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SOCIAL POLICIES IN CHILE

Origin, Transformations, and Perspectives

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Glossary of Acronyms Used Frequently in the Text

AFP	Administradores de Fondo de Pensiones Administrators of Pension Funds
CANAEMPU	Caja de Previsión de los Empleados Públicos Withholding Fund for Public Employees
CORVI	Corporación de la Vivienda Housing Corporation
EMPART	Caja de Previsión de los Empleados Particulares Withholding Fund for Private Sector Employees
FONASA	Fondo Nacional de Salud National Health Foundation
FOSIS	Fondo de Solidaridad e Inversión Social Solidarity and Social Investment Foundation
GDP	gross domestic product
INE	Instituto Nacional de Estadística National Institute of Statistics
ISAPRE	Instituto de Salud Previsional Health Insurance Institute
JUNAEB	Junta Nacional de Auxilio Escolar y Becas National Council of Scholastic Aid and Grants
PEM	Programa de Empleo Mínimo Minimum Employment Program
PNAC	Programa Nacional de Alimentación Complementaria National Complementary Nutrition Program
POJH	Programa Ocupacional para Jefes de Hogar Heads of Households Occupational Program
PSS	public social spending
SERMENA	Servicio Nacional de Empleados National Service of Employees
SNS	Servicio Nacional de Salud National Health Service
SNSS	Sistema Nacional de Servicios de Salud National System of Health Services
SSS	Servicio de Seguro Social Social Insurance Service

Introduction

Within Latin America, Chile has been a pioneer of social policy in two historical periods. The first it shares with Uruguay. In the 1920s the country initiated a path toward a strong and growing participation of the state in financing social policy and in the direct 'production' of services and social benefits in the spheres of education, social security, health, and housing. The action of the state created an infrastructure for supplying social services throughout the country that slowly benefited ever-increasing sectors of the population: first workers, then the middle and lower strata of urban dwellers, and later, although in lesser measure, inhabitants of the rural sector. Around 1970 public social spending represented some 20% of gross domestic product (GDP), and its distribution was progressive. At the end of the 1970s and during the 1980s, Chile was a pioneer in formulating policies to restrict the role of the state to a subsidiary one by reducing public spending, decentralizing and privatizing public social institutions, introducing market mechanisms to assign public resources, and attempting to focus state subsidies exclusively toward the poorest sectors.

The aim of this document is to present an historic panorama of the role of the state in the social sphere and to present the rise, trajectory, and characteristics of the system of social policies or welfare state, in the context of the economic, social, and political development of Chile.

We will use indiscriminately the terms 'system of social policies' and 'welfare state' to refer to the concern and initiatives that the state has undertaken to protect the population against economic instabilities and unexpected events, commonly referred to as social security policies (old age, years-of-service, disability, and survivors' pensions, unemployment subsidies, and family allowances), social policies (education, health, and housing), and policies to reduce poverty. The emphasis of this work will be on social security policies, health, housing, and education. Nevertheless, it would be restrictive to analyze the initiatives in these spheres without considering the more global context of the state's attention to problems of inequality and social integration and the place of social policies in the development strategies which the country adopted.

The work is organized chronologically. Each section represents a significant period in the development of the Chilean system of social policies. Section 1 touches on some of the fundamental social and economic changes that the country experienced at the beginning of this century. These changes created pressures to stop considering the problems of poverty as issues to be dealt with by charity and beneficence, and instead to make them issues of public (state) concern and responsibility. This section deals with the social legislation of the 1920s which became the foundation of the social policies system in force in the country until the 1970s.

Section 2 considers the period 1932–1973, in which the initial system grew and expanded. After providing a global panorama, the section analyzes the trajectory of public social spending and its financing. Then it considers the policies, programs, and benefits of social security, health, housing, and education by sector. For each area, a background is provided concerning institutional development, coverage of policies, the allocation of spending and its effectiveness, weaknesses, and pending problems.

The social policies system suffered profound institutional modifications under the military regime. Section 3 considers these reforms, examining the new focus of social policy, the institutional and financing changes, and the results in terms of poverty and social inequality. As in Section 2, a background is presented for the four sectors (social security, health, housing, and education) and information is provided on direct social assistance policies focused on the poorest groups.

Section 4 looks at the challenges which confront the present system of social policies in a period of transition and consolidation of democracy. It also considers the social initiatives undertaken by the government that assumed office in March 1990.

The 'Social Question' and Legislation of the 1920s: Workers and the Protector State

In the first decades of the twentieth century a fundamental change in attitude and a reordering of social forces took place in Chile around social issues. They were no longer considered issues for charity and beneficence, but became a concern and responsibility of the state (Arellano 1985, 29). These changes culminated with the approval of the so-called 'Laws of 1924–1925' and the passing of the first Labor Code in 1931.

1. Chilean Society and Economy at the Turn of the Twentieth Century¹

What situations and social processes were behind the reordering of forces concerned with social problems? An exhaustive answer to this question would surpass the reach of this work. We will only list some of the central elements.

In the Latin American context, Chile stands out for its early formation of the state and a relatively stable political system, escaping the 'military caudillo' age which affected almost all Latin American nations. Pinto summarizes Chile's particular development this way:

¹ This section is based on Arellano (1985, Chapter 1). Further background information can be found in Hurtado (1966), Godoy (1971), Pinto (1962, 1971), Rodríguez (1976), Mesa-Lago (1978), and Illanes (1989).

...Diego Portales consolidated a civil authority which...achieved what other Latin American republics were not able to: it defined class domains in accordance with the objective circumstances of the moment.² Portales made evident—and based his power on—the predominance of the landowning class, not through any uniformed leader, although they were present, but through civilian representation, in 'the state.' In other words, he detected where effective power lay and he 'rationalized' it politically. Other countries, on the other hand, were not able to formalize the objective tutelage of the landowners in its 'civil' expression and had to live the more or less prolonged stage of caudillos and dictators which, although responding to the interests of the large landholders, introduced a high degree of instability because of the role of personalism and the armed forces (Pinto 1971, 68).

During the twentieth century and until the international crisis of 1930, Chilean development was driven by external demand for mining products (gold, silver, nitrate, and copper), and agricultural exports (principally wheat). The state controlled and administered the resources originating from these exports, allocating them to infrastructure (railroads, roads, ports) which, in turn, facilitated exportation. Towards the end of the nineteenth century a portion was also allocated to public services (police and education).

Again, as noted by Pinto:

There was an organized national state, with an appreciable degree of autonomy, which had reached a relatively high level of growth in relation to Latin American standards. Nevertheless, what is most important in this picture, and what is peculiar to the Chilean arrangement, is that *it is the government and not national capital of the export sector* which is the agent that administered, spent, and distributed a considerable fraction of the funds generated by foreign exchange (Pinto 1971, 72; emphasis in original).

According to some authors the institutional stability of the country after 1831—interrupted only in 1891 (Balmaceda, revolution of 1891) by constitutional problems between the president and Congress and a series of revolutionary movements and military interventions between 1924 and 1932—can in great part be attributed to the mining industry, which provided resources to the state (Hurtado 1966).

During the final decades of the last century, the nucleus of Chilean exports was nitrate. Land containing nitrate reserves passed to Chilean territory as a result of the War of the Pacific (1879). Its location and the particular conditions of nitrate exploitation implied, on the one hand, an economic weakening of the ruling class and, on the other, the formation of an organized proletariat conscious of its rights.

² Portales was Minister of State on two occasions in the decade of the 1830s. He was the dominant influence during the formative period of the republic. He also served as Minister of the Treasury, Minister of War and Navy, and Minister of the Interior.

...shortly after the War of the Pacific [nitrate mining] came to be controlled almost entirely by foreign capital, in its exploitation as well as in its commercial operations... In this way the Chilean ruling class remained largely separated from those lucrative activities, except in terms of individual capacities as lawyers, managers, or providers of the sector (Pinto 1971, 72).

The nitrate industry absorbed an important quantity of the labor force, around 60,000 workers between 1924 and 1929 (Hurtado 1966, Table 23). Since the north was a relatively unpopulated zone, the exploitation of nitrate meant important flows of population from the central zone. These flows and the particular forms of organization of labor in the nitrate mines contributed to the formation of a mining proletariat with close ties to urban areas.

Again citing Pinto:

...The exploitation of nitrate took place...in the relatively unpopulated, northern provinces, making it necessary to transfer to that region, from the center and south, almost the entire required labor force. The latter depended completely on foreign or extraregional supplies; the working conditions were very hard, and the sharp and continual oscillations of foreign exchange created periodic waves of unemployment which forced thousands of families without resources to concentrate in coastal cities.

On the other hand...the relationships established by nitrate mining were of an industrial nature, propitious for the disciplined and energetic action of the masses. It should be added that massive migrations to the northern mining region established a political 'transmission belt' with the south: peasants, laborers, and relatives moved in both directions, disseminating the ideas and attitudes which flowered in the nitrate mines. These conditions...motivated the early rise of workers parties, with clear socialist orientation, even before, it should be stressed, the Soviet revolution (Pinto 1971, 74).

Other processes, interconnected in part with the previous ones, also contributed to the social transformations which took place at the beginning of the twentieth century. Among them was the intensification of the migratory currents from Europe, favored by government colonization policies.³ These were quantitatively much less important than in the neighboring countries of Argentina and Uruguay. Nevertheless, they had qualitative repercussions on the formation of entrepreneurial capacity and availability of skilled labor, contributing to the incipient processes of industrialization and an acceleration of urban growth. Hurtado (1966) estimates that between 1875 and 1920, 110,593 foreigners arrived in the country, excluding those who arrived from

³ Toward the second half of the nineteenth century the pacification and occupation of Araucania (South of the river Bío-Bío) was finally achieved, integrating a rich zone for wheat production and cattle raising into the nation. The government formulated projects for colonization and development of cities in this region.

bordering nations.⁴ Until 1914 more than half the existing industry was in foreign hands.⁵ The industrial labor force rose from 61,000 employed in 1915 to 80,000 in 1920.

