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**A FRESH PERSPECTIVE
ON INCOME DISTRIBUTION IN CHILE**

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A FRESH PERSPECTIVE ON INCOME DISTRIBUTION IN CHILE

Executive Summary

The current circumstances of income distribution in our country and its evolution continue to cause unrest among various groups. It is understandable for everyone to want to live in a more egalitarian society; but modifying the inequality of a country is no easy task. One cannot deny the underlying demand for equality, but economic progress cannot be neglected, either. Both demands become mixed up and intermingled. The population undoubtedly perceives the substantial income inequalities, and in this sense political groups legitimately aspire to correct them. That effort, however, if not well thought-out, often ends in punishing economic growth, as well as governmental taxation and with it the action of the State directed towards the most poor. That is why it is important to evaluate the best public policies for correcting the inequality.

The purpose of this document is to review the evidence on the evolution of income distribution, but looking at it from another point of view.

First of all, we begin by describing the basic background facts and the empirical evidence on income inequality, pointing out the main causes of said problem.

Second, the debate on the relationship between growth and inequality, and its effect on the well-being of the society is studied in depth, with the conclusion that growth has been fundamental in the improvement of the quality of life of the population.

Third, we point out the positive fact that the Chilean society is a mobile one from the point of view of income, which makes it easier to understand the relevant public policies that should be implemented, which would be very different if the Chilean society were rigid. In addition to this fact another new phenomenon can be considered: intergenerational mobility.

Comparing the income quintile in which parents were in when their children were born and the current income quintile of the same children, results show that of the parents that were in the lowest quintile, or poverty, 31% of their children are found in the same quintile, while 21% climb one quintile, another 21% climb two, 19% climb three and 7%, four. That means that 26% of the children of the poorest income bracket manage, all things considered, to climb to the two highest quintiles.

Likewise, according to new evidence, a marked trend is established in which each generation has a Gini coefficient lower than the previous one. In effect, a trend is observed in which the distribution of intragenerational income is gradually falling.

Finally, we analyze the main public policies applied in Chile to improve income distribution, concluding that these have not been well-focused. Therefore, alternative policies are proposed, that would allow a greater equality of opportunities.

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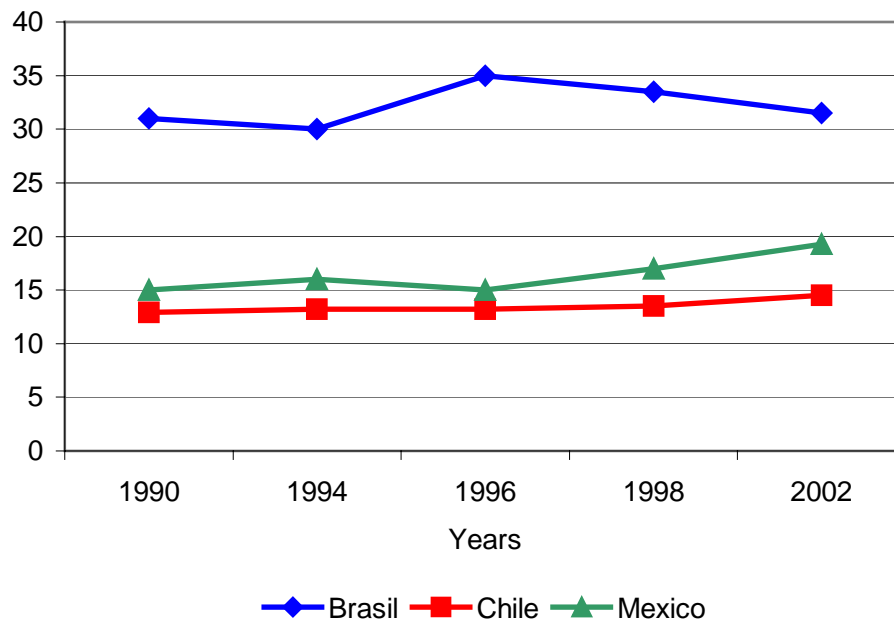
I. INTRODUCTION

1.1. BACKGROUND

The current circumstances of income distribution in our country and its evolution continue causing unrest among diverse groups. It is understandable for everyone to want to live in a more egalitarian society; but modifying the inequality of a country is no easy task. One cannot deny the underlying demand for equality, but economic progress cannot be neglected, either. Both demands become mixed up and intermingled. The population undoubtedly perceives the substantial income inequalities, and in this sense political groups legitimately aspire to correct them.

That effort, however, if not well thought-out, often ends in punishing economic growth, as well as governmental taxation and with it the action of the State directed towards the most poor. From there it is important to evaluate the best public policies for correcting the inequality.

Chart N°1
Inequality in Different Countries (1990-2002, Quintile 5/Quintile 1)



Beneath this concern for inequality manifests a will to overcome poverty as quickly as possible. In effect, if Chile had a per capita income to what it currently does, but the inequality of South Korea, the poverty level would not go above 16%, which means that in Chile there would be almost a million less in poverty. Thus, it is essential to have a clear panorama of national and international income distribution and of the changes that have occurred in recent years. The different countries shown in Diagram 1 have not seen their levels of inequality modified for a long time. This is especially clear when inequality is measured with the Gini coefficient¹. In the case for reasons between the national income shares of the higher and lower income quintiles, a greater variability is observed, but one must keep in mind that this indicator is sensitive to slight changes in said shares². It should be noted that within Latin America, Chile falls in the more unequal half³.

However, if in the case of Chile one were to add to autonomous income the State's expense in transferring money to homes of lower income, through means such as aid pensions, single family subsidies, and public welfare, there proves to be a slight improvement in the distribution of income over the last decade, yet the gap between income obtained by the 20% richest homes and that received by the 20% poorest homes (Quintile 5/Quintile 1) is still substantial, with more than 14 times that of Quintile 1 in 2003. Nevertheless, it is mainly subsidies for health and education that account for the difference, and represent nearly 83% of governmental social expense (without social security). So if one considers the income that people ultimately obtain, being monetary income (autonomous income plus monetary subsidies) plus health and education subsidies, the spread between what the richest quintile earns versus what the poorest quintile earns is reduced to a little more than half in relation to autonomous income.

It should not be surprising, given that governmental redistributive expense is considerable, that the previous income figure is more unequal than what would exist without said intervention. In other words, since governmental social expense is operating in the form of relatively

¹ Inequality indicator that fluctuates between 0 (complete income equality) and 1 (maximum inequality, all income is concentrated in one home or on one individual)

² Beyer (2003) "Pobreza y Desigualdad en Chile. ¿Qué se puede hacer?" (Poverty and Inequality in Chile. What can be done? in "Chile sin Pobreza. Un Sueño Posible" (Chile without Poverty. A Possible Dream.) Libertad y Desarrollo and Fundación Miguel Kast.

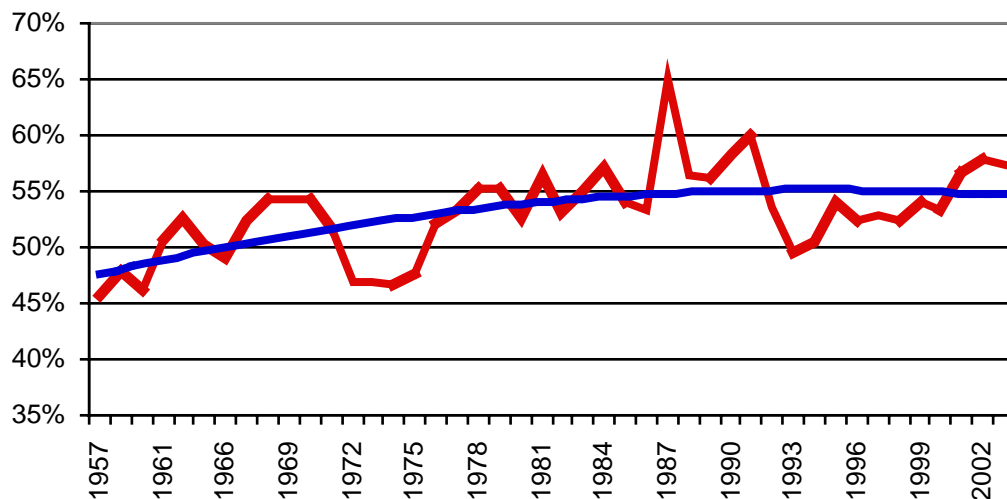
³ The variations observed fall within the margins of error suitable for this type of study.

focused subsidies, autonomous income tends to be more unequal, because the system internalizes in the labor market the fact that people receive other income laterally.

