

## Stagnant and disenchanted

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In 2000, the countries of the region were strongly affected by a variety of problems: the political crisis in Peru; sharp social unrest in Bolivia, which literally paralyzed the country; and the strong financial, political, ethical and social crisis affecting Argentina. In this company, Chile appears to be an exception, demonstrating a "healthy economy" and political stability.

Some economists argue that this "healthiness" results in part from Chile's aggressive economic policy based on an export development model, in place since the military regime unilaterally opened trade barriers.

Today, Chile's so-called "third generation" commercial agreements are governed by WTO principles and cover, among other items, investment, services, intellectual property, agriculture, access to markets, and public consumption. In these areas, the principle of "national treatment" applies. This means that national and foreign investors are treated equally, as are public and private agents, and government subsidies have been eliminated.

This economic strategy was implemented rapidly without informing the public and without channels for effective public participation. The government of President Ricardo Lagos has demonstrated an effort to establish a dialogue with citizen's organisations, but these efforts are mostly limited to provision of partial information. The situation is compounded by the weak social and economic regulatory framework and a parliamentary majority that is allied to sectors linked to transnational corporations.

### Chile, stagnant and disenchanted?

Since its economy is based on the export of raw materials, Chile continues to suffer the consequences of the Asian crisis and the current slowdown in the global economy (especially the United States). This has created a paradox: in 2000, while the GDP growth rate was the third highest in Latin America (5.6%) after Dominican Republic (8.5%) and Mexico (7%), the average unemployment rate was more than 8% of the population.<sup>1</sup> Nevertheless, Chile's "healthy economy"<sup>2</sup> and political stability is show-cased in comparison with Argentina and other countries in the region.

Also paradoxical is the government's decision to continue with internal economic deregulation in reaction to the contraction in foreign investment (more than 60%). The Central Bank, with the consent of the Treasury, has suspended the implementation of measures to control the entry of speculative capital. It has also eliminated the clause permitting retention of invested capital in Chile for one year before repatriation, which was established by decree 600 of the Foreign Investment Statute. This meant that the investors gave priority to speculative investments abroad and deposits in the so-called "fiscal havens," which reached USD 1 billion.

The latest opinion surveys in Chile indicate a significant increase in the number of people who consider Chile's economy to be stagnant. Fifty per cent believes that "it is stagnant" and 20% considers that "it is in decline" or that the situation is "bad or very bad." Three out of every five people interviewed by the Center for Public Studies (CEP) in November and December 2000 thought the economy was stagnant or in decline, and 20% envisioned a worse future. The number of optimists decreased compared with the first months of the year.

### Unemployment and poverty

There has been an undeniable improvement in the situation of people living in extreme poverty since the 1980s. It is also true, however, that important problems continue to affect the economy. Chile is one of the most unfair countries in the world with serious problems of inequity in the distribution of income. According to the (official) Casen survey, 10% of the poorest households receive only 1.5% of the national income, while the richest tenth receives between 41% and 42% of the income, some 28 times more. In the last 27 years, the average salary of the richest sectors has increased at double the rate of other sectors, while the incomes of most people have decreased by 20%.

Another indicator of the unresolved problems of this transition is the income inequity between men and women, which is more than 30% in some cases. This gap is wider in professional sectors, where women obtain only 45% of the pay that men receive for the same job. Women heads-of-household receive only 60% of what men receive.

Three problems loom large: unemployment, which reached 11% in the winter months of 2000, and the associated problems of poverty and crime.

While unemployment is a priority on the government's agenda, the focus and errors of its policy are notorious, beginning with the belief that a reactivation of the economy would be enough to absorb unemployment. The secretary of the treasury declared that unemployment would decrease because of a "physical principle" according to which Chile's economic dynamism would create more production and this in turn would lead to more employment.

The unemployment rate can be explained in terms of the government's current economic policy of fiscal restrictions, which is oriented toward maintaining the "macroeconomic balance" by applying shallow patchwork measures to curb unemployment and refusing to use the surplus generated by export, which surpassed USD 1 billion at the end of 2000. Insufficient resources were allocated for promotion and support of job creation programs in the PYMES (small and medium enterprises) sector, which generates almost 80% of the country's jobs.<sup>3</sup>

1 In November 2000, the national unemployment rate reached 9.4% (551,800 people), a rate similar to the rate in 1999, which on an annual average reached 8.9% (564,600 people). *Estrategia* newspaper, 8 January 2001.