The expansion of industrial activity was concomitant to the growing process of urbanization. Between 1875 and 1920, the total population increased by 56%, the urban (centers with more than 2,000 inhabitants) increased by 196%, and the rural population by 38%. Urban growth was concentrated in the largest cities. Between 1875 and 1920 the population in cities of more than 20,000 inhabitants, excluding Santiago, increased by 448%; and Santiago grew by 237% (Hurtado 1966, Table 5).

Writings from that period describe the deplorable living conditions which prevailed in the cities: tenement houses (*conventillos*), crowding and promiscuity, sanitary problems, lack of sewage and potable water, deficient garbage collection, absence of health service, 50% illiteracy, mortality rates surpassing 30 per thousand inhabitants, and an infant mortality rate of 304 per 1000 live births (Vial 1981, cited by Arellano 1985, 22–23).

Working conditions were not subject to legal norms, lending themselves to numerous abuses. Norms which required rest on Sunday or imposed a maximum number of hours per workday, or defined minimum conditions of hygiene and security in the workplace did not exist. Indemnizations were not granted for work accidents. Earnings were low and frequently paid in kind and/or with tokens, obliging workers to buy in the employer-monopolized stores.

These living and working conditions provoked strong reactions by the proletariat (mining and urban): street protests, labor demands, and strikes. In the 1890s close to 200 strikes were registered; these intensified in the first decades of the twentieth century when incidents of extreme violence led to the death of thousands of workers (Pizarro 1978). These years, particularly the decade of the 1920s, have been called the period of the 'social question' or of the polarization of wealth.

If at the beginning of the nineteenth century the Chilean social structure was simple, marked by the rural residence of the great majority of the population, dominated by a landowning oligarchy which controlled power without any significant counterweight, one hundred years later the center of gravity of the social structure was the city. The traditional oligarchy began to crack, creating openings to new sectors. Middle sectors, linked to the state apparatus, professions, and industry developed and expanded, as did the mining and urban proletariat, which was organized, active, and conscious of its rights. These sectors, through their organizations and political parties, pressured the state in search for privileges and benefits.

⁴ Hurtado (1966, Table 11). In 1920, the total population of the country reached 3,730,000 inhabitants of which somewhat less than 3% were foreign immigrants from non-neighboring countries.

⁵ The foreign presence was particularly strong in the food, clothing, tailoring, leather, fur, alcohol, and beverage sectors.

Associated with the changes in the social structure, new political parties arose and were consolidated. The traditional parties—Conservative and Liberal—were joined by the Radical Party (secular, of professionals, employees and civil servants, growers from the south) and the Democratic Party (a precursor of the Socialist and Communist Parties).

The living and working conditions, strikes and violent incidents, and some international events—the Mexican revolution, the diffusion of papal encyclicals on the 'social question' (in 1891 the papal encyclical *Rerum Novarum* was published), the installation of social security regimes in some European countries (Germany, England)—were factors which promoted a shift in the role of the state in the social area.

In the first decades of the twentieth century no political party was indifferent to social problems. Members of the Conservative Party, which until that point tended to ignore the issue, recognized the need and obligation of the ruling class to study the situation of workers and attempt to address their problems, whether by private or public action. Their proposals, which argued that the state has an obligation to assure certain rights and satisfy needs without diminishing individual or family responsibility and initiative, appealed to the moral conscience of employers.

For its part, the Radical Party, which grouped the emerging middle sectors, promoted a protective role for the state, defining its direct responsibility for the provision of services. It proposed, for example, that the state should not only assure mandatory primary education, but be directly responsible for the direction and management of educational establishments.

Among workers, anarchist and socialist positions predominated. They argued for the need to extend union organization and to prioritize their activity in the struggle against capital and power structures. One of their most important leaders, L.E. Recabarren, noted that:

[Only socialism]...socializes industry, suppresses owners—and with them the monopolization of fortunes in the hands of a few individuals who increase popular misery—and places salaries at equitable levels, assuring the subsistence and the happiness of all (cited by Arellano 1985, 26).

In 1920 Arturo Alessandri Palma, a senator from the mining provinces of Tarapacá and Antofagasta, was elected president. In the campaign, the 'social question' was a central issue. The Alessandri government's program established that the state should have the necessary elements to physically, morally, and intellectually defend the proletariat since they represented an irreplaceable economic factor, consequently it was the state's responsibility to demand sanitary, comfortable, and cheap living quarters for workers, to ensure that earnings satisfied the minimum needs of the family, and to protect the worker from accidents, sickness, and in old age (Alessandri, Programa Presidencial, cited by Arellano 1985, 28).

The triumph of Alessandri opened the way for a broad social legislation, but approval in Congress was not easy. In 1921, the new government presented a series of social laws to Congress. They were not approved until 1924, and only under military pressure.

2. The Social Laws of the 1920s: Central Characteristics

The social laws of the 1920s were directed toward improving the situation of labor, workings conditions, and the wages of one sector of salaried workers—urban workers. Prior to these, between 1914 and 1920, laws had been enacted which regulated the length of the workday, schedules, and rest periods for some categories of workers. In addition, Congress had approved some laws and created institutions oriented toward providing access to education and housing and to improving sanitary conditions. For example, between 1887 and 1906, seven bills were presented in Congress to promote construction of housing for workers; in 1890 the Superior Council on Hygiene was created and the first Sanitary Code was approved; in 1901 the first proposal on mandatory basic education was debated and in 1920 such a law was approved.

The principal laws of 1924–1925 were:

1. The creation of the Workers' Insurance Fund (Caja del Seguro Obrero), a semi-public social security entity which, with the mandatory contributions of workers, employers, and the state, established a common fund which would grant subsidies for illness, disability and old-age pensions, indemnizations for work accidents and mortuary quotas, and at the same time finance free medical attention for the insured and their dependents.⁶
2. A series of laws which regulated work contracts for laborers, union organization, forms of collective bargaining, and tribunals for conciliation and arbitration. In 1931, the first Labor Code combined and integrated these laws, adding others that fixed minimum wages and indemnization payments for dismissal.
3. The creation of the Withholding Funds for Private Sector Employees (Caja de Previsión de los Empleados Particulares or EMPART) and for Public Employees (Empleados Públicos or CANAEMPU). In contrast to the Workers' Insurance Fund, these were not social security institutions, but a vehicle for forced savings. Each member had an account which would increase with their mandatory contributions and those of the employer. The state did not make direct contributions, except in its role as employer. Forced savings, managed in individual accounts, provided two basic benefits: a basic retirement fund and indemnization for years of service. These institutions did not define the right to retirement nor medical benefits.

⁶ The bill, initially written by González Cortés, was inspired by the social security system installed by Bismarck in Germany in 1880. As in that system, it entailed tripartite financing with contributions from the worker, the employer, and the state.

To cover the cost of the workers' social security system (the Workers' Insurance Fund), tax and fiscal revenue laws were passed—a profit tax and a complementary global tax.

These social laws were the pillars of a system which expanded and was consolidated in the five decades following the 1920s. With its growth, the system acquired a new physiognomy. The laws of the 1920s were oriented toward protecting urban workers. State action was selective and oriented toward protecting the most disadvantaged sectors, which in that period were the workers. As it expanded, the system was universalized, incorporating the middle strata, which in many respects achieved better benefits than did the workers.

The traits of the system, from its initiation until the 1970s were:

1. The legal distinction between blue- and white-collar workers.⁷
2. The creation of social security institutions (Workers' Insurance Fund and the Withholding Funds), of public or semipublic nature, tied to different sectors of the labor force.
3. A strict association between the benefits of social security, health, and housing, all defined by the workers' insertion in the labor market, and the social security institution that corresponded to them according to their employment.
4. Policies and programs in the education sector which evolved in an autonomous fashion, not tied to the population's insertion in the labor market.

Expansion of the System (1932–1973): Toward a Welfare State

1. Chilean Economy, Politics, and Society

The development of synthetic nitrate, the First World War, and the crisis of 1930 hit the country hard, causing a profound shift in its development strategy. While in the nineteenth century and until the international crisis, development was driven by external demand, principally for mining products, the axis that defined the development strategy after 1930 was import substitution industrialization. The country closed the door to international commerce, accentuating its process of industrialization, and encouraging internal demand.

⁷ The criterion that differentiated those workers in the 1920s was the predominance of physical/manual labor over intellectual work. Physical labor in this period was associated with scarce access to or no education, low salaries, and deficient living conditions. This legal definition was retained until 1979. In this paper we use 'worker' in reference to blue-collar and 'employee' in reference to white-collar workers. The stratification between workers and employees became less evident with the passage of time as a consequence of expanded educational opportunities and of technological progress in industry, which raised the productivity of the sector permitting payment of better salaries to workers, particularly specialized ones, while the areas in which employees worked—commerce and services—did not experience significant increases in productivity.

The state lead and promoted the new strategy. It assumed both a coordinating function of the interests of different productive sectors, and a direct entrepreneurial and financial function (through investment and the initiation of activities beyond those of traditional public works).⁸ State intervention in the economy included policies to protect national industry (tariffs on imports, subsidies, tax incentives, favorable pricing), programs of investment in infrastructure, and the creation and administration of public firms.

This strategy unfolded in an open sociopolitical system, marked between 1939 and 1952 by the rise to power of the Radical Party, whose base of support was the urban middle sectors (particularly professionals, technical personal, and public sector employees). Nevertheless, the strategy also enjoyed the support of the industrial bourgeoisie and urban workers. The former pressured the state for policies that would protect them more systematically; the latter visualized industrialization as the road to gaining access to better employment opportunities, health and education services, and a higher and more modern standard of living.