1.2. EVOLUTION OF INCOME DISTRIBUTION

In Diagram N° 2 the evolution of the Gini index (ranging from a value of 0 for perfect equality to 1 for perfect inequality among income obtained by people) for Chile from 1957 to 2003 can be observed. From 1957 until the end of the 1960s, inequality had a rising trend. However, in the first half of the 1970s a drop in inequality is shown, which coincides with the implementation of an array of policies, such as the intensification of agrarian reform, the nationalization of copper, etc. One can also assess that this drop in inequality is maintained in the second half of the 1970s, which would be justified, according to Ruiz-Tagle (1999), by the price fixings implemented during the first half of the 1970s, and in turn, by the lag in the release of these prices.

Diagram N° 2
Evolution of the Gini coefficient (1957-2003)



Source: Universidad de Chile Employment Survey, several years.

Beginning in 1975 Chile saw the start of price deregulation, trade opening and the restructuring of the state apparatus, which negatively affected wage inequality. Upon deregulating the economy incomes retook

the value that they would have had without the occurrence of state intervention. This is how inequality reached and even surpassed the levels of the late 1960s, reaching its highest level in 1987. The effect that the recession of 1982 had must also be added to this. According to Ruiz-Tagle (1999), the high levels of unemployment, a product of the economic crisis, and the reforms in the public sector designed to reduce the size of the State, along with a sustained decline of wages in this sector, seem to have been determinants in the performance of equity.

After the level reached in 1987 comes a period of stabilization and a slight fall in inequality, which carries over to the 90s. It should be noted that during these years Chile faced another economic crisis, derived from problems in Asia, Mexico and Argentina, which may have affected wage inequality, although this is purely hypothetical, as it is not quantified.

In the long-term outlook there would appear to be some degree of inertia in inequality levels, for creating significant changes in this distribution can only come as a product of a series of conditions that must remain over time in order to obtain its effects, as in the case of education.

However, it is important to ask if the observed evolution of inequality is common or not for all income groups (in percentiles). Bravo and Marinovic (1997) show that a large part of the inequality comes from the gap between the 75th and 95th percentiles, which means, people of higher income.

Likewise, it is proven that the rise in inequality is explained, in part, because although the poorest see an increase in income (by 3% in the 60s), the richest have a rise that is higher proportionally (6%). As a result of this, it signals (Beyer, 2003) that the relatively higher inequality observed for the 90s with respect to that of the early 60s cannot be attributed to the economic transformations initiated after 1973 or the strong economic contractions of 1975 and 1982-83, but rather is the result of forces that were already present in the 60s.

In addition, Bravo and Marinovic (1997) seek to explain what percentage of the changes can be explained by variables such as education and experience, according to the theory of human capital. The authors conclude that between 2/3 (in periods of rising inequality) and 3/4 (in periods of falling inequality) is explained by variables such as those mentioned above, with emphasis on the education variable.

Upon analyzing what happens among the different educational groups, it is found that, in general, the wages of people with higher levels of education rise more than those with lower levels. Likewise, there is a direct relation between level of experience and inequality.

In studies on labor supply similar results to those previously described are found. However, given the rise in labor supply in Chile, there must be another reason that explains the behavior of wages, since this by itself is incapable of accounting for the greater growth relative to the wages of people with higher education. This hypothesis is looked into in various studies (Beyer and Le Foulon, 2002; Contreras, 1999, Bravo and Marinovic, 1997, among others) and the conclusion is that what is most responsible for the behavior of wages in Chile is labor demand, especially for people with higher qualifications. In light of this, it is natural to wonder about the factors that drive relative demand for more qualified labor and have created a rise in wage inequality.

1.3. FACTORS THAT AFFECT INCOME DISTRIBUTION

In Larrañaga (2001) some of the determinants of income distribution are explained, while concluding that the greater the unemployment rate, the labor share of women and relative wages between more and less-qualified workers, the greater the inequality of household income. Likewise, the author finds that between 1987 and 2000 the inequality follows a “U” curve, where, between 1987 and 1992, inequality lowers only to reverse on this trend and finish the period at levels of inequality similar to its start.

Beyer (2003) presents a breakdown of the changes in wage inequalities observed in the last four decades. The breakdown is made starting with a model of human capital that includes, among other variables, education and experience.

Beyer finds that between 1960 and 2000 the main changes occurred in the upper part of the distribution. As a result, he finds that the main force behind the rise in wage inequality is the behavior of rewards for observable skills such as education. Therefore, the main factor responsible for changes in wage inequality is the return on education. That means that those with less education have narrowed the wage gap between them and persons with medium level education, but have been distanced from those that have continued into higher education.

In the matter of relative wages between more and less-qualified workers, Sánchez (2004) evaluates the possible factors that would have provoked rises in demand for more-qualified workers from 1975 until 2000 (which, according to the literature, would be the main factor responsible for the unequal distribution of income in Chile). The results indicated that the main factors that affect the demand for qualified labor during the 1975-2000 period in Chile have been: the product level, the prices of labor substitutes (such as the cost of capital that complements qualified labor and the unqualified substitute), trade opening and minimum wage.

Upon observing these results, two conclusions stand out, in relation to public policies that should be implemented. First of all, and for the importance of the first three factors, an increase should be created in the proportion of people with superior education (university as well as technical). This does not necessarily involve the increase in subsidies for this level of education, since, clearly, what currently happens leads these subsidies to generally go to people who are not poor. Therefore, it would be more reasonable to increase the proportion of people in superior education, under an equal opportunity framework.

Second, given that the minimum wage explains part of the reduction in labor demand (less-qualified), an alternative policy would be to reduce it or freeze it. However, the restrictions of economic policy behind this kind of measure should be evaluated. Additionally, a scaled minimum wage by age scheme should be considered, where the youngest (18 to 24) face a minimum salary lower than the rest of the workers.

II. ECONOMIC DEVELOPMENT

2.1. THEORETICAL BACKGROUND

The theoretical and empirical research of Kuznets (1955) shows the existence of a relationship between economic growth and inequality. According to the results of Kuznets, if the inequality between the high and low productivity sectors were substantially greater than that which is produced within each sector, then in a first stage of growth (from low income levels that are generally associated with preeminently agricultural societies) this would translate into an increase in inequality (while the population is shifted between both sectors). In a second stage, the greater growth would allow a decrease in inequality. This would be achieved when the majority of the population falls in the new sector (that of high productivity) or when the economy has reached a point where incentives to move to other sectors do not exist.

