconomic “balances” have been achieved at the expense of other balances, such as the cases of *macrosocial disequilibrium* with drops in social expenditure in 1985–7, and of external imbalance in 1996–8, followed by a recessive environment and a distributive set-back in 1999–2003. The subsequent recovery of economic activity, in 2004–7, brought an improved distribution, encouraged by notable improvements in social policies, but, in all, merely to regain the situation achieved in the first years of the return to democracy in the 1990s. Real macroeconomic imbalances generate structural, long lasting, regressive effects.