Through their organizations and political parties, the urban middle sectors, the industrial bourgeoisie, and urban workers pressured the state for policies that would favor them. For their part, political parties sought to capture clients, which would grant them the necessary electoral support to gain access to the government, and promised social and economic benefits which they later negotiated with the executive and with Congress.⁹

The development of the import-substitution industrialization model was not linear or without difficulties. In the economic plane, two phases have been distinguished: an initial phase of easy substitution, extending until the 1950s, followed by another of difficult substitution. Other important characteristics also should be mentioned: sectoral patterns of growth (while industrial production grew, other productive sectors, including agriculture, stagnated), recurrent deficits in the balance of payments, and persistent tendencies towards inflation. Restrictions on the internal market, a consequence of the reduced size of the population, and a concentrated distribution of income (although lower than in other Latin American nations) also imposed barriers to economic growth.

⁸ The intervention of the state in the economy accelerated after 1939 with the creation of the Corporation for the Promotion of Production (Corporación de Fomento a la Producción or CORFO), an entity assigned with the task of formulating a national production plan and mobilizing and allocating the required resources. On the work of CORFO and the Chilean process of industrialization see Muñoz and Arriagada (1977) and Muñoz (1986).

⁹ Throughout the century the right to vote was extended and effectively exercised by increasingly wider sectors of the population. The number of voters rose from almost 170,000 in 1920 to 465,000 in 1942, 954,000 in 1952, 1,236,000 in 1958, and 2,923,000 in 1970—from 10 to 56% of the voting age population. Milestones in this expansion were the incorporation of women after 1949, the introduction in 1957 of the voter identification card (*cédula única*), and the extension of suffrage to illiterates and to the population between age 18 and 21 in 1970.

In the sociopolitical sphere increasingly sharp conflicts emerged between social actors and political parties. These situations became more extreme when governmental policies touched private property and collective mobilizations (urban and rural) repeatedly overran legal bounds (illegal occupations of lands and of urban and agricultural productive establishments).

During the government of Popular Unity (1970–1973) sociopolitical conflicts and economic imbalances surpassed the system's capacity to manage them. The crisis of 1972–1973 was not conjunctural but the culmination of unresolved economic and political tensions and conflicts which had been mounting in preceding decades.¹⁰

The process of industrialization and the growing intervention of the state in the economy and society generated a heterogeneous and complex social structure. In 1900 barely 20% of the national population resided in cities of 20,000 or more inhabitants; by 1952 this percentage reached 43 and in 1970 some 61% (Hurtado 1966 and INE, XIII Census of the Population-1970). Notable from the point of view of insertion in the labor market were the expansion of public employment and of workers in the industrial sector, and the decline of workers in the agricultural sector.¹¹ The unemployment rate in urban areas fluctuated around 5 to 6% and real salaries increased slowly (Ffrench-Davis 1973). The magnitude of underemployment was unknown. In 1952 the urban informal sector absorbed more than a third of the urban labor force, descending to 25% by 1970. Formal employment grew at a faster rate than informal employment (Raczynski 1978).

In the socio-occupational structure the following aspects stood out:¹²

1. Increasing expansion of salaried middle sectors, public and private employees, technical personnel and professionals, organized in diverse organizations.
2. Consolidation and organization (although its quantitative expansion was not very significant) of independent middle sectors (owners of small and medium businesses in commerce, industry, transport and services).
3. Expansion and diversification of the lower urban strata, including industrial workers and service workers in the formal sector (public and private) as well as diverse informal occupational situations. Some of these segments organized and succeeded in gaining access to education, health, and housing benefits as well as urban services.

¹⁰ For an analysis of the situation in 1973, see Bitar (1979). Foxley (1983) examines the origins of the sociopolitical crisis from a more long-term perspective.

¹¹ The latter absorbed some 34% of the labor force in 1940, compared to 21% in 1970. On this issue see, among others, Hurtado (1966), Raczynski (1976), Muñoz et al. (1980).

¹² Information concerning the evolution of the occupational structure in the period may be found in Raczynski (1976), Filgueira and Geneletti (1981) and Martínez and Tironi (1985). Raczynski (1976) also includes data on occupational mobility at the beginning and end of the 1960s.

4. Shrinking of the agricultural sector, in particular tenant farmers and permanent workers in the *hacienda* system.
5. Strong processes of rural-urban and interurban migration.
6. Processes of individual social mobility from unskilled to skilled manual labor and then to nonmanual occupations. These processes favored one part of the population; another part internalized expectations that their children would achieve social mobility through education.¹³
7. Persistence of significant problems of poverty and unsatisfied basic needs in urban and rural areas.

2. Expansion of the System of Social Policies: An Overview

The trajectory of social policies between 1930 and 1973 was characterized by an expansion of coverage of the population, an increase in benefits, and growing intervention by the state in the financing, administration, and direct production of social services.

The idea, prevalent in the 1920s, of a state which ought to protect the weakest sectors, was replaced by the predominant view of a welfare state which would benefit the entire population. Nevertheless, the incorporation of the various labor categories into the system was fragmented and unequal. Towards the end of the period, the member population had access to nominally similar benefits but the quality of benefits and the requirements for obtaining them differed from one labor category to another.

The key factor defining the level of incorporation into the system and the quality of benefits received was the insertion in the labor market of the head of household and/or spouse and the social security subsystem to which that insertion provided access. This factor also conditioned access to health services and housing programs. Only educational policies, as we will see, had a more general character.

It is possible to distinguish three phases within the 1930–1973 period. During the first, which extended until approximately 1950, the expansion of the system of social policies did not respond to an explicit governmental policy, but occurred gradually through the victories won, in different moments, by the unions and workers' associations (employees and skilled workers). In this period, the system experienced an important increase in coverage of the population and of benefits even as it created and consolidated internal inequalities. Multiple institutions coexisted with dissimilar, complex, and cumbersome regulations. In general, the most advantaged sectors

¹³ Diverse surveys carried out in the second half of the 1960s in squatter settlements (*poblaciones*) of Santiago detected high educational aspirations and strong expectations of social mobility through education for their children (Mercado et al. 1968; Briones and Waisanen 1969).

were those which could exert greatest pressure and/or had easier access to the executive and/or legislature.¹⁴

In the second phase, which extended until the mid-1960s, the previous dynamic interacted with attempts by the governments to homogenize the system and widen and improve benefits for working class sectors. These attempts did not achieve the necessary political consensus to be approved. Furthermore, they were blocked by economic restrictions: the acceleration of inflationary tendencies, the implementation of economic adjustment programs, and the stagnation of the economy. In 1952, partial reforms were approved which brought new benefits for workers (survivors' pensions, maternity subsidies) and improvement of already existing ones (disability and old-age pensions, subsidies for illness, and widening of free health services to a worker's entire family). In the case of private sector employees, the 1952 reform established a system of pensions, complementing the prevailing system of individual funds. An explicit distribution regime was established for workers and employees which was characterized by the intergenerational transfer of resources: quotas collected from active workers covered the payment of pensions. Additionally, the 1952 reforms instituted an administrative reorganization of the Mandatory Insurance Fund (Caja de Seguro Obligatorio). The Social Insurance Service (Servicio de Seguro Social or SSS) and the National Health Service (Servicio Nacional de Salud or SNS) were created, administratively unlinking social security benefits from preventive and curative medical attention.

In the third phase (1964–1973), the governments prioritized structural reforms that affected property, formulated labor and progressive incomes policies, and incorporated the urban and rural poor into the system of social policies. The Christian Democratic government, which came to power in 1964, promoted a program of neighborhood organization (*promoción popular*) in urban areas and programs of agrarian reform and unionization of peasants in rural areas. At the same time, measures were taken to improve real salaries, housing programs were intensified, educational reforms were introduced, and educational coverage was expanded at the primary, middle, and university levels, and health policies and programs were modified. Additionally, the application of policies that fixed the prices of basic goods and services supposedly consumed by lower income sectors was intensified. The government program prioritized benefiting and incorporating poor and marginalized sectors. Nevertheless, various measures were adopted in response to pressures from the middle sector and the organized urban workers—an important base of support for the government. Among other things, housing programs for these groups were implemented and the law giving employees access to health services was passed.

¹⁴ This dynamic of the expansion of the system of social policies is not exclusive to Chile. It has been studied for Argentina, Chile, Mexico, Peru, and Uruguay by Mesa-Lago (1978).

At the end of 1970 the Popular Unity government took power with a program that accelerated the structural reforms directly affecting wealth. Agricultural expropriations became massive and an area of 'social property' in industry was created. Policies in the different social areas were oriented toward statizing the administration of services and providing uniform access for the entire population to 'unitary services' in state hands. Initial improvements in earnings and social security benefits were soon annulled by accelerated inflation. Economic problems, a strong political mobilization of the population, and sharp political conflicts unseated the government. The period ended with the military coup of September 1973, closing five decades of continuous expansion of social services, financed by public resources and often administered directly by state institutions.

The following sections present an analysis of social policies during the period 1930–1973. First, public social spending and its financing are analyzed. Then specific aspects of social security, health, housing, and education are considered.

3. Public Social Spending: Levels, Financing, and Sectoral Distribution

a) Levels and Financing

From the beginning of the century until 1972 there was a gradual and pronounced expansion in fiscal social spending and in public social spending,¹⁵ both in absolute terms and in terms of percentage of GDP. Between 1930 and 1970 fiscal spending on social programs multiplied 15 times and public spending 19 times (Arellano 1985, 30–43). The greatest expansion of public spending occurred in the last years of the period, which we defined as phase three. Public social spending in 1970 was 70% higher than in 1965 and represented 20% of GDP. In 1972 it reached 26% of GDP (Table 1).

The social policies system grew between 1930 and 1950 in response to group pressures. The financing of the programs and benefits were not highly planned; there was little clarity about the costs and the distortions introduced by the financing mechanisms that were created (Arellano 1985, 39–42). The resulting system of financing was complex and not very flexible. For example, Law 11,766 (Herrera Law) of 1954 established a fund to finance the construction of schools which was supported by contributions from income, diverse lottery, racing, and gaming taxes, and taxes on goods of agricultural origin.