2.2. EMPIRICAL EVIDENCE

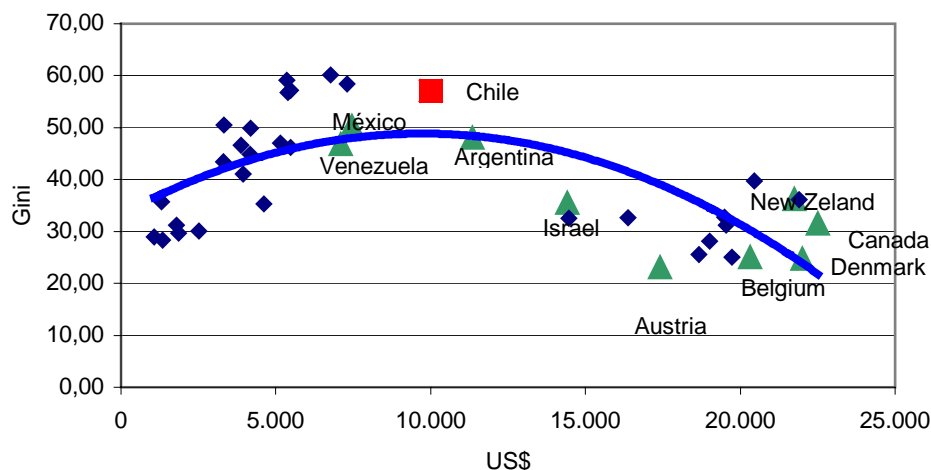
Diagram N° 3 shows the relationship between the Gini coefficient and per capita income (adjusted for purchasing power parity) of different countries. This data verifies the empirical relationship of Kuznets.

The trend line tells us that Chile, according to its level of development (income per capita in PPP), has a level of inequality higher than it should have, which means that we should be like other countries that, although they have similar income, are closer to the line and, consequently, have a lower level of inequality, as would be the case with Argentina, which is 10 points lower. This implies that the Gini of Chile at 2003 should be 0.47 and not 0.57 as it is.

This evidence raises the question 'How can Chile increase its per capita income and simultaneously decrease its income inequality?' This is evidently not easy to answer; but it's worth it to look into which countries, with characteristics similar to Chile's, have been able to advance in this sense. One such country is New Zealand, which increased its per capita income (in purchasing power parity) from US\$10,000 in 1990 to US\$22,000 in 2002, and decreased its inequality from Gini 0.44 to 0.36. This transformation is explained by various reasons, but the main ones were the use of market mechanisms that facilitated the development of

private activity, such as improvements in the quality of education, clarity in ground rules, governmental dependability, modernization of the State, greater international trade opening, etc. Of special importance was the change to the educational system. Education evolved from a centralized structure toward a structure in which primary and secondary schools and institutions of higher learning have considerable responsibility in their self-governance and management within the framework of guidelines, requirements and the financing established by the government and administered through its organizations. New Zealand's educational system is based on various fundamental principles, among which include: culturally adapted preschool services, free primary and secondary education for citizens and permanent residents in New Zealand; equal and available access to superior education; and academic degrees with guaranteed quality and international validity.

Diagram N°3
Kuznets Empirical Curve



Source: World Bank database

When one tries to find explanations of why the inflection point is produced, they encounter differing answers, which demonstrates that there is no common pattern for inequality. Acemoglu and Robinson (2002), for example, developed a model which shows that the falling

segment of the curve (which is where inequality is reducing) is reached following the implementation of political and social reforms. Furthermore, the authors point out that these political changes are induced by increases in social tension and political instability which emerge with the increase of inequality in the rising segment of the curve. However, the authors present empirical evidence that suggests that the Kuznets curve is not characteristic of every development pattern in different countries. Their model suggests two circumstances where development does not follow the Kuznets curve. First of all, if inequality is initially very low in such a way that all agents could invest, then development would be produced without higher social tension or need for political reform.

According to the authors, the countries that have these characteristics should experience rapid economic growth without increases in inequality, such as those of East Asia after World War II. Second, if the society is not very mobile, even a great inequality is not enough to force political reform. Countries that have these characteristics will see increases in inequality, slow economic growth and political reform will not take place. According to the authors, this situation would show what happens in Sub-Saharan countries and some Asian countries like the Philippines.

One point to highlight, according to them, is that one instrument to achieve a decrease in inequality is democracy. This is because, in democracy, a society with high inequality will show high social tension and political instability, which can be expressed, and will rebound into a decrease in wage inequality. Under this scenario, how would one explain then, after democratization of Eastern European countries, that these have seen increases in their inequality? According to the authors, this is a very special zone, since the goal here was not income distribution, but rather, political freedom in and of itself. Due to this, the authors point out that in order to capture that phenomenon, it would be necessary to extend their model to so consider preferences of non-material aspects of the regimes.

Therefore, other works, like that of Deininger and Squire (1996), have studied the Kuznets hypothesis, and have found that the episodes of growth would not generate greater inequality, and therefore such a curve would not exist. This version has been supported by Ravallion and Chen (1997), authors that point out a series of errors that have been committed in many studies (Adelman and Morris 1972, Van Ginneke and Park 1984, Psacharopoulos 1992, among others) that attempt to measure wage inequality and poverty.

In addition, Ravallion and Chen (1997) pose that there doesn't seem to be a systematic relationship between growth and inequality, since this relationship would be strongly affected by the particular situation of each country and region. In particular, the authors collect data from national surveys of 67 countries, separating them by geographical zone, like, Eastern Asia, Eastern Europe and Central Asia, Latin America, etc. They find a negative effect on growth in inequality, being, a greater average consumption negatively affects inequality.

Finally, Ravallion and Chen (1997) conclude that a strong association exists between the rate of growth of average standards of living and the rate at which absolute poverty falls, which coincides with Deininger and Squire (1996). Also, the latter duo find that, beyond whether incomes increase or decrease, changes in inequality tend to be small. Likewise, they find that for the majority of episodes of growth, the increase in average income, included although it may not be accompanied by great changes in wage inequality, translates into and improvement in well-being of the lower quintiles by means of an increase in income.

III. A NEW APPROACH TO INCOME DISTRIBUTION

3.1. DISTRIBUTION OF WELL-BEING

History, economics and political science have studied in depth the economic transformations of the last 30 years, and likewise, the rupture of institutional regime, the military government and the transition to democracy. But history and sociology have not taken upon this matter in the same way, but in a very incipient manner, of the evident changes the Chile's social structure has experienced, among other reasons like the result those economic transformations.

Like, for example, the problem of inequality that has been analyzed from the perspective of income distribution. It is noted that the ranges of distribution did not vary much from the 60s until today; the reflection cast over Chilean society tends to be one of a very static society, where nothing seems to change in the situation of the rich and the poor. This does not give an account of nor allow a glimpse of, but rather, hides the profound changes that have been produced within Chilean society in this period that could be brought to light, for example, is income distribution is substituted for a different category, like distribution of well-being. In all society, rewards (e.g. income, prestige, status and certain forms of power or dominion over others) are distributed in an unequal way.

The criteria utilized to determine the different forms of ranking vary according to what a society values and deems useful in a determined historical moment (e.g. military virtues in certain medieval times, a certain political capability when the rewards, money, employment and power are dispensed by governments or skills that allow the creation of wealth when it is the market that assigns resources and distributes rewards).

Since the industrial revolution, the most common way to try to explain inequality refers to the concept of social classes, in dichotomous terms, like Marx (bourgeoisie and proletariat) or tripartites: upper, middle and lower class.

No matter what position one may take on inequality, everything indicates that human beings consider that not all of its forms are equally legitimate and that those that are only the product of inherited factors (social origin) are less legitimate and less useful than those that speak of merit and personal capability⁴.

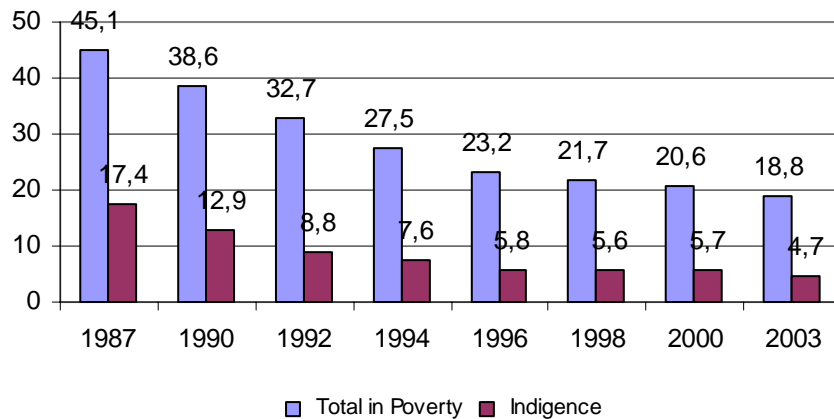
Suffice it to say that experience shows that those societies with higher levels of mobility also show faster growth rates, are perceived as being more just and guarantee greater social and political stability.