2 The "health" of the Chilean economy may be questioned if one takes into account the national external debt, which in October 2000 reached USD 35,927 million (85% private and the rest public), which is approximately 50% of the GDP (*Estrategia* newspaper, 8 January 2001, based on Central Bank sources and the National Statistics Institute up to 15 December 2000).

3 According to CEPAL studies based on Internal Revenue Service sources, PYMES sales fell numerically between 1994 and 1997. Only 5% of PYMES export their products, and exports average 1.4% of their sales. Only 1.5% to 2% of loans went to PYMES. This is serious considering that, by type of enterprise, employment was distributed (1996) as follows: 10% large; 13.0% medium; 36.6% small and 40.3% micro-enterprise.

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Foreign investment is focused on the service sector in established enterprises and does not create new job opportunities. On the contrary, it reduces jobs through “rationalisation” plans. In this regard, political and entrepreneurial sectors linked to transnational corporations are lobbying for greater privatisation and reform. Among the companies they want privatised are the Bank of the State of Chile, the Chilean Postal Service, and an important segment of education and health services still under state control.

Chileans are also experiencing frustrations about other so-called “modernisations,” some of which were sources of pride in the last decade. Because of the decrease in employment and insecurity in the present job market, private social security funds (AFPs, Pension Fund Associations) are producing more and more retired people with minimum pensions.<sup>4</sup>

After years of growth, private healthcare (ISAPRES, Healthcare Institutions) is proving highly inefficient and incapable of dealing with the healthcare problems of its clients. Many people have abandoned them and are returning to the public healthcare system (FONASA, National Health Fund),<sup>5</sup> where they find other problems derived from inadequate financing, such as the lack of specialists and medicines and the deterioration of infrastructure.

In the housing sector, which is also important in the struggle against poverty, there is persistent and unsatisfied demand, not only for basic housing units, but also for quality housing, in safe neighbourhoods, and with sufficient urban infrastructure.<sup>6</sup>

These facts openly challenge the belief that a “healthy” economy, in neoliberal terms, is enough to resolve the problems of poverty. There is a growing vision, in opposition to the reigning orthodoxy, that more vigorous action by the government is needed to direct job creation and to intervene positively in the areas of health, education and housing. The market has proven incapable of absorbing the unemployed and mocks the so-called “physical law” of the secretary of the treasury. The president himself now admits that Chile is producing more with fewer workers as the result of new technologies, lengthier work hours and higher individual output.

## Education

Quality universal education is a variable in the struggle against poverty. Such education would enable Chile to face the challenges of the modern world and the so-called “knowledge society.” The educational plan includes curricular reform and extended school hours.

Still, the possibility of accessing, maintaining and completing a quality primary and high school education depends on the level of household income. Data available through the ministries of education and labour show that approximately 70% of the total population and 40% of the economically active population over age fifteen has not completed primary and high school education.

In 2000, official pronouncements on education were in stark contrast to the results shown by the Educational Quality Measurement System test (SIMCE) which measures primary education competence. A comparison of 2000 results with results of the same tests in 1996 and 1999 indicates that public schools serving students from poor sectors did not improve in language skills and suffered serious setbacks in mathematics (from 245 to 239 points). Private schools improved, going from 293 to 298 points in language and communications, and 296 to 299 points in mathematics.

In terms of so-called “functional illiteracy,” a survey by the Organisation of Economic Cooperation and Development (OECD), determined that 80% of Chileans between the ages of 16 and 85 do not understand what they read.

These figures represent problems that have encumbered Chile for decades, and also indicate the serious deterioration of education under the military regime. The democratic governments, despite their good intentions, have not transformed the education model they inherited. Worse still, they have deepened its inequities by incorporating “cost-sharing” mechanisms that require parents to pay part of their children’s schooling, thereby adding an additional burden to the poorest households.

One hopeful aspect in recent years is a wider pre-school education coverage for poorer households. This will no doubt contribute to greater opportunities, but in light of the remaining problems, it is insufficient. ■

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4 Minimum pensions grew from 1990 to 1998 at an average rate of 10% to 12%, a trend which changed abruptly to 21.3% in 1999. From the early 1990s to 2000, pensions grew from approximately USD 25 to USD 120. This creates a problem for the government, since amounts accumulated are not sufficient to cover costs, making it necessary for the government to subsidise social security once again.

5 It is estimated that a million people have switched from the private to the public healthcare system.

6 The basic house is 30 square meters in size and many of them are constructed with faulty materials and even have structural faults.