The majority of social spending was financed by two principal sources: mandatory social security quotas paid by workers and employees and fiscal contributions. The resources from both

¹⁵ Fiscal spending registers the spending of the central government while public spending additionally includes spending by decentralized public institutions. In Chile the majority of institutions created to aid the social needs of the population were decentralized. Thus, in this period, public spending more accurately reflects the state's preoccupation with social issues.

sources expanded between 1925 and 1970, but not at the same rate as public sector spending (Arellano 1985, 30). The imbalance between spending and income contributed to inflationary tendencies in the 1950s. The annual inflation rate, which was 26% in 1952, shot up to some 40%, 64%, and 86% in the following three years. The 1955 rate (86%) was a record for the country. Clearly other factors beyond the financing of social spending also contributed to the acceleration of inflation, for example, the stagnation of per capita economic activity, the shrinking of public and private productive investment, and readjusted earnings for public employees without the corresponding financing.¹⁶

TABLE 1

Public Social Spending (1935–1972)

Year	Public Social Spending		Components of Public Spending				
	Thousand Million Pesos 1981	% of GDP	% of total public spending	Public Health, Social Assistance, & Labor	Social Security	Housing & Urban Development	Education
1925 ^a	3.1	2.1					
1930 ^a	12.3	5.2					
1945 ^a	23.3	8.0					
1955	55.1	14.9		17.9	41.4	20.4	20.3
1961	85.4	17.0		18.9	51.4	11.5	18.1
1963	90.4	16.3		20.1	46.6	15.1	18.2
1965	124.2	20.0		18.0	45.5	17.9	18.6
1967	159.5	20.1		15.7	46.0	17.8	20.6
1969	180.8	18.7	58.5	16.2	43.6	17.8	22.4
1970	206.9	19.9	56.8	16.4	45.2	16.0	22.4
1971	274.4	25.2		15.8	45.9	16.3	21.9
1972	226.2	25.8		16.8	44.4	15.9	23.0

Source: Arellano (1985: 33) and Marshall (1981).

^a Slightly underestimated, since it does not include special legislation or other income of the decentralized institutions.

In 1952, the fiscal deficit represented more than one-third of tax revenues, a situation that continued until 1955. In 1956, the Ibañez government decided on a stabilization effort, which included an attempt to reduce public spending (Klein-Saks Mission¹⁷). The fiscal deficit was reduced to 22% of fiscal income in 1956, but rose again in the following years (Table 2). Social

¹⁶ For more details see Ffrench-Davis (1973).

¹⁷ See Ffrench-Davis (1973, Chaps. 1 and 6).

spending continued to grow—although at a slower rate—as a consequence of the programs and benefits in health and social security approved in 1952.¹⁸

TABLE 2

**Tax Revenue and Fiscal Spending, Fiscal Deficit over Tax Revenue and as percent of GDP, Inflation and Growth of per capita GDP
1952–1970**

Year	Tax Revenue (Millions of 1969 escudos)	Fiscal Spending	Fiscal Deficit ^a		Inflation (Dec. to Dec.)	Rate of per capita GDP Growth
			% over Tax Revenue	% of GDP		
1952	3.937	5.302	34.7	4.0	21.2	4.5
1953	3.848	5.501	43.0	4.6	49.8	3.8
1954	3.858	5.238	35.8	3.8	58.7	-2.3
1955	4.146	5.621	35.6	4.0	88.7	0.2
1956	4.357	5.298	21.6	2.5	44.6	-1.4
1957	4.424	5.532	27.0	3.1	23.7	-1.7
1958	4.353	5.554	27.6	3.1	24.6	-0.1
1959	4.795	6.226	29.8	3.6	33.1	0.9
1960	5.498	7.413	34.8	4.7	5.4	1.1
1961	6.083	8.107	33.3	4.7	9.4	3.4
1962	6.561	9.199	40.2	5.8	28.6	2.9
1963	6.271	8.691	38.6	5.1	45.9	1.3
1964	6.290	8.453	34.4	4.3	40.4	2.1
1965	7.963	10.476	31.6	4.7	27.3	3.8
1966	9.737	11.952	22.8	3.8	17.9	7.5
1967	10.578	12.012	13.6	2.4	22.8	-1.0
1968	11.291	13.066	15.7	2.9	29.1	1.4
1969	12.250	13.669	11.6	2.2	30.0	3.4
1970	13.867	16.161	16.5	3.4	36.2	1.5

Source: Ffrench-Davis (1973, Tables 33, 34, 35, and 67).

^a Fiscal spending less tax revenue.

The Alessandri government, which assumed power in 1958, also applied a package of stabilization policies and promoted a wide program of public works and housing projects—sectors which were especially depressed during the previous government. The inflation indices were reduced in the first years, rising again in 1962–1964. The growth in per capita GDP rose, compared to the previous government, but except in 1961, it never surpassed 3% annually. Furthermore, the budgetary problems were not resolved. The expansion of spending exceeded

¹⁸ In the economic sphere the Klein-Saks program was only partially successful. In 1958 the anti-inflationary expectations were somber. The balance of payments was deficitary, the rate of unemployment was 9% in urban sectors, a fiscal deficit existed despite a low investment rate by the Treasury, and the economy was stagnant (Ffrench-Davis 1973, Chap. 1).

that of income. The fiscal deficit grew from 28% of tax revenue in 1958 to 40% in 1962 and 34% in 1964. Part of the greater social spending was financed through an increase in the mandatory contribution rates of private sector employers (Table 3).

TABLE 3

**Mandatory Withholding and Contribution Rates (1925–1973)
(Percent of taxable earnings)**

Year	Social Insurance Service (SSS)		Withholding Fund for Private Sector Employees		Withholding Fund for Public Employees	
	Worker	Employer	Employee	Employer	Employee	Employer
1925	2.0	3.0				
1930	2.0	3.0				
1935	2.0	3.0				
1940	2.0	5.0	9.5	16.3		
1945	2.0	5.0				
1950	2.0	5.0	8.0	33.7	15.5	5.0
1952	2.1	5.7	8.0	33.8		
1953	3.8	13.5	8.0	33.9		
1954	6.0	24.2	8.0	34.0		
1955	7.3	25.9	8.3	35.1	17.5	5.5
1960	7.8	37.1	10.3	39.4		
1961	8.3	37.5	10.8	39.8		
1963	8.2	37.6	10.7	39.9		
1965	8.9	38.2	12.8	42.0		
1967	8.9	38.2	12.8	42.0		
1969	8.8	39.1	13.4	43.3		
1970	9.3	39.6	13.7	44.0		
1971	9.4	40.2	14.6	44.0		
1972	9.5	40.4	14.6	44.0		
1973	9.5	40.4	14.6	44.4	18.8	7.0

Source: Arellano (1985: 92).

As already mentioned, the expansion of social spending accelerated after 1965. Between 1965 and 1970 the growth in public social spending was concomitant with the rise in tax collection and in the withholding quotas of salaried employees and employers. Tax revenues increased by 110% and withholding contributions by 80% (Arellano 1985, 30). As a consequence, the fiscal deficit, which in the first half of the 1960s fluctuated around 5% of GDP, descended to values under 3.5% after 1966 (Table 2). In 1970, 45% of this deficit corresponded to the gap between social security income and spending.

The deficit of the public sector increased greatly between 1970 and 1973 when a strong expansion of spending was not covered by increased income. The gap between income and

spending of the central government¹⁹ represented 10% of GDP in 1971, 14% in 1972, and 10% in 1973. The gap between income and spending of the public sector, including the growing number of public firms, was significantly higher: 15% of GDP in 1971, 24% in 1972 and 30% in 1973 (Larraín 1991, 97–98, 103). Social spending, as it is understood in this work, also increased, but was not the principal component in the expansion of spending. One-third of the public deficit was due to subsidies to the 'social property area,' another third to transfers to public firms, and the rest to the central government, including social spending (Larraín 1991, 106).

b) Sectoral Distribution of Fiscal and Public Social Spending

Before the social laws were sanctioned in the 1920s, the meager spending of the state corresponded to the education sector. Slowly this sector lost its relative weight, first to spending increases for public health, social assistance, and labor, and after the 1940s, to spending on social security. Spending on housing was very unstable (Arellano 1985, 30).

Comparing the tendencies in the levels and composition of social spending with the three phases in the trajectory of the social policies system in Chile between 1930 and 1973, we observe in the first phase, growth in social security spending which was sustained over time by the expansion and maturation of the system. In the second phase, spending on health and, in some years, on housing was expanded. In the third, spending on education expanded most notably. In 1970, 45% of social spending corresponded to social security, 22% to education, 16% to public health and social assistance, and 16% to housing and urban development (Table 1).

4. Social Security²⁰

As has been noted, the Chilean social security system grew in a fragmented way in response to group pressures; new regimes and programs were superimposed over already existing ones. At the beginning of the 1970s, the system was structured on the basis of 35 withholding funds,²¹ which administered 150 different programs, governed by about two thousand legal texts (Foxley et al. 1980, 151). The three most significant funds were the SSS, the EMPART, and the CANAEMPU.²² Each fund collected the quotas that workers and their employers were legally obliged to pay. Some received a direct contribution from the state for

¹⁹ This excludes the income and spending of public enterprises.

²⁰ This section follows Arellano (1985, Chap. 2).

²¹ These were semipublic institutions whose administration was in the hands of a council made up of representatives of the insured, employers, and the state.

²² Numerically the most important retirement institution was the SSS to which the majority of workers were affiliated. In 1968 some 48% of the national population was linked to the SSS.

specific benefits or for particular social sectors or to cover deficits. Each fund adjusted to the so-called distribution system in which the payment of pensions was covered with the quotas collected from economically-active workers.

a) Coverage and Benefits

There are two perspectives from which to visualize the beneficiaries of the system—the present quota-paying members and the elderly retired population that receives a pension or retirement benefit.