The transition from a closed economy, in which the State held a central role in the distribution of privileges and allowance of rewards to an open economy, in which market relationships become crucial, has provoked a significant impact on the processes of mobility and social ascent.

The introduction of economic market policies has lead main sources of differentiation and social mobility to respond more and more to meritocratic criteria, such as people's relative capabilities and skills in the creation of wealth, which has meant a modification in the criteria of ranking and greater social mobility.

⁴ The distribution of rewards has varied as a result of the introduction of a market economy. Likewise, the degrees of meritocracy prevailing allow the levels of social mobility that exist in Chile to be discerned, as well as to know the degree of arbitrariness among individual attributes and social rewards and the levels or degrees of rigidity in matters of social ascent.

**Diagram N°4
Evolution of Poverty and Indigence (1987-2003)**



Source: MIDEPLAN. CASEN respective years

This does not intend to claim that today criteria such as family and political relationships do not fulfill a role in the probability of social ascent; in fact not only is genetic capital transmitted from one generation to another, but also wealth, human capital and social capital. This also does not mean that in the past the market criteria were not considered at the moment of reward allocation, but rather, the traditional patterns of social ascent have yielded a significant space to meritocratic-type criteria, such as the skills of individuals and their effective performance.

Chile has experienced a cycle of sustained economic growth at uncharted rates, which has involved a significant increase in the material levels of life, and the consequent changes in the patterns of consumption and lifestyle and therefore a reduction in the levels of poverty and indigence. (Diagram N° 4). These radical transformations in the economy have necessarily brought about equally important consequences to the Chilean social structure. The prosperity, growth and affluence that go with it affect the rate and intensity of social mobility.

Technological transformations produce radical changes in the occupational structure, increasing the number of non-manual

occupations that are required of qualified personnel, the time to accumulate wealth is shortened, the patterns of consumption tend toward the homogenization of lifestyles, manner of dress, entertainment, and access to goods previously reserved for the exclusive minorities (travel, summer vacations, etc) becomes more open.

The structural transformations of the last three decades, economic growth, the increase in cultural and educational capital in the country, which comes from the substantive increase in the number of persons that reach higher education levels (70% of the people in higher education belong to the first generation to access that benefit), the weakening of institutions of the State as the principal mechanism of social and economic ascent and its substitution by market criteria, all this has changed the criteria of social ranking, giving higher priority to merit.

However, one might wonder if maybe the important increase in educational capital has not yet been amortized in terms of social mobility and if not, very significant progress is required in the quality of the educational system.

Below are outlined the social transformations that have occurred in Chile between 1992 and 2002. In this description those that have affected the poorest 20% of the population are given special focus for how the improvements in education, dwelling and employment stand out.

1. Education

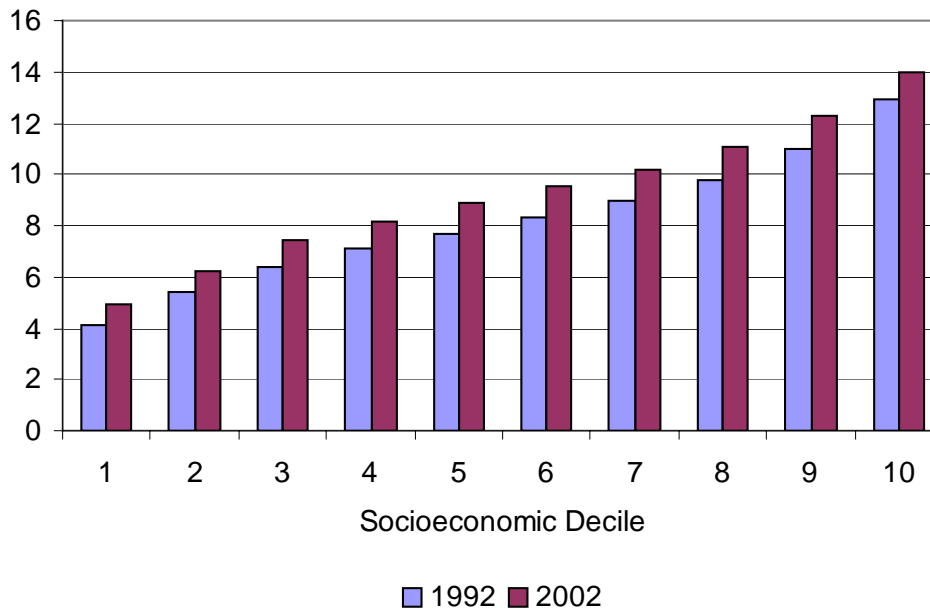
The average years of schooling among persons of 25 or more years of age rose from 8.2 years in 1992 to 9.3 years in 2002.

As for the quality of the labor force, the population is found to have a low educational level. Despite this the average educational level has risen by a year between 1992 and 2002. In this aspect the gap in favor of women that form part of the labor force should be emphasized.

Furthermore, the median rose by 2 years between 1992 and 2002, reaching 10 years, which means that 50% of the population had at least senior high school education. Of persons belonging to

the poorest 20% (first quintile), only one fifth had studied 8 years in 1992, which rose to a third in 2002.

Diagram N°5
Years of Schooling according to income decile
(25 years or more)



Source: Cómo ha cambiado la vida de los chilenos (How Life for Chileans has Changed) (INE, 2004).

As for coverage, we see that this has risen almost double in higher education (from 11% to 21%); also a rise in high school education and a reduction in the proportion of persons that only complete high school (grades 9-12) have been produced. The greater coverage of higher education is principally explained by the greater access that people of higher income have had (rise of 23%), while the poorest 20% only rose 2 percentage points. A similar situation is produced in high school education, although more attenuated, which perhaps would explain the wage gap between the different demographic groups.

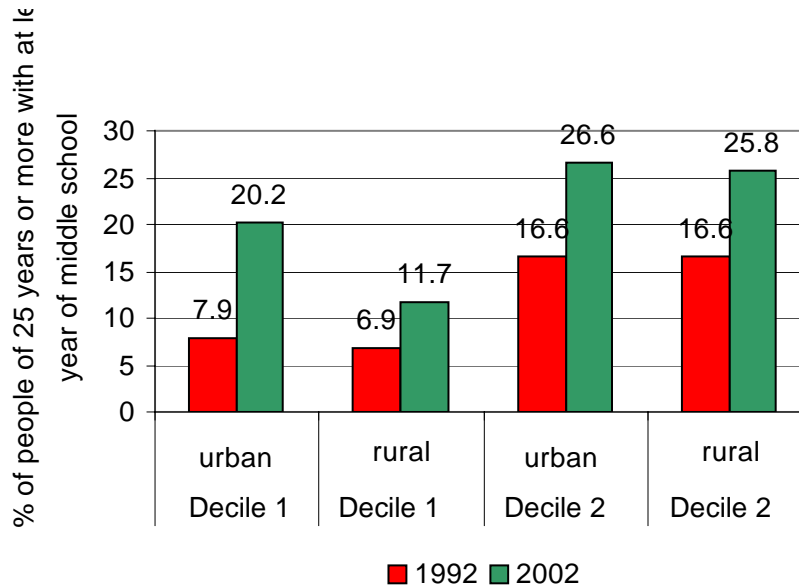
Chart N° 1

		Quintiles					
		I	II	III	IV	V	Total
1992	Grade						
	School	87.9%	69.1%	56.1%	40.8%	18.2%	53.3%
	High School	11.5%	28.5%	38.5%	48.3%	48.3%	35.6%
	Higher Ed	0.7%	2.4%	5.4%	10.9%	33.5%	11.1%
2002	Grade						
	School	79.9%	56.2%	41.1%	24.9%	9.1%	41.1%
	High School	17.8%	37.4%	47.1%	52.9%	34.7%	38.4%
	Higher Ed.	2.3%	6.5%	11.8%	22.2%	56.2%	20.5%

