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POVERTY, INEQUALITY, AND WELFARE IN A RAPID-GROWTH ECONOMY

The Chilean Experience

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Chile is maturing politically and becoming a more modern and globalized society. The country's current priority is to ensure more equitable distribution of economic growth and overall opportunities, which depends on the government's ability to improve public policy and expand its reach. By international standards, Chile has a high level of income inequality (being among the 50 percent of Latin American countries with the highest levels). Though poverty has declined significantly since the early 1990s, the risk of people falling into poverty remains high because half the population has low household income and is subject to significant income fluctuations. Access to education has increased considerably, but socioeconomics continues to determine the opportunities available to young people. For these reasons, it is critical that the country addresses social issues in order to continue its development and use its public resources more effectively.

This brief focuses on the strategies the Chilean government has used, and is currently using, to tackle issues related to poverty, inequality, and welfare, and to address the challenges that remain. Initially, economic and social policies sought to protect and strengthen economic growth while at the same time providing basic goods and services to the neediest sectors of society through a range of targeted social policies. The resulting pro-growth reforms led to significant reductions in the country's poverty levels, but they were not designed as social protection instruments to fully address household vulnerability or provide integrated solutions to the multiple constraints facing Chilean families. Consequently, the government has more recently begun to focus on social protection instruments that integrate and optimize social services in order to improve service provision to the poorest groups.

Poverty, Equality, and Welfare: Recent Successes and Ongoing Challenges

Since the early 1980s, Chile has been the most successful of all Latin American countries when it comes to economic growth, which has averaged approximately 5 percent per year. Although this sustained growth has led to a dramatic reduction in poverty rates—from 40 percent in 1990 to 13.7 percent in 2006 (Figure 1)—inequality has remained persistently high. A variety of cross-

sectional and survey data indicate that Chile has successfully reduced poverty, targeted its public policies, and increased household well-being over the past decade. Other survey data, however, indicate that Chilean households perceive that they remain unprotected in certain areas. Surveyed households reported—among other concerns—significant labor instability, lack of health insurance, poor access to quality education, and uncertainty regarding social security programs. In other words, despite the documented increases in welfare, many Chilean households consider themselves to be vulnerable. Furthermore, the available evidence regarding income convergence is weak, implying that although economic growth has positively affected poverty levels, it has not ensured a significant reduction in inequality. Existing social protection instruments only cover some risks related to income, such as old age and unemployment in the case of salaried workers. The day-to-day risks of low-income workers are not addressed by current social policy.