The number of members in the social security system grew rapidly in the 1930s and 1940s, remained relatively stagnated in the 1950s, and increased again in the mid-1960s (Table 4). Workers affiliated with one of the withholding funds rose from 900,000 in 1935 to 1,500,000 in 1952, 2,000,000 in 1965, and 2,300,000 in 1973. In that year, members represented more than 75% of the work force, one of the highest percentages in Latin America. This index of coverage is inflated, however, since close to one-third of the members were not effectively paying quotas. Thus they were not in a position to receive the benefits of social security and they diminished their future possibility of achieving the required years of contributions to retire. A conservative estimate of the effectively covered work force was 50 to 55%.

As would be expected the covered work force were salaried workers. According to Mesa-Lago (1978, 44–45), in 1966, 100% of salaried workers in mining and in gas, water, and electricity services were affiliated with withholding funds, as were between 80 and 100% of salaried workers in construction and manufacturing; around 65% in commerce, transport and communications and services; and not more than 55% of salaried workers in the agricultural sector.

The number of paid pensions,²³ scarce in the 1930s, increased throughout the period under study (Table 5), from 26% of the population 60 or older in 1955 to 41% in 1960, 68% in 1965, and 84% in 1970. The population over 60 effectively covered was actually lower since some categories of employees could take early retirements (years of service), and some people received more than one pension.

²³ The figures only permit estimating the number of paid pensions.

As in the health area, the primary and intermediate educational system was criticized for its high degree of centralization: the Ministry of Education was responsible for educational policy and also decisions related to the daily functioning of each school. The Ministry contracted teachers, managed facilities construction and maintenance, distributed texts, etc. Other problems included low teachers' salaries, inflexible programs of study, the pedagogic emphasis on memorization, and the insufficiency and weakness of technical-professional training.

8. Synthesis and Conclusions

Throughout the twentieth century the Chilean state played a key role in the formulation and design of social policy and in its financing, as well as in its execution and the provision of social services to the population. The state's activities slowly benefited wider sectors of the population: initially urban workers, then middle and lower urban sectors, and finally, although in lesser measure, the inhabitants of rural sectors.

The state operated through employment policies (income and collective bargaining), social policies (in education, health, and housing), and towards the end of the period, with policies supporting neighborhood and community organization. It also enacted pricing policies that subsidized basic goods and services supposedly consumed by lower income sectors. The increasingly complex operation of this 'welfare state' presented successes and advances. Ever wider sectors of the population improved their quality of life, or at least held on to the real expectation of bettering their situation, while the country had a fairly complete network of widely accessible social services. Proof lies in the indices of coverage by the health system, the rate of primary school enrollment, the population affiliated with social security, and the number of housing units constructed with public support.

In 1960, seen globally, the state's actions in the area of social policy were progressive. Thirty percent of the poorest families captured 18% of the benefits, improving their 7.6% participation in the original distribution of income (Table 8). Nevertheless, only a few programs provided a greater benefit per family in the poorest strata than in the richest strata. This occurred with preventive and curative services offered by the SNS and in some subprograms specifically defined for the lower income sectors, such as the assistance programs in schools. In all programs, including the assistance programs, there was ample room for making the distribution of benefits more progressive.

The state's actions were not sufficient to respond to the needs of the poorest population, whose needs and demands exceeded public supply at the end of the period (1970). There remained unsatisfied demands for health care, a growing housing deficit, a population marginalized from social benefits, and failure to attend or desertion from school, etc. The majority

of the population was incorporated into the system of social policy, but often those requiring public support did not succeed in gaining access to services, or gained access after much delay and difficulty.

The system was fragmented and stratified. The incorporated population had access to benefits of varying quality. The quality of social security and health benefits depended on insertion in the labor market. Housing benefits, also depended in part on employment, and in part on the implicit and explicit requirements and subsidies of the different plans and programs. In education, the system was less fragmented, however, the quality of benefits varied by establishment and by residential characteristics.

Multiple public and semipublic institutions coexisted in each social sector, with little coordination between them. They duplicated efforts and had sluggish administrative apparatuses. Attempts to make the system more equalitarian and efficient were oriented toward integrating diverse institutions into fewer larger organizations. These tended to be highly centralized, with the paperwork and rigidity of great bureaucratic machines, and with vertical, centralized decision-making processes. Efforts at homogenization and rationalization meant growing state intervention in the administration and direct production of benefits.

To a large extent, the expansion of the system of social policy resulted from group pressures. This led to increased spending and to situations in which the spending frequently was not financed, thus stimulating inflationary tendencies. The situation reached a crisis in 1972–1973 when the Popular Unity government expanded social spending and spending oriented toward supporting various reform programs, without the backing of policies to increase public sector income. In 1972–1973, public social spending represented 25% of GDP and the public deficit grew above this figure.

The social sector that absorbed the greatest quantity of public resources (approximately half) was social security, and within this area, pensions. Social security spending expanded as a consequence of an increase in the retired population as coverage widened and the system matured. In 1970 the demographic tendency of the aging of the population was not an important factor in explaining the deficit in social security programs. Throughout the previous years the system had required growing fiscal contributions. This occurred because, as already noted, the social security quota paid by the state as employer was significantly lower than that of private employers and also because the state contributed to SNS, the organization responsible for preventive health care activities for the entire population and curative medical care for the needy and low-income sectors.

The social policy system was the object of multiple criticisms regarding costs and efficiency, rigidities and incapacity to rapidly and adequately respond to the demands and needs of the population, the absence of user participation, and low wages for professionals and

functionaries. It was also faulted for geographic and economic inequalities, for being insufficiently progressive in the distribution of social spending, and for failing to adjust national policies to the needs of specific population groups.

Together with processes of economic development, industrialization, and urbanization, the social policy system had repercussions on the social structure. After 1930, middle sectors and urban popular sectors were consolidated as social sectors. They both partially benefited from the fruits of development and from the social policies of housing, education, social security, and health. The impact was double: access was widened to the benefits of education, health, housing, and social security and to opportunities for employment and social mobility.

At the end of the period, the middle and popular sectors demonstrated high internal differentiation, the product of dissimilar insertions in the labor market and of differential access to public housing, health, social security, and education programs. Living conditions, including levels of education and health, improved. In differing degrees, poor sectors gained access to services and urban consumption (water, electricity, sewage, gas, durable goods, and electric appliances). As a result of social policies and programs that were progressive, but insufficient given the needs of the population, poor families were able to satisfy some, but not all their basic needs. Thus the poverty of the late 1960s was heterogeneous; households deficient in one area were not necessarily deficient in others (Cortázar 1977).

The Retreat of the State: Social Policies under the Military Regime (1973–1990)

1. Society, Politics, and Economy

In the early 1970s, Chile confronted severe economic imbalances and sociopolitical conflicts. The military government which took power at the end of 1973 remained for 17 years, until March 1990. The ideology and doctrine of the government crystallized around a model that was economically neoliberal and politically authoritarian, breaking sharply with the system of economic and social organization and the strategy of development which prevailed between 1930 and 1973.⁴²

A closed and protected economy was replaced by an open one. The strategy of import substitution whose central component was the industrial sector and internal demand, was succeeded by a strategy that privileged external demand and the growth of exports, principally natural resources (mining, agriculture, marine products, paper and cellulose).

⁴² For a characterization of the model in its first stage see Ffrench-Davis (1983), Foxley (1983), and Vergara (1985). Analyses that incorporate the economy's more recent trajectory are: Ffrench-Davis and Muñoz (1990), Ffrench-Davis and Raczynski (1990), and Ffrench-Davis (1991).

The state, which had played a leading role in the growth and development of the economy and in business investment and administration, was transformed so that it played a subsidiary one, limited to the formulation of macroeconomic policies, determination of general rules, and intervention in exceptional situations (Muñoz 1991, 11).

The changes in the economy occurred in a closed political system which, during the majority of the period, maintained strict control over social organizations (particularly political, union, and business associations), over instances of collective expressions of social demands, and over communications media.

The application of this economic and social model over 17 years modified the institutions and policies (content and priorities) prevalent before 1970, the profile of the social structure and social actors, the role of the state, and more generally, state-society relations. It is beyond the scope of this work to recount each of these aspects, but the following sections consider some elements we believe should be taken into account in the analysis of social policy under the military regime.

a) The Performance of the Economy: Macroeconomic Balance⁴³

From 1974 to 1990 the Chilean economy was characterized by instability and, on average, a low rate of growth (Table 13). In 1975–1976 and in 1982–1983, Chile exhibited one of the greatest drops in GDP in the Latin American context and, in 1988 and 1989, once precrisis levels were recuperated, the greatest expansion. The net balance was a moderate growth rate (2.6% annually), inferior to what the country experienced between 1961 and 1971, which reached 4.6% annually (Ffrench-Davis and Muñoz 1990, Table 1).

This trajectory of GDP was accompanied by a strong expansion and diversification of exports, a balanced fiscal budget, and decreasing rates of inflation in the 1970s and moderate levels in the 1980s. The investment rate for the period was 15% below the historic rate. Further negative developments included the growth in the country's foreign debt, the magnitude of the service of foreign debt, and the enormous vulnerability of the Chilean economy to the international situation. Ffrench-Davis (1991, 33–37), analyzing the economy in the 1980s, notes that the contraction of 1982–1983 and the expansion of 1988–1989 were associated with external events: a deterioration in the terms of trade and the service on foreign debt in the first case, and an improvement in the terms of trade of unexpected magnitude in the second. He adds that the expansive process of 1988–1989 was based on an available installed capacity which by 1990 had been practically drained.

⁴³ This section is based on Ffrench-Davis and Raczynski (1990) and Ffrench-Davis (1991).