Source: Cómo ha cambiado la vida de los chilenos (How Life for Chileans has Changed) (INE, 2004).
Note: % of persons whose highest degree reached corresponds to at least one year less in each educational cycle

However, one noteworthy aspect is that the greater urbanization shown by homes of the poorest 20% has favorably impacted schooling. In effect, in 1992 the differences between deciles 1 and 2 in the coverage of high school education were practically equal in urban and rural zones. However, in 2002 the situation changed, in such a way that it is the persons of decile 1 of the urban sector who have obtained a higher level of schooling, from 8% with high school education in 1992, to 20% in 2002.

Diagram N°6
High School Enrollment according to area of residence and income decile



Source: Cómo ha cambiado la vida de los chilenos (How Life for Chileans has Changed) (INE, 2004).

Likewise, the 25 to 34 age group, compared with that of 50 to 59 (intergenerationally represents the parents of the first group), shows a difference in schooling of more than 3 years in 1992. This difference slightly decreased in 2002.

However, the differences are more clearly assessed in high school education (having passed at least one year in that educational cycle) In effect, in 1992 there was a difference of 30 percentage points in the coverage of high school education between the 50 to 59 year-old group and the 25 to 34 year-old group. This difference was slightly reduced to 28 points in 2002. The reduction of the gap only occurs in the quintiles of higher income, while in the poorest 20% this difference has increased. (Chart N° 2).

Chart N°2
Coverage of High School Education
Quintiles

		I	II	III	IV	V	TOTAL
1992	25-34 years	21.6%	50.2%	66.9%	81.0%	90.7%	62.7%
	50-59 years	5.3%	15.0%	25.0%	40.0%	72.1%	32.3%
	difference	16.3	35.2	41.9	41.0	18.6	30.4
2002	25-34 years	36.3%	66.2%	81.1%	90.8%	96.9%	76.0%
	50-59 years	11.8%	29.1%	42.3%	61.3%	86.6%	48.3%
	difference	24.5	37.1	38.8	29.5	10.3	27.7

Source: Cómo ha cambiado la vida de los chilenos (How Life for Chileans has Changed) (INE, 2004).

It should be noted that women have taken more advantage of educational opportunities in the last decades. In the poorest 20%, women tend to be more educated than men. In contrast, in the 50 to 59 year-old group the opposite is true: the men are the ones that are relatively better educated (Chart N° 3).

Chart N°3
Comparison of years of schooling

	1992		2002	
	Men	Women	Men	Men
25-34 years	6.6	6.7	7.6	7.8
50-59 years	3.5	3.2	4.7	4.2
25-34 years	20%	22%	34.50%	37.80%
50-59 years	5.40%	4.40%	12.50%	10.20%

Source: Cómo ha cambiado la vida de los chilenos. (How Life for Chileans has Changed) (INE 2004).

2. Dwelling

Standing out among the better advances in living conditions of the population with greater vulnerability⁵ is the quality of dwellings. Figures show that in 2002, 48% of the vulnerable population resides in dwellings that fulfill appropriate standards of a group of attributes, such as material construction and space. This represents important progress on the 26.8% that fulfilled such requirements in 1992.

Chart N° 4
Coverage of minimum standards in dwellings (persons that do not show a deficit in all aspects)

	Wall	Floor	Roof	Type	Overcrowding	All
Quintile 1						
1992	83.9	79.4	92.7	79.3	39.2	26.8
2002	89.2	97.4	96.5	86.6	59.7	48
All						
1992	92.3	93.9	97.4	92	57.8	51.1
2002	95.3	99.5	99.2	96.4	73.7	68.7

Source: Cómo ha cambiado la vida de los chilenos. (How Life for Chileans has Changed) (INE 2004).

In particular, the level of overcrowding is substantially reduced. In effect, in 1992, 60% of the vulnerable population resided in dwellings with overcrowding, while in 2002 this percentage was 40%. Likewise, in 1992 the vulnerable population was behind in residential infrastructure. In effect, the coverages were less than 10% in sewage disposal, while in 2002, 17.3% had access to all aspects of infrastructure.

⁵ Vulnerability is the condition of risk in material conditions of living associated with deficiency of resources. Resources include human and physical capital. Among the primary resources are dwelling, residential infrastructure and durable goods for consumption. Secondary resources include the person's level of schooling and the consequent quality of entry into the labor market.

Chart N°5
Coverage of minimum residential infrastructure standards
(% of persons that do not show a deficit in all aspects)

		Electricity	Drinkable Water	Toilet	Shower	Gas Fuel	All
Quintile 1	1992	55.9	38.9	4.9	8	25.9	0.2
	2002	87.3	61.4	56.5	50.7	46.1	17.3
All	1992	90.7	86.1	69	70.5	79.3	61.6
	2002	97.6	91.6	91.2	89.6	87.2	79.2

Source: Cómo ha cambiado la vida de los chilenos. (How Life for Chileans has Changed) (INE 2004).

One can also observe that between 1992 and 2002, an important rise in access to durable goods for consumption for the most vulnerable population is produced. In effect, while in 1992 the possession of resources such as a washing machine, refrigerator or color TV was an exceptional case, with coverage of less than 10%, in 2002 these appliances formed part of the heritage of around half the vulnerable population. Also seen are important increases in the coverage of goods like high fidelity stereo systems, and cellular phones (Chart N° 6).

Chart N°6

	Vulnerable Population		Country	
	1992	2002	1992	2002
TV- Color	7.3	56.8	54,3	89.0
VCR	0.3	4.4	19.3	38.4
Stereo System	3.2	33.7	32.2	69.5
Washing Mach.	40.0	51.4	50.0	83.0
Refrigerator	8.2	48.4	55.6	84.3
Microwave	0.0	1.6	4.4	31.3
Cellular Phone	0.0	29.8	1.1	53.6
Telephone	0.1	4.9	23.7	53.2
Vehicles	5.0	10.2	20.9	32.2
Cable Television	n/a	2.1	n/a	25.0
Clothes Dryer	n/a	26.4	n/a	45.1
Dishwasher	n/a	1.0	n/a	3.4
Water Heater	n/a	5.4	n/a	57.7
Computer	n/a	0.3	n/a	22.2
Internet	n/a	0.0	n/a	10.9

Source: INE.

3. Employment

According to the censuses of 1992 and 2002, a strong increase in the participation of women is observed, for all age categories, accompanied by an increase in the quality of the work force. In the most vulnerable group, the increase in employment participation is mostly concentrated in rural and agricultural zones.

Chart N°7
Employment participation rate on the national level, 1992-2002

	1992			2002		
	Average	Urban	Rural	Average	Urban	Rural
Total	49.0%	49.7%	45.5%	52.4%	53.7%	44.2%
Men	71.8%	71.1%	74.6%	70.6%	71.2%	67.2%
Women	28.1%	30.8%	12.0%	35.6%	37.9%	18.8%
20% of the Population with the lowest socioeconomic well-being						
Total	44.6%	44.5%	44.6%	34.4%	45.7%	41.6%
Men	73.6%	71.7%	74.4%	65.9%	67.1%	64.9%
Women	12.1%	17.6%	9.3%	19.2%	24.4%	14.6%

Source: INE (2002).