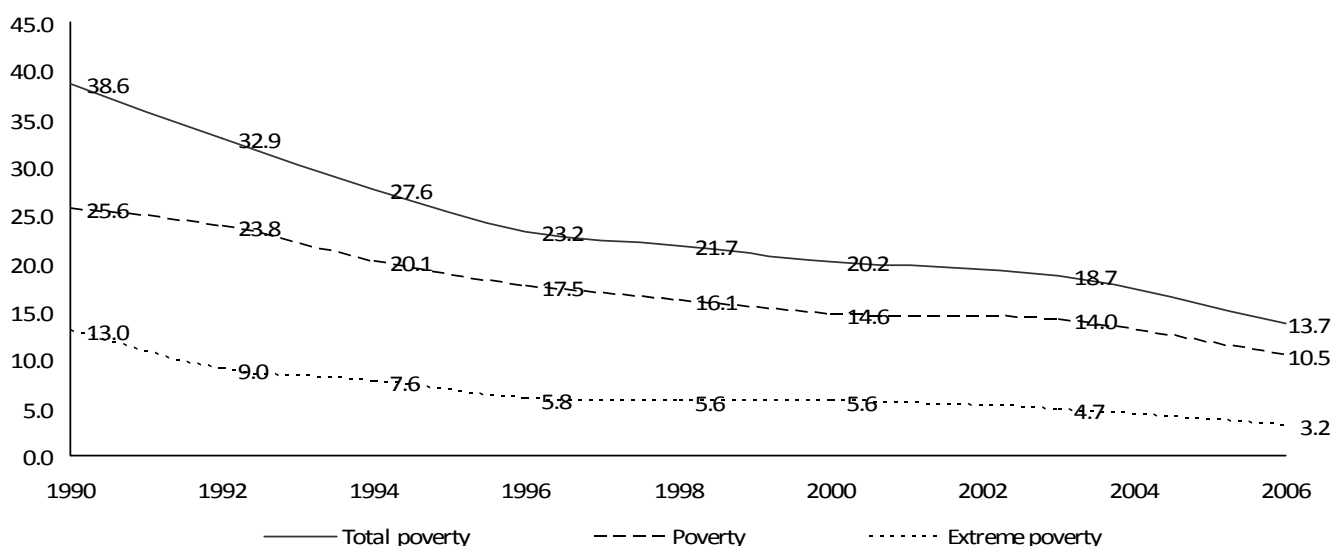
Nevertheless, the evidence suggests that the current, and sustained, high levels of inequality in Chile are not necessarily associated with decreased welfare because inequality has remained stable in the presence of income increases for both rich and poor households. In other words, despite high inequality, both the rich and the poor are better off. Table 1 presents Gini coefficients for Chile and Latin America, whereby a low Gini coefficient indicates more equal income or wealth distribution, while a high Gini coefficient indicates more unequal distribution (thus, 0 corresponds to perfect equality, with everyone having exactly the same income, and 1 corresponds to perfect inequality, whereby a single person has all the income).

Table 1—Poverty and Inequality in Chile and Latin America, 1990 and 2005/06

Indicator	Chile		Latin America	
	1990	2006	1990	2005
Poverty Headcount (%)	39	14	48	40
Inequality (Gini index)	0.57	0.54	0.52	0.52

Sources: Panorama Social CEPAL 2007 and Mideplan, Encuesta CASEN 2006.

Figure 1—Poverty and Extreme Poverty in Chile, 1990–2006 (%)



Source: Mideplan 2007.

The coefficient for Latin America remained relatively stable between 1990 and 2005, but—using per capita autonomous income—the coefficient for Chile decreased from 0.57 in 1990 to 0.54 in 2006. Nevertheless, inequality in Chile remains significantly higher than in the rest of Latin America. Hence, it can be inferred that inequality is linked to factors other than purely economic ones. As a result, the medium-term challenges facing Chile are complex and multidimensional, involving income and wealth levels; education and employment opportunities; power and social status; and so on, all of which are strongly interlinked. Their complexity makes it very difficult to design effective social policies, especially with short-term results.

Poverty can be measured both in terms of average income levels and in terms of the degree of income inequality. The intergenerational transmission of poverty reflects the unequal distribution of opportunities, and the exclusion of poor people from the decisionmaking process reflects the unequal distribution of power. Segregation in neighborhoods and schools, for example, is both a cause and an effect of poverty and inequality, with negative consequences for social cohesion and the opportunities available to the segregated groups. This exclusion includes lack of access to education and the labor market, which only compounds poverty and inequality and creates poverty traps. Chile is a good example of this, in that economic growth and general social policies have been insufficient to improve the living conditions of a small group of extremely poor people.

A panel data set collected by Chile’s Ministry of Planning for the period 1996–2001 indicates that at a given point within this timeframe approximately half of all static poverty (that is, poverty measured using cross-sectional data) was transient and remained stable as overall poverty rose due to steady increases

in the levels of chronic poverty. Static poverty fell from 22 to 18 percent between 1996 and 2001, but at least at one point during that time more than 34 percent of the population was poor (Table 2). This emphasizes the broader reach of chronic poverty. Data indicate that 46 percent of people who were poor in 2001 were not poor in 1996, and that the newly poor in 2001 were drawn from all deciles, although only 14 percent fell within the top half of the income distribution in 1996.