TABLE 13

Growth and Investment Rates, Foreign Trade and External Debt

Year	Per Capita GDP (1970=100)	Manu- facturing % GDP	Annual Inflation Rate	Investment Rate	Exports (FOB) ^a	Imports (FOB) ^a	Balance of Trade	Balance of Payments	External Debt
1970	100	25.2	36.1	20.2 ^b	1,112	851	261	108	3,123
1971	106	26.6	26.5	18.3	998	903	95	-241	3,196
1972	104	27.4	254.5	14.8	849	981	-132	-387	3,602
1973	98	26.7	606.1	14.7	1,309	1,288	21	-21	4,048
1974	102	25.1	369.2	17.4	2,151	1,794	357	-55	4,774
1975	87	21.5	343.3	15.4	1,590	1,520	70	-344	5,288
1976	89	22.0	197.9	12.7	2,116	1,473	643	414	5,233
1977	96	21.7	84.2	13.3	2,185	2,151	34	118	5,613
1978	103	22.0	37.2	14.4	2,460	2,886	-426	712	7,011
1979	109	21.9	38.9	15.6	3,835	4,190	-355	1,047	8,663
1980	116	21.6	35.1	17.6	4,705	5,469	-764	1,244	11,207
1981	121	20.9	19.7	19.5	3,836	6,513	-2,677	67	15,591
1982	102	19.3	9.9	15.0	3,706	3,643	62	-1,165	17,159
1983	99	20.0	27.3	12.9	3,831	2,845	986	-541	18,037
1984	104	20.7	19.9	13.2	3,651	3,288	363	17	19,659
1985	105	20.4	30.7	14.8	3,804	2,955	850	-99	20,529
1986	109	20.8	19.5	15.0	4,199	3,099	1,100	-228	20,829
1987	113	20.8	19.9	16.5	5,224	3,994	1,229	45	20,660
1988	119	21.1	14.7	17.0	7,052	4,833	2,219	735	18,960
1989	129	21.0	17.0	18.6	8,080	6,502	1,578	437	17,520
1990	130	20.6	26.0	19.5	8,310	7,037	1,273	2,368	18,576

Source: Banco Central, Cuentas Nacionales, INE.

^a FOB = free on board, before duty and freight costs.

^b 1961–1971 average.

b) Employment and Distribution of Income

The economic strategy substantially increased distributive inequalities. The unemployment rate, as would be expected, was closely associated with the cycles of recession and recuperation of the economy (Table 14). Nevertheless, the average unemployment rate for the period was 18%—three times the rate prevailing in the 1960s. Only in 1990, for the first time in 17 years, did the rate come close to its historical levels.

Throughout the period real wages and salaries were in continuously below 1970 levels; the 1989 rates were 8% below those of the 1960s. The minimum wage and family allowance also dropped. Their 1989 levels were significantly below those of 1970. The monthly value of the minimum pension showed a more favorable trajectory, but this was not the case for civil pensions as a whole.

Congruent with the evolution of unemployment, salaries, and other income, the distribution of family income and household spending deteriorated. Information for Greater

Santiago, where approximately 40% of the population lives, shows a persistent increase in the concentration of family income. The participation in this income of the poorest 40% of families decreased from 12.2% in 1965–1970 and 12.9% in 1971–1973, to 11.3% in 1974–1977, 11.1% in 1978–1981 and 9.8% in 1982–1985. The Gini coefficient increased from 0.50 in 1970 to 0.55 in 1984 (Riveros 1984; Labbé 1986). The surveys of family budgets conducted in 1969, 1978, and 1988 revealed a decline in household expenditures for the three lowest quintiles (Table 15). The decline between 1969 and 1988 was greater in the poorest households: 42% in the lowest quintile, 30% in the next, and 18% in the following. The richest quintile, on the other hand, improved their relative position.

TABLE 14

Labor Force, Employment, Unemployment, and Salaries, 1974–1990

Year	Labor Force	Employment ^a (Thousands of persons)	Emergency Employment Programs (PEM and POJH)	Open Unemployment	Unemployment Rates		Real Salaries (1970=100)	
					Open	With PEM + POJH	Average Wages and Salaries	Minimum Income ^b
1970	2,890.4	2,719.9	—	170.5	5.9	5.9	100.0	100.0
1974	3,059.6	2,780.3	—	279.3	9.1	9.1	65.1	100.6
1975	3,104.8	2,558.3	60.6	485.9	15.7	17.6	62.9	99.3
1976	3,279.8	2,560.4	172.0	547.4	16.7	21.9	64.8	99.9
1977	3,335.2	2,703.8	187.7	443.7	13.3	18.9	71.5	102.6
1978	3,496.1	2,867.3	145.8	483.0	13.8	18.0	76.0	116.2
1979	3,546.5	2,932.8	133.9	479.8	13.5	17.3	82.3	112.6
1980	3,654.6	3,035.6	190.7	428.3	11.7	16.9	89.4	112.7
1981	3,757.9	3,190.6	175.6	391.7	10.4	15.1	97.4	117.9
1982	3,793.8	2,803.1	247.1	743.6	19.6	26.1	97.7	116.6
1983	3,962.5	2,720.3	502.8	739.4	18.7	31.3	87.0	91.6
1984	4,022.8	3,031.2	336.2	655.4	16.3	24.7	87.1	80.1
1985 ^c	4,122.7	3,216.1	324.3	582.2	14.1	22.0	83.2	74.6
1986 ^c	4,219.7	3,488.7	221.4	509.6	12.1	17.3	84.9	69.6
1987 ^c	4,383.9	3,775.6	124.1	484.2	11.0	13.9	84.7	64.0
1988 ^c	4,504.2	4,009.2	33.9	461.1	10.2	11.0	90.3	66.4
1989 ^c	4,552.2	4,159.0	—	393.2	8.6	8.6	92.0	73.8
1990 ^c	4,770.0	4,354.6	—	414.9	8.6	8.6	93.7	78.8

Source: Jadresic (1986); CIEPLAN (1991).

^a Excludes labor force in emergency programs PEM and POJH.

^b The income of reference in 1970 is the 'minimum wage' of the period. The category 'minimum income' was created in October 1973, assuming on that date a value 2.9 times the 'minimum wage', which had lost two-thirds of its purchasing value with respect to 1970.

^c The series elaborated by Jadresic relied on the annual growth rates of employment and unemployment recorded by the University of Chile.

PEM: Minimum Employment Program.

POJH: Heads of Households Occupational Program.

TABLE 15

Household Expenditures by Income Percentiles
Greater Santiago, 1969, 1978, and 1988
(June 1988 pesos)

Quintiles	1 9 6 9		1 9 7 8			1 9 8 8		
	Household Expenditures		Household Expenditures		Per Capita Household Expenditures	Household Expenditures		Per Capita Household Expenditures
	(Pesos)	(%)	(Pesos)	(%)	(Pesos)	(Pesos)	(%)	(Pesos)
I Lowest	28,617	7.6	19,767	5.2	5,730	16,656	4.4	5,157
II	44,532	11.8	35,431	9.3	8,126	31,255	8.2	6,809
III	58,893	15.6	51,832	13.6	11,243	48,182	12.7	11,140
IV	77,636	20.6	79,904	21.0	16,241	76,638	20.1	17,084
V Highest	<u>168,003</u>	<u>44.5</u>	<u>194,372</u>	<u>51.0</u>	<u>40,920</u>	<u>207,749</u>	<u>54.6</u>	<u>48,348</u>
Means:	75,536	(100.0)	76,262	(100.0)	17,254	76,094	(100.0)	18,646

Source: INE, *Encuesta de Presupuestos Familiares 1969, 1978, and 1988*. Per capita household expenditure data for 1969 are not available.

The deterioration in the distributive situation was relative and absolute. The only quintile whose real family income rose between 1969 and 1988 was the highest. In the other extreme, the percentage of indigent and poor households significantly increased. Indigent families (with per capita incomes insufficient to cover the cost of a basic basket of foodstuffs) represented 6% of households in 1969, 13% in 1987 and 11% in 1990. During the 1982–1983 recession, the percentage reached 30%. The total poor population (including indigents, with per capita family incomes below the per capita cost of two basic baskets of foodstuffs) rose from 17% in 1969 to 38% in 1987; it declined to 34% in 1990 (Table 16).⁴⁴ In synthesis, in the 1970s and 1980s, the distribution of income became more unequal and the number of poor households significantly decreased. Simultaneously, the middle sectors experienced a deterioration in their income and spending on consumption. Only the highest quintile improved their position in absolute terms.

In addition to changes in the international economic situation and national economic policies, legislative and institutional transformations and modifications in the productive structure and labor market also contributed to the worsening distribution of income. The military government initially suppressed any protest by unions or the labor movement. Later it formulated and imposed the Labor Plan of 1979, which favored the negotiating power of the employer, created obstacles to unionization, and made the contracting of the work force more flexible (it facilitated limited-term or temporary contracts, the subcontracting of parts or units and/or payment per unit of production).

The drastic trade opening, the drop in tariff rates, and the stimulation of exports led to important changes in the sectoral distribution of the employed population: from industrial manufacturing to the agricultural and forestry industry—where the labor demand was largely seasonal or temporary. High rates of unemployment, the more flexible labor contracts, and the reduction of employment in the state sector⁴⁵ (a consequence of a restrictive public spending policy) contributed to an expansion of the urban informal sector (sidewalk vendors, trash collectors, self-employed businessmen, taxi drivers, workers who took odd jobs, labor collectives, etc.) and of temporary or seasonal jobs.⁴⁶

c) Modifications in the Profile of the Social Structure and Social Actors

The decades between 1930 and 1970 were marked by an expansion and diversification of the middle sectors and by increased participation (though unequal or partial) of poor urban and

⁴⁴ León's paper in this series (1994) provides an exhaustive analysis on the characteristics of indigent and poor families around 1987.

⁴⁵ Public employment, which included 387,000 persons in 1973, declined to 296,000 in 1979, and to 233,000 in 1983 (Velázquez 1988).