Analysis of occupational category shows that the most vulnerable population covers mostly wage earners that fulfill domestic services or are paid relatives.

Another item of note is that the most vulnerable population shows a reduction in the participation rate of potential workers. Likewise, the occupation rate registers a reduction, which would explain the behavior of men which have significantly reduced their participation, despite the strong increase in female participation. The male employment participation is reduced over the 1992-2002 period, for all regions and age categories, which is the opposite of what is happening with the women, especially the youngest.

In addition, a greater participation is seen in heads of household, independent of gender, which would be due to the need to provide sustenance for the home. The rise in employment among workers who are not heads of household stands out as well, which lends certain evidence in favor of the hypothesis of the additional worker, which indicates that if a person other than the head of household works, the probability that the family will fall into poverty is less; or if the family is poor and some member of the family (other than the head of household) becomes employed, then that family will see their probability of getting out of poverty rise significantly.

According to Beyer (2003), the differences in employment participation and employment are very meaningful in Chile and are positively correlated with household income. This would demand

placing special attention on the labor market and the eventual barriers that can be imposed upon less-qualified workers. A central challenge for the Chilean employment market is progressing towards higher flexibility. Likewise, it should be pointed out that Chile holds legislation that makes it one of the countries with the highest expected costs of termination, a factor that significantly influences the decision to hire workers. In fact, Beyer (2003) utilizes the employment values of Heckman and Pagés (2000) and calculates the costs of termination in Chile, which after the reform of 2001 were estimated at 3.92 months, and he claims that our country would have had some 400,000 more jobs if the expected costs of termination would have been more similar to those of industrialized countries. Therefore, the lack of employment is not necessarily reflected in the unemployment rate, but rather, often through a low employment participation rate. In other words, the decision to enter the workforce is affected. In Chile this is relatively low, as shown in Chart N° 8.

Chart N°8
Proportion of employed women that work less than 30 hours a week

Chile	59.8%	Australia	73.8%
Argentina	63.4%	Canada	76.3%
Brazil	69.3%	United States	77.2%
South Korea	64.3%	Spain	65.3%
Mexico	62.3%	France	68.1%
Germany	72.2%	Czech Rep.	71.3%

Source: CEPAL y Employment Outlook.

This low employment participation rate is explained, according to Beyer, fundamentally by the low participation rate of women in Chile, which would be situated among the lowest in the world, and is also related to the inflexibility of our employment market. In effect, Beyer points out the obvious which is the low proportion of part-time female employees, a reason that helps to explain the low female employment participation rate in the country.

Chart N°9
Proportion of employed women that work less than 30 hours a week

Chile	14.7%	Belgium	34.5%
Mexico	25.6%	Canada	33.3%
Japan	39.4%	United States	40.8%
Australia	40.7%	Ireland	32.2%
Germany	33.9%	Netherlands	57.2%
Austria	26.4%	New Zealand	36.5%

Source: CASEN 2000 and Employment Outlook.

According to Beyer, the proportion of women hired for part-time is negatively correlated with various indicators of rigidity in the employment market (-0.55 between both variables), which would mean that with greater rigidity in the employment market, there exists a lower proportion of women hired for part-time. This would support that the costs of termination (and, the rigidities of the employment market in general) hold a significant influence in the decision to hire workers.

The effect of a high level of employment rigidity does not always translate into higher unemployment rates, or in a way that is always visible. What tends to happen is that there is less creation of permanent jobs. As termination is discouraged, efficient reassignment of productive resources is prevented, damaging productivity and growth of the economy, and with it, future growth of employment.

3.2. SOCIAL MOBILITY, INTERGENERATIONAL MOBILITY AND INTER AND INTRAGENERATIONAL INCOME DISTRIBUTION

A study by Libertad y Desarrollo⁶ based on the Encuesta Panel de MIDEPLAN (1996-2001) (MIDEPLAN Survey Panel), shows that that hypothesis is flawed and that behind the stagnation of the poverty and indigence rates reported beginning in 1996 a great mobility of families that enter and leave poverty and indigence is hidden. This new diagnosis is shared by a study from the Universidad de Chile⁷ and without a doubt holds implications on policies that shall be considered for the redesigning of future social programs.

The Panel Survey reports the situation of a sampling of families in 1996, and then again in 2001. This allows the comparison of the situation of this group of families in two moments in time. According to the data of the Survey, indigence and poverty show that mobility is fundamentally determined by variable employment. This means that 78% of the indigents of 1996 were not indigent in 2001, and that a similar percentage of the indigents of that year are “new” to that situation. This shows the need to completely review the current social policy, created under a flawed hypothesis, for only 22% of the indigent population is static, and their characteristics were what inspired the design of assistance policies.

The explanation for this heavy fall towards poverty is mainly attributed to the structural change in the rate of economic growth starting in 1998. As evidence, in the period of 1991-1997 Chile had average growth rates of 8.2%, while, beginning in 1998 the annual average growth only reached 2.6%.

Prior to 1998, with an annual growth rate of 8.2%, the rate of leaving poverty was higher and that of entering poverty, lower; as a consequence, what was observed was a greater decrease in

⁶ Castro, Rodrigo (2004) “Getting Ahead, falling behind and Standig Still. Income Mobility and Household Poverty Dynamics in Chile” (mimeo). Working Paper, Libertad y Desarrollo.

⁷ Contreras, Dante et al. (2004) “Dinámica de la Pobreza y Movilidad Social: Chile 1996-2001” (Dynamics of Poverty and Social Mobility: Chile 1996-2001). Department of Economics, Universidad de Chile.

poverty. In contrast, between 1996 and 2001, with lower average growth, the Survey's data shows that the rate of entering poverty grows and reaches the levels of the rate of leaving.

What is the cause for the rate of entrance into poverty to have risen? The same data indicates that the main cause for the entrance toward poverty is the loss of employment by one or more members of the household generated by the swift fall in growth starting in 1998.

So here surfaces a different challenge, where the main problem is the large quantity of people that fall into poverty and the precariousness of income for those who manage to rise above that threshold. These results are consistent with the estimations of Larrañaga (1994) and Contreras (2001)⁸, which establish that between 85% and 90% of the reduction in poverty before 1996 is explained by the economic growth. Without a doubt the low growth experienced by Chile since then explains to a great extent this rise in the rates of "entrance" into poverty.

Chart N° 10
Evolution of Households by Poverty Situation 1996-2001.
Destination of Poverty Strata 1996

	2001			
1996	Indigent	Poor	Not Poor	Total
Indigent	21.7	40.5	37.8	100
Poor	8.2	32.4	59.5	100
Not Poor	2.6	8.8	88.6	100
Total	4.3	14.0	81.7	100

Source: Panel Survey 1996-2001, MIDEPLAN.

Analyzing the positive trends, meaning, of those that rose above poverty and/or indigence, we see that 78.3% of indigents and 59.5% of the poor improved their income situation. Moreover, among the indigents of 1996, 37.8% had crossed above the threshold of poverty after five years (Chart N° 10). Situated in 2001,

⁸ Larrañaga, Osvaldo (1994) "Pobreza, Crecimiento y Desigualdad en Chile: 1987-92" (Poverty, Growth and Inequality in Chile: 1987-92) and Contreras, Dante (2001) "Economic Growth and Poverty Reduction by Region: Chile 1990-96".

Chart N°11 looks back to evaluate what situation the population found itself in 1996. This indicates that 47% of indigent households in 2001 weren't even poor in 1996.

Chart N° 11
Evolution of Households by Poverty Situation 1996-2001.
Origin of Poverty Strata 2001

	2001			
1996	Indigent	Poor	Not Poor	Total
Indigent	23.9	13.8	2.2	4.8
Poor	29.1	35.8	11.3	15.5
Not Poor	47.0	50.3	86.5	79.8
Total	100	100	100	100

Source: Panel Survey 1996-2001, MIDEPLAN.