Table 2—Transition Matrix, 1996–2001 (%)

1996	2001		Total
	Poor	Nonpoor	
Poor	45.2	54.8	22.3
Nonpoor	11.4	88.6	77.6
Total	18.9	81.1	100.0

Source: C. Neilson, D. Contreras, R. Cooper, and J. Hermann, “The Dynamics of Poverty in Chile,” *Journal of Latin American Studies* (forthcoming).

A detailed examination of the variables associated with the probability of entering and exiting poverty shows that the main factor causing people to fall into poverty, and enabling them to escape it, is employment. This validates the need for policies in support of employment opportunities and employment security, such as the newly introduced unemployment insurance. This finding further suggests an increase in the relative importance of employment issues in the design of future social safety nets, including instruments that would facilitate the participation of more family members in the labor force, such as public child care, job training, and so on.

Health shocks to the household head are also a significant barrier when it comes to escaping poverty, although this does not hold true for households with

higher incomes. Poor households need adequate health coverage and insurance against adverse shocks that can permanently impair their capacity to generate income. Somewhat relatedly, the number of children under the age of 15 years negatively affects the probability that a household will move out of poverty and increases the likelihood of its falling into poverty. And while the educational level of the household head reduces the risk of poverty, other than for technical education, it does not significantly help poor people to escape poverty; in this sense, education appears to function more as insurance against poverty than a pathway out of it. Households that own their own home or a second home are also less likely to become poor. The reality that 9 percent of households remain poor over time justifies greater focus on social programs that target extreme poverty—such as Chile Solidario (discussed in the next section). Nevertheless, strategies to reduce poverty will also have to focus on households that are not currently poor but are at risk of falling into poverty in the future.

Social Protection Instruments

The evidence discussed above shows that social inequality in Chile affects not only income levels, but also health, education, and social and economic opportunities. Despite a sharp reduction in poverty and an increase in real incomes, both the poor and the middle class face serious risks associated with unemployment, economic well-being, health, and aging. In addition, new challenges are emerging as the society modernizes. Citizens are becoming more autonomous and aware of their rights, requiring cultural and institutional changes to promote universal equality and participation. To this end, the government has supported two programs to extend and optimize its social protection network: Chile Solidario and Chile Crece Contigo.

Chile Solidario, established in 2003, is a conditional cash transfer program—similar to Mexico's Oportunidades and Brazil's Bolsa Familia—which targets people in extreme poverty. In Chile, extremely poor people are often unaware either of their eligibility for government assistance or how to go about accessing or applying for such assistance. With this in mind, the Chilean government introduced Chile Solidario with the aim of targeting the extremely poor through a national system of registered beneficiaries who are monitored by public social workers. The program currently covers about 290,000 households. Families are invited to take part in the program based on a score that generates a multidimensional ranking index. Families are visited by a social worker (or a similarly trained professional) who works with the family to establish a plan to address major problems, including access to public services in areas such as health, employment, and domestic violence. In addition to family support, beneficiaries are entitled to the

"Bono de Protección a la Familia," a conditional cash transfer paid to female household heads or the female partners of male household heads, with the provision that the family is supported. Chile Solidario works in collaboration with the municipalities—the local public service providers—to ensure the efficient day-to-day operation of the program in response to beneficiaries.

Established in 2007, Chile Crece Contigo is a social safety net program that supports children—and hence their families—from conception to preschool age. The program provides universal access to services and benefits through a network of coordinated public services with the ultimate aim of improving the children's psycho-emotional and physical well-being. Chile Crece Contigo provides nursery facilities and preschool care for children of working mothers, job-seeking mothers, and mothers still attending school—which together represent the poorest 40 percent of the population. The program gives each mother a guide to pregnancy, arranges childcare at the time of the first pregnancy checkup, and offers childcare training for the mother during key stages of child development. Recipient families are also given access to benefits such as home improvement, education, and programs addressing domestic violence. This initiative, based on experience of the United Kingdom, is unique in Latin America. It is being implemented sequentially across Chile, beginning with 160 municipalities in August 2007, but by January 2008 it is expected to be expanded to include all children in the public health system.