⁴⁶ See Martínez and Tironi (1985), Schkolnik and Teitelboim (1988a and 1988b), and Contreras and Weihert (1988).

rural sectors in the benefits of development, with processes of upward mobility and/or expectations of mobility for their children. In contrast, the decades of the 1970s and 1980s were characterized by an impoverishment of many middle sectors and obstacles to upward mobility for poor sectors and frustration of their expectations for their children. No studies have profiled the occupational stratification for any year around 1990, nor the processes and channels of mobility to which the population has had access.⁴⁷ Nevertheless, partial information suggests upward mobility for small segments of the middle sectors, urban and rural workers, and small businesspeople who work in dynamic sectors able to increase productivity and income. On the other hand, the data suggest stagnation for the majority of the population with salaried employment as well as those employed in the urban informal sector.

TABLE 16

Percentage of Indigent Poor and Total Poor Households (1969–1987)

Year	Chile		Greater Santiago	
	Indigent Poor	Total Poor ^a	Indigent Poor	Total Poor ^a
1969	6	17	8	28
1976			28	57
1979			12	36
1980			14	40
1982			11	31
1983	30			
1984			23	48
1985	25	45	19	45
1986			25	51
1987	13	38	23	49
1989	—	—	23	50
1990	11	34	15	41

Sources: Altimir (1979), Rodríguez (1985), Torche (1987), PREALC (1990), and CEPAL (1990, 1991).

^a Includes indigent poor.

Modifications in the behavior of social actors have also occurred. Alongside traditional businesses, a modern business sector has arisen that is more conscious of technical and economic efficiency, independent of the state, and ready to confront internal as well as external competition (Montero 1990).

⁴⁷ Martínez and Tironi (1985) analyze the evolution of the occupational and social structure until 1980. Díaz (1991) provides some background concerning the situation after the crisis of 1982–1983.

Among the younger generation there is a minority sector that no longer seeks salaried employment but takes risks, opting for independent work and exploring new activities. On the other hand, there is a sector that never has been involved in a stable way in economic activity.⁴⁸ The first is of middle- and upper-middle-class origin. The second, the majority, is of lower social origin.

The parties and the political leaders are less dogmatic and ideologized than in the 1960s and their behavior shows a greater propensity for negotiation and the search for agreements. For their part, workers and employees and their organizations, despite having been delayed for years, are making moderate demands with respect to the past, adjusting themselves to the economic restrictions.

New actors and movements have arisen: popular organizations, nongovernmental organizations of social support and promotion, and women's movements.

2. The Neoliberal Economic Model: Public Action in the Social Sphere

The military government, oriented by the neoliberal ideas of privatization and a free market, a) redefined the purpose, objectives, and spaces of public action in the social sectors; b) modified the institutional arrangements and organization to respond to social needs, and c) reduced the amount of resources designated to social programs, modifying priorities and the mechanisms of financing and allocating resources.

The objectives of social policy in this period, in contrast to the previous one, were subordinated to the objectives of economic policy. The goals of controlling inflation and economic growth took precedence over redistributive and social objectives. In a context which strongly limited the power of unions and with an economic policy that led to a growing concentration of income and the impoverishment of vast sectors of the population, the state attempted to restrict its social activities to fighting extreme poverty.

In accordance with the ideological inspiration of the government, the role of the state was to be reduced. Given that it corresponded to the market to assume the decisions regarding the maximum possible allocation of resources and the provision of services, the role of the state should be subsidiary. That is:

...[the state] assumes only those responsibilities that individuals or intermediate societies are not in a condition to fulfill, dictating general norms that don't discriminate between individuals, groups, and sectors of national life (Ministerio del Interior 1981, 5).

⁴⁸ The rate of juvenile unemployment over the period 1974–1989, doubled and at times tripled the adult unemployment rate. In 1989, the open rate of juvenile unemployment (14–24 years of age) tripled that of adults: some 16% and 5% respectively (Marcel 1990).

On the social plane, the state was to concentrate:

...its activities in the defense of the general good through general and impersonal norms and the direct realization of those activities that because of their social or strategic nature cannot be turned over to individuals, such as national security, the administration of justice, and *implementation of social policy in favor of the most needy* (ODEPLAN 1979; emphasis the author's).

In accordance with the idea of its subsidiary role, the state argued that the management and administration of social services should be transferred to the private sector and/or to decentralized bodies such as municipal governments. Social services should be provided, not by the central government, but by entities close to the population, such as municipalities and the private sector. The role of the central government, it was maintained, was to set norms and procedures, provide financing and supervise and evaluate social programs.

It was also argued that the allocation of public resources to social problems should be transferred from the supply side (delivering resources to the services) to the demand side. The subsidies should be handed over directly to the beneficiaries, it was thought, and the financing of social services should be based on services effectively rendered and not on budgetary allocations according to historical criteria. This modality, it was asserted, would assure that resources effectively reached the poorest sectors, and would motivate the operation of the market and competition between services since the user would elect where to seek services or where to obtain benefits. This would all result, it was argued, in greater efficiency and quality of services.

The priority target group of social policy was small children in poor households, with the understanding that programs of 'investment in human capital' at an early age (nutrition, health, education) would assure equality of opportunity.

The social objective was defined as 'eradicating extreme poverty.' The state's activities should benefit only those households that were not in a condition to meet their own most urgent basic needs. This principle oriented the policy of 'targeting,' in that it concentrated public resources in health, education, and housing in that segment of the population under a certain minimum threshold and unfolded a social assistance network towards the extremely poor.

Within this framework, the government studied and elaborated reforms of the institutions and organization of the social sectors, creating new mechanisms for the allocation of resources and subsidies and reformulating priorities and the content of specific programs.

3. Institutional and Financial Modifications in Social Policy Sectors

The social policy of the military government had two phases. The first, which extended until 1980, was one of normalization, rationalization, and preparation for the reform projects.

This phase was marked by:

1. A significant reduction in public social spending (Table 1).⁴⁹
2. The implementation of measures which tended to break some of the inequities of the social security system. For example, the value of the family allowance was equalized for workers and employees; a general and uniform system of subsidies for dismissal was defined; the value of minimum pensions for different labor categories was equalized; the rules of readjustment of pensions were made uniform and retirement for seniority was eliminated for the civilian population, defining homogeneous age requirements for all labor categories—65 years in the case of men and 60 in the case of women.
3. The reduction of the mandatory social security quotas of the employer and the worker, especially of the former. Nevertheless, differences in quotas were maintained for different labor categories (Table 2).
4. The application of measures which lead to targeting the state's activities in education and health in the poor sectors, and, within these, on children. In health, activity was concentrated at the primary level (physicians' offices) and in the maternal-infant health and nutrition programs. In education, the subsidies for higher education were reduced and preschool and primary education were stimulated.
5. The conducting of diagnostic studies on the magnitude, location, and characteristics of poverty,⁵⁰ and the elaboration of instruments which would permit identifying the poorest sectors to assure that only they benefited from fiscal contributions.⁵¹
6. Stimuli for public/private collaboration in the social sectors. Hospitals and other public institutions were allowed to subcontract services—cleaning, laundry, preparation of food—with private firms; a pilot program was approved for the private administration of health care facilities; the preparation and distribution of school food programs went to private hands; and the creation of subsidized private schools was motivated and facilitated.
7. The initiation of the social net. In response to the crisis of 1975–1976, which strongly affected the country with rates and periods of unemployment much higher than historical rates, two measures were adopted which provided subsidies for the population directly affected by the crisis. The Minimum Employment Program (Programa de Empleo Mínimo or PEM) was initiated and the regime of assistance pensions was widened to include all those over 65 years of age of scarce resources and the disabled over 18 years of age.
8. Preparation of the 'modernizing reforms' projects: the Administrative and Regionalization Reform, the Social Security Reform, the Presidential

⁴⁹ It should be noted that public spending in the social sectors on average fell less than total public spending (Marshall 1981).

⁵⁰ In 1975, the *Mapa de la Extrema Pobreza* was published. See ODEPLAN and Universidad Católica de Chile (1975).

⁵¹ The instrument that began to be applied was developed in neighborhood level Social Assistance Committees (Comités de Asistencia Social or CAS). These committees identified social needs, defined priorities, coordinated aid from various social agents, and evaluated social programs. This model was then used at the municipal level. See Raczynski (1991).

Directive on Education and the Restructuring of Health.⁵² The implementation of these reforms after 1980–1981 began the second social policy phase of the military government.

In general, the reform projects were elaborated behind closed doors and imposed without any public discussion or wide debate around them. The exception, in large measure because of the strength of the medical association, was the reforms in the health sector. From another point of view, diverse factors slowed or conspired against the full implementation of some of the projects. Among them, the existence of a tradition that the state should play a fundamental role in the supply of education and health services; the behavior of the users of the system, and principally, of professionals, technical personnel, and functionaries involved in the delivery of social services; the weak response of the private sector; the recession of 1982–1983, economic instability; the costs associated with the modifications in the existing institutions; and the increase in poverty and deteriorating income levels of the middle sectors.

At an early stage the government worked on a *political-administrative reform*⁵³ with two axes: regionalization and a new municipal regime. With respect to regionalization, three territorial levels were created below the national level (regional, provincial, and municipal), decentralizing the functions and tasks of the ministries toward lower levels. Additionally, a new municipal law was passed, giving the functions, responsibilities, and also resources of the social sphere to the municipalities. They were to take charge of planning local development—studying social problems, administering the 'social net,' managing educational and health establishments, and formulating specific social projects to address problems particular to their area. In order to carry out these new tasks, the municipalities received more resources and had to restructure their internal organization.⁵⁴ The municipal effort grew and became more technified, but implementing the reform and the manner in which the municipality assumed and carried out their new functions were not without difficulties.⁵⁵

The *Social Security Reform* ended the existing system of distribution, opening the way for and consolidating a private system of individual capitalization (See Section 4).