A similar occurrence takes place with non-indigent poor households; 50.3% of them are “new” in their situation as a product of a negative trend. In short, 32% of the Chilean population has experienced poverty over the course of the period in question, which is approximately 4,828,000 people, a figure much higher than the 20% poverty that is registered by traditional indicators. In relation to indigence, approximately 9.5% of the population has been in such a situation, which would be approximately 1,450,000 people.

However, from the point of view of income mobility, one might ask what the data would say if Chile were a rigid society. If it were, we would find that everyone would be on the diagonal cells of the transition matrix by income deciles, meaning that all would keep their place in income distribution from year to year. However, the transition matrix is far from being a diagonal matrix (only 22% of the population falls on the diagonal). This shows that Chile is not a rigid society. The matrix shows that 35% of those that were poor (first decile) in 1996 were once again in the first decile in 2001. That means that 65% of these people were richer in 2001. Included, 8.7% of them were in the upper half of income distribution (deciles six to ten). While the rich of the highest decile (decile ten) had a high probability of remaining in decile ten(55.6%), 12.7% of them came to be in the lower half of income distribution(deciles one to five), perfectly showing that a rich person can become poor in the span of five years.

To these facts another new phenomenon is added: intergenerational mobility. In a recent work (Núñez and Risco, 2004) the income quintile which parents were in when their children were born is compared to the current income quintile of those children. In the case of the parent that were in the lowest quintile, or poverty, 31% of their children are found in the same quintile, while 21% climb one quintile, another 21% climb two, 19% climb three and 7%, four. That means that 26% of the children of the poorest income bracket manage, all things considered, to climb to the two highest quintiles. At the same time, among households of higher income the greater capability of parents to pass well-being on to their children stands out, for 50% of children of the richest remain in the highest quintile. The other 50%, however, drop in the social scale: by one quintile, 26%; by two, 6%; and 19% are going to end up in the two lowest quintiles. This reflects that there is mobility. In recent years, the social determinism with which the children face life has been more flexible.

Additionally, following the argument of Sapelli (2005), the Gini coefficient could be broken down by intergenerational inequality and intragenerational inequality. As for intergenerational, it is recorded that there is a substantial percentage of people whose basic education is not complete, for whom income distribution is anchored at its current point and as there have been increasingly more people completing higher education whose returns have been greater and greater –at least for a while-, it is not surprising that the distribution of income (stock) has not improved, because intergenerational inequality has been growing. As for intragenerational, one could expect that income distribution for more recent generations has improved, since there has been an important reduction of people with incomplete basic education (and they abandon basic education later and later), while the maximum years of education has remained fixed. As a consequence, a rise in intergenerational inequality together with a drop in intragenerational, or a rise in income distribution of stock⁹ together with a drop in that of flow or marginal would be consistent. Likewise, Sapelli reports a

⁹ Income distribution of stock is that of all active generations (between 15 and 65 years), while that of flow is income distribution of a cohort born in a particular year. The income distribution of stock varies slowly as a cohort is dropped and another is added to the labor force, while the income distribution of a cohort can change in quickly and is the one upon which public policy operates.



marked trend of each generation having a Gini coefficient lower than the previous generation (a substantial improvement is seen in intragenerational income distribution). This process is accentuated after the generation born in 1963, and once again after that of 1973. It should be pointed out that 50% of the current population was born after 1963, and therefore, if this trend in the margin continues to show, the prediction observed in the Gini coefficient is that income distribution will improve markedly for some 20 years, when all generations born before the early sixties drop off.

IV. PUBLIC POLICY PROPOSALS

In light of the results of different studies that support the previous diagnosis, it is important to move forward with the design and implementation of public policies in the following areas:

4.1. THE NEED TO RETHINK SOCIAL POLICY

It is necessary and urgent to incorporate mobility as the central axis of social policy. After all, social programs such as Chile Solidario are necessary and acceptable for a poor sector of the society that remains ignored over time, but must be reviewed to take into account the reality of poverty. To accomplish that it is necessary to redefine the operation of the Chile Solidario program, in such a way that it becomes more fluid and less politicized. Therefore, the operation of this program needs to be handed over to the municipalities subject to the general norms of the central government and for private, nonprofit institutions to be allowed to be its operators within a framework of management agreements. Furthermore, it is crucial to make flexible and to prioritize the minimums or objectives to be achieved in work with families.

In this same sense a minimum stability of benefits and resources must be ensured for families that are progressing economically, in a way to not produce poverty traps. Therefore, the rising above of socioeconomic conditions must be promoted more than stagnation. The people who benefit from social subsidies are afraid of losing them, because as they improve their conditions they can lose benefits. Meanwhile, interest must be placed upon keeping the subsidies focused. The benefit would include a mechanism whereby for each family that is set to lose a benefit or subsidy, a grace period is given beforehand. Alternatively, the benefits are given in advance for the mere fact of accepting their exit from the program.

4.2. EMPOWERING HUMAN CAPITAL

Of the children in the poorest quintile, 30% attend preschool, while in the richest quintile, 50% do so. In turn, total preschool coverage is at 35%. Education of toddlers and preschool children marks a strong difference for children that translates into better performance in basic education. Various studies show that cognitive and non-cognitive deficits emerge before school ages and if not corrected on time, they will affect the learning process and the productivity of these people. This is why it is important in countries with high income inequalities, for preschool education programs to be developed, which will allow the initial disadvantages of the poorest children to be reduced. Then, it is important to progress towards 14 years of schooling by giving universal coverage for the group of children of 4 and 5 years (kindergarten and pre-kindergarten). Furthermore, a grant to replace the current system of quotas in preschools should be created, and should be focused on children younger than 4 years, giving priority in admission to preschools and preschool guidance centers to children coming from sectors of scarce resources.

In addition, although education expenditure has tripled, the gaps in quality have remained the same. The schools attended by the poorest children are not fulfilling their roles in making opportunities equal. This is shown by the results of the latest SIMCE. From Chart N° 12 it can be concluded that, on average, progress in school performance is non-existent. In 2000, the differences in scores between the high group and the low group in language were 69 points and in math, 70 points. In 2004, the differences in scores between the high group and the low group were 72 points in language, and 79 points in math. It must be said that the gaps in quality between the schools attended by children of high and low income are holding fast, despite the children of 8th grade who were shown by SIMCE 2004 to have benefited from educational reform and all the education support programs that have been financed with the higher expenditure in the sector.

Chart N° 12
Average scores in SIMCE for 8th Grade (2004)

	2000	2004	Variation
High Socioeconomic Level			
Language	297	301	4
Math	302	311	9
Low Socioeconomic Level			
Language	228	229	1
Math	230	232	2
National Average			
Language	250	251	1
Math	250	253	3

Source: Education Ministry. SIMCE 2004 8th Grade.

In addition to this, the results of the TIMSS international test that measures scholastic accomplishment and performance are hardly encouraging for Chile. Along with the differences in quality between strata previously mentioned, our level of accomplishment is very low compared to other countries. The lower category which reflects inferior knowledge to the minimum that the TIMSS test allows is where 60% of Chileans in 8th Grade fall, a percentage that doubles the international average for that category of 26%.

To move forward in closing these gaps it has become necessary to design and implement a weighted scholastic grant (greater amount to poorer students), measures directed towards making schools more effective and improvements in school management.

In Chile, the coverage of higher education is very different depending on income strata. Currently, 37.5% of young adults study in higher education. However, in the poorest quintile the percentage is 14.5% and in the richest, 73.7%. This occurs, among other things, because of the great difficulties that families of the low and middle strata face in order to pay the costs of higher education. For a Chilean family with a monthly level of income of \$528,000, they must set aside 25% of their monthly family income to pay average university dues (\$129,887) or 15% for average dues at technical training institutes (\$77,000). This shows that for a family

with two children at the age for attending higher education and that, in general must also make payments on their home, it is very difficult to be able to do. If we consider families of the first quintile, they would have to pay 90% of their monthly income to the university and 53% to the technical institute. In this area, it is necessary to redesign university credit for all, and for the poorest 40% of students, support scholarships should be given complementary to university credit, in order to cover food, transportation, study materials and other expenses.