Promoting Equal Opportunity

Inequality has been a permanent feature of Chilean society, particularly in terms of opportunities for advancement. Although increased social service coverage in education, health, and housing has ensured at least some skill development among the vast majority of children and youth, current social policy means that the accumulation of those skills is proportional to household resources, reinforcing the foundation upon which inequality is based. A more equal distribution of opportunities requires two interventions. First, it is important to level the playing field through policies that compensate for inequalities among the most disadvantaged groups. Second, discriminatory practices with regard to access to employment opportunities and positions of power need to be eliminated.

One measure used to quantify social mobility and the equality of opportunities is to compare the income elasticity of children and their parents. In this context, a low elasticity indicates that socioeconomic background is less important when it comes to defining the set of economic opportunities. In Chile, the intergenerational elasticity of income is approximately 0.66, which is significantly higher than international standards (in Canada and Sweden, for example, this elasticity nears 0.2). However, once education is

controlled for among the children, the elasticity is no longer statistically significant. This indicates that the low level of intergenerational mobility in Chile results from a lack of quality educational opportunities for the poorest segments of the population.

Education

The evidence convincingly demonstrates that education is a key factor for raising incomes, social mobility, and welfare—although as previously mentioned, education—unless technical—is a means of avoiding rather than escaping poverty. Policies to improve education constitute a key area of focus toward achieving sustainable economic growth and development. In recent decades, debate on how to improve access to and the quality of education has been controversial to say the least. Since 1990, Chile has significantly increased its expenditure on education: as a percentage of gross domestic product (GDP), public expenditure on education increased from 2.6 percent in 1990 to 4.0 percent in 2006. Further, profound and widespread reforms of the school system have been implemented, including decentralization; demand subsidies; standardized evaluations, such as the National System of Evaluation of Education (SIMCE test); special programs to improve the quality of education and the equity of access to it; educational programs targeted to the poorest schools; and the extension of the school day. Still, the educational attainment of Chilean students remains well below that of students in developed countries. Indeed, according to the 2003 results of standardized international tests by the Programme for International Student Assessment (PISA), only 5 percent of 15-year-old Chilean students achieved as high as the average level of students from countries of the Organisation for Economic Co-operation and Development (OECD). In addition, only 6 percent of these students achieved a level of excellence (Levels 4 and 5), compared with 31 percent of OECD students.

This outcome is also observed in other Latin American countries. According to the PISA test, Argentina, Brazil, Chile, Mexico, and Peru exhibited educational outcomes below those of other countries with similar levels of per capita expenditure. In Chile, access to high-quality education is unequally distributed: the most vulnerable children receive the poorest quality of education. Consequently, the government has instituted a voucher scheme that differentiates students according to their vulnerability. Students from low-income families now receive additional funding, at a rate 50 percent higher than other students, in order to compensate for their socioeconomic disadvantages.

Concluding Remarks

Chile is undergoing a process of significant change. While the country is consolidating gains in terms of economic growth and poverty alleviation, new social demands are arising that require new strategic approaches. There are three pending challenges. First, if social interventions are to be sustained, economic growth and political stability are required. Second, existing social protection programs need to be consolidated; this requires ongoing program evaluation, efficient allocation of public expenditures, and adequate institutional arrangements to support initiatives. Finally, given the high level of inequality, improved social mobility and access to opportunities will ultimately determine the country's success in advancing its development agenda.

For Further Reading: D. Contreras, "Poverty and Inequality in a Rapid Growth Economy: Chile 1990–1996," *Journal of Development Studies* (Vol. 39, No. 3, 2003); Inter-American Development Bank (IDB), ed., *Reformas y Equidad Social en América Latina y el Caribe: Memorias de la primera fase del foro de equidad social* (Washington, DC: IDB, 2004); C. Neilson, D. Contreras, R. Cooper, and J. Hermann, "The Dynamics of Poverty in Chile," *Journal of Latin American Studies* (forthcoming).

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