4.3. PROMOTING EMPLOYMENT OF WOMEN

One of the causes of inequality of opportunities is that the poorest women have enormous inequalities for work. Just one in four of the poorest 20% is incorporated in the employment market; as for the richest quintile, one in two does so. Families in poverty have fewer occupants per home, which makes their income less than those families in which, in addition to the head-of-household, the woman or other members also work. Poor households have an average of .7 occupants per home, while in those households that have risen above the poverty line there are 1.7 occupants per home. This means that in those households where the woman works, the probability of falling into poverty decreases, thanks to both parents being able to obtain a greater family income. When both work, only 7% of households are under the poverty line. On the contrary, when only the man works households under the poverty line are elevated to 19%.

In order to close these gaps it is necessary to design a program that provides a subsidy for the care of children less than 4 of the poorest sectors and whose mothers work. This program could help some 50,000 mothers of scarce resources, whose households could increase their incomes by an average of 50%.

4.4. REDUCING MINIMUM WAGE FOR THE 18 TO 24 YEAR SEGMENT

Those who fall into or remain in poverty show to have predominantly informal employment, where the minimum wage is restrictive. Whatever the period of analysis, the increase of minimum wage has surpassed the growth of average compensation for the economy, but with special emphasis on the last three years, precisely when the economy has required greater flexibility and capability for adaptation to the employment market to avoid an adjustment by way of unemployment. Both economic theory and empirical evidence suggest the minimum wage tends to increase the unemployment of young adults and people with few qualifications, as it also creates incentives to drop out of school¹⁰. It is without doubt that these effects translate into a higher proportion of poor people and households.

In this sense, among those younger than 25 years, waged employment decreased by 20.1% between 1996 and 2000. In this case, informal work did not allow this situation to revert, and overall employment of young adults fell by 18%. Furthermore, waged employment of people with eight years of education or less fell in this same period by 8.8%. Due to the negative impact of the increase in minimum wage, mainly upon young adults, a lower one should be established for the 18 to 24 year-old segment.

¹⁰ Neumark and Wascher (1995) "Minimum Wage Effects on Employment and School Enrollment" *Journal of Business and Economic Statistics*. Paredes and Sanhueza (1996), "Minimum Wages and School Dropouts in Chile", mimeo, Universidad de Chile.

V. CONCLUSIONS

The 2002 Census delivered various results on socioeconomic and demographic changes in our population, as well as in the structure and characteristics of Chilean households. In general, the significant improvement in the conditions of well-being for all households must be seen as the result of a process of high economic growth that began in the late 80s and maintained until 1998. A study¹¹ complements the interpretation of the results that are obtained with greater economic growth. In effect, the poor of developing countries (defined in 1980 as the poorest 45% of the people) have seen greater growth in than non-poor people in the last 20 years. In brief, for every 10% in growth of consumption of non-poor people, the poor have increased their consumption by 18%.

Nevertheless, the current circumstances of income distribution in our country and its evolution continue to cause unrest among various groups. But modifying the inequality of a country is no easy task. One cannot deny the underlying demand for equality, but economic progress cannot be neglected, either. The population undoubtedly perceives the substantial income inequalities, and in this sense political groups legitimately aspire to correct them. That effort, however, if not well thought-out, often ends in punishing economic growth, as well as governmental taxation and with it the action of the State directed towards the most poor. This shows the importance of evaluating public policies.

This work presents new evidence on income distribution. In particular the debate over the relationship between growth and inequality, and its effect upon the well-being of the society is studied in depth, concluding that growth has been fundamental in the improvement of quality of life for the population. Furthermore, it points out that Chilean society is highly mobile, both from the point of view of income, and intergenerationally. In effect, Núñez and Risco (2004), upon comparing the income quintile that parents were in when their children were born and the current income quintile of these children, conclude that of the parents that were in the lowest

¹¹ Bhalla (2002) "Imagine there's no Country: Poverty, Inequality and Growth in the Era of Globalization". Institute for International Economics.

quintile, or poverty, 31% of their children are found in the same quintile, but 21% climb one quintile, another 21% climb two, 19% climb three and 7%, four. This means that 26% of the children of the poorest, all things considered, climb to the two highest quintiles.

Meanwhile, in light of new evidence found by Sapelli (2005), a marked trend is recorded of each generation having a Gini coefficient lower than the previous generation. In effect, a trend is observed in which the intragenerational income distribution gradually decreases.

Then, with this empirical evidence the main policies applied in Chile are analyzed, concluding that they have not been well-focused. Therefore, alternative policies that would favor greater equality of opportunities are proposed.

So, for example, it is important to rethink social policy, redefining the operation of the Chile Solidario program, in such a way that it becomes more fluid and less politicized. Furthermore, human capital must be empowered, with heavy investment in the preschool age, designing and implementing a scaled scholastic grant, measures directed towards making schools more effective and improvements in school management and increasing coverage of higher education with a better financing system.

In addition, according to international standards, it has become necessary to promote women's employment, mainly at levels of lower income.

Also proposed, due to the negative impact of the rise in minimum wage, mainly among young adults, is for one to be established for the 18 to 24 year segment.

With these facts, it must be emphasized that it is not possible to aspire for a rapid change in income distribution. Try to at least consider radical alterations to tax, public spending, including productive structures of an economy, those that with difficulty can be brought about without affecting economic, social and political

stability of the country. In this sense, Engel et al. (1998)¹² deem that changes much more drastic than those considered in public debate do not have an important effect upon the income distribution that is obtained after the collection of taxes but before these taxes finance government spending. Therefore, all initiatives that claim to affect income inequality have to face the fact that in the short term there are no possibilities for success. To approach this subject requires one, on one hand, to clearly distinguish the factors that are affecting our distributive situation, and on the other hand, accept that long-term policies that influence the development of these factors will be the only ones capable of altering the current levels of inequality.

It is often thought that the poor distribution in Chile is very static and that due to low economic growth the poverty and indigence indices stagnated over the last few years, which would make us to think about a “rough” existence in poverty and indigence. Nevertheless, recent works have shown that there is a high social mobility, especially in the lower deciles of distribution, which is good news for Chile, and fits in with the improvements in well-being exhibited by the population from 1992 to date. Moreover, the stagnation shown by the indices of poverty and indigence would be owed to a substantial rise in the probabilities of falling into those categories (despite a high upwards mobility remaining), which would be associated with deterioration in the possibilities of finding and maintaining employment.

What is taken away from this is that the way to improve a very unequal income distribution is by decreasing the probability of falling into poverty and indigence and keeping the probabilities of climbing within the distribution high. This requires:

1. **Equality of opportunities**, so that all have the possibility of rising up on their own merit, with which, among other things, would reduce social tension.
2. **Improvement of the employment market**, since this is the main factor that helps in the reduction of probabilities of descent, and in keeping (or increasing) the probabilities of

¹² Reforma Tributaria y Distribución del Ingreso en Chile. Documento de Trabajo CEA, Universidad de Chile.

ascent, for which it is required to remove all negative biases that are currently found in this market.

3. **Create and maintain high economic growth**, so that more employment may be created along with it, and
4. **Improve the quality of education**, especially public education, so that a trained work force can be counted on that will allow us to have a better quality of jobs.

Finally, it should be stressed that what is sought is not an egalitarian income distribution per se, because as people we are each different; what is sought is equality of opportunities and a greater social mobility based upon the merits and abilities of people, so that all who make the effort have possibilities to study or become qualified, and in doing so, rise up on their own merits.

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