The *Presidential Directive on Education* included three fundamental transformations:

⁵² The government proposed seven 'modernizations': in addition to those already mentioned, the Labor Plan, the Modernization of the Judicial Sector, and the Reordering of Agriculture based on private property.

⁵³ In 1983 the National Commission for Administrative Reform (Comisión Nacional de Reforma Administrativa or CONARA) was created. On the reform see CONARA (1976, 1979). Critical analyses can be found in Cumplido (1983) and Tomic and González (1983).

⁵⁴ For example each municipality presently has a Municipal Planning Secretariat and departments and/or subdepartments for specific tasks (urban works, licenses, educational department, employment office, community organizations, social development, etc.).

⁵⁵ Raczynski and Serrano (1987 and 1988) studied the municipalities' new social responsibility and the way in which they have assumed these tasks.

i) The modification of the primary and intermediate school curricula: a flexible curriculum was established for primary education (which in practice was distorted since it resulted in a reduction in the content and areas of knowledge covered at this level); in intermediate education a sharp separation between scientific-humanist education in preparation for the university and technical-professional education, which was intended to be linked to private enterprise (an initiative which was successful in only a few cases). In fact, enrollment in intermediate technical-professional education declined.

ii) The transfer of public education establishments to municipalities and incentives for the private administration of transferred establishments. The transfer involved buildings, facilities, and all personnel. Initially the process was voluntary in the sense that municipalities solicited them, an initiative for which they received economic rewards. Later, coinciding with the 1982–1983 economic crisis, the transfers were frozen. In 1986, the Ministry of Education decreed the completion of the process, obliging municipalities which had not done so to take charge of establishments located in their jurisdictions.

There are no systematic studies of the impact of 'municipalization' on the school system, its coverage, quality, efficiency, etc. Some problematic aspects have been noted, however: the negative consequences for municipal finances and the deterioration in working conditions for teachers and other affected personnel who ceased to be public functionaries, thus losing labor rights, civil service careers, and income. It also has been argued that the transfer has had a negative impact on the quality of education. Espinola (1990) contends that it is not the transfer of educational establishments to the municipalities that 'would explain this deterioration,' but principally the new system of financing (subsidizing demand: basing school subsidies on the mean attendance of the previous month). This introduces distortions and flaws in educational practices and in school-community relations to the detriment of the quality of education. Aggravating the situation even more, after 1985 the value of the school subsidy per student fell.

On the positive side, improvements in school infrastructure have resulted as well as greater agility in decision making regarding maintenance, facilities, and the hiring of teachers.

As education was transferred to the municipalities incentives were also given to develop subsidized private establishments, with equivalent conditions to the municipal facilities. Subsidized education expanded greatly, especially in the first years when the value of the subsidy per student was more favorable. The same mechanism of resource allocation used in the municipal system, operated in the subsidized institutions, creating the same distortions in educational practices (Espinola 1990).

iii) The approval of the General Law of Universities, which transformed the regional branches of national universities into autonomous units and opened the door to a proliferation of

private universities. Free education—the state's contribution to traditional universities—came to an end.

The Presidential Directive on Education was implemented slowly due to various reasons: the implicit ambiguities and contradictions in the reforms themselves; the behavior of the agents charged with assuming new tasks (neither the private sector nor the municipalities responded with the expected speed and efficiency); and the passive resistance, growing over time, of teachers. This opposition was accentuated with the appearance of the Association of Chilean Educators (Asociación Gremial de Educadores de Chile or AGECH), an alternative organization to the official College of Teachers (which did not adopt positions more independent from the government until the 1980s).

The *restructuring of the health sector* was preceded by a sharp and conflictive public debate between government authorities and the Medical Association (Colegio Médico). Other professional associations joined the debate and groups of users sporadically participated. The discussion between authorities and the Medical Association was often agitated and on various occasions the government saw itself obliged to revise and postpone the reforms.⁵⁶ The initial proposals of privatization gradually were transformed to a posture that accepted a mixed system with state predominance. The reforms introduced the following modifications to the prevailing state system:

i) The functional and geographic decentralization of services. Differentiation and separation between three functions: the normative formulation of policies; the financial function of collecting and allocating resources; and the executive function of providing services. Each remained in the hands of autonomous entities. The Ministry of Health assumed the normative function and the global coordination of the system. The National Health Foundation (Fondo Nacional de Salud or FONASA) was created to oversee the financial function. It collected and assigned the resources from social security quotas and fiscal contributions. For the executive function the SNS was subdivided into 26 autonomous health services (plus an environmental service that operated in the metropolitan region of Santiago), which constituted the National System of Health Services (Sistema Nacional de Servicios de Salud or SNSS). Each one of these 26 services covered a geographic area and was charged with administering and directly or indirectly implementing preventive health activities, health promotion, and curative and rehabilitation activities under the technical control of the Ministry (Regional Secretaries of Health) and with resources from FONASA.

⁵⁶ Many aspects were intertwined in the debate: the role of the public and private sectors in the provision of health services, the priorities of health care policy, public resources assigned to health care, the reorganization of SNS and SERMENA and the medical association's interests in earnings, professional training, and participation in the management of health care policy. See Raczynski (1983).

ii) The transfer of primary service establishments (medical offices and rural stations) to the municipalities. The 26 autonomous health services were given power to delegate part of their functions to the municipalities and to the private sector. The municipalities had to assume the function of administering the primary service units and rural stations, receiving the use of the infrastructure and taking responsibility for their maintenance as well as the management of the transferred professional and nonprofessional human resources.

The transfer of health was slower than that of education. By the government's decision, the transfer was defined initially as a pilot plan which would include no more than 35% of the primary care establishments with a population not greater than 40,000 inhabitants. The transfer became massive during 1987–1988, affecting almost 100% of urban and rural medical offices. As with education, the transferred personnel ceased to be public functionaries. They lost their civil service careers and after an initial increase, the acquisitive power of their salaries persistently dropped.

As with the education transfer, the health transfer generated municipal deficits. The mechanism designed to allocate part of the resources, the billing for services rendered, introduced distortions. The prices for attention were fixed administratively by FONASA and did not necessarily coincide with the real cost of the service. This motivated some health care providers to order procedures and exams that were not absolutely necessary and led to overbilling for some medical services. This generated an increase in expenditures to the point that FONASA had to impose a ceiling on the amount of resources that an establishment could bill. Other difficulties included bottlenecks in the system of patient referrals when they required secondary or tertiary services—examinations, specialized consultations, or surgical interventions. The relationship between medical offices and hospitals, which was always difficult, became even less expeditious.

iii) The Law of Medical Services and access to health care by capacity to pay. Around 1978, a law was passed making the health care systems for workers and employees compatible. Employees were permitted to seek services free of charge in SNS and workers could seek services in the 'free choice' regime, incurring the required copayments. In 1984, the Law of Medical Services was passed, which suppressed totally free services at medical offices. The law limited free services to lower-income persons, defining percentages of copayment which increased with income levels.

iv) The creation of the Health Insurance Institute (Instituto de Salud Previsional or ISAPRE) and the incentives to the private sector. The social security reform approved in 1980 permitted members of the social security system to opt for placing the mandatory health quotas (initially 4%, then 5%, 6% and presently 7% of disposable earnings) in an ISAPRE. This opened

the door for the growth and development of the private health sector, an expansion which took resources from the public sector (see Section 4b).

Policies in the *housing sector* were marked by the following elements:

i) A minimum intervention of the state; elimination of regulations regarding urban lands and control of their use; sale of publicly-owned lands. The role of the state remained limited to financing and selecting the beneficiaries of some subsidies and fixing norms and rules. The tasks of urbanization, basic sanitation, housing construction and financial intermediation were transferred to the private sector.

ii) The channeling of state subsidies to demand and only to those persons who did not have access to dignified housing on their own. The distribution of fixed-sum coupons or certificates, one time only, to acquire housing on the market. The beneficiaries had to use their own savings and/or obtain a loan at bank interest rates in the private financial sector to cover part of the price.

Additionally, a policy was formulated, oriented toward regularizing property and sanitary infrastructure in collective land invasions (*campamentos*). This policy was intensified in the 1980s, with the programs of resettlement and reestablishment of populations in the metropolitan region.

The following section examines two linked structural reforms that had repercussions on the availability of public resources for social problems: the social security reform and the creation of ISAPRE. The section covers the trajectory of public social spending, its financing and sectoral composition in the period 1974–1989. Data on results are presented, incorporating information on the compensatory social net and successes in the targeting of social spending. Successes and failures or pending problems are identified for each sector, with emphasis on the most affected social groups.

4. Two Reforms and their Impact on the Availability of Public Resources

a) The Social Security Reform of 1981

In November 1980, the government dictated social security reform which came into force in May 1981. The former distribution-based regime was replaced by one of individual capitalization. This reform put an end to the multiple social security institutions which had emerged between 1930 and 1973, and gave birth to the Administrators of Pension Funds (*Administradores de Fondos de Pensiones* or AFP).

Since the 1950s the opinion prevailed that the system required profound reforms. The existing options were three: a) increase the administrative efficiency of the existing system and strengthen measures to do away with its inequities; b) move to a system of benefits with accumulation of financial reserves such as the sale of life annuities by life insurance companies

(state or private); and c) move to a system of defined contributions with accumulation of financial reserves (Iglesias et al. 1991).

The latter path was chosen. The creator of the reform, then Labor Minister José Piñera, said:

The basic problem of the system of distribution lay in its collectivist conception of man and society...a mistaken ideological notion about the nature and behavior of human beings. The system of distribution ignored ample evidence about human behavior, according to which men show greater effort when this effort is related to a specific compensation... As a consequence, the great lesson for the design of the new system was not to neglect the free choice and decisions of individuals, nor to break the indispensable tie between personal effort and compensation (cited by Iglesias et al. 1991).

This normative argument was accompanied by a technical argument: the impact that medium-term demographic changes (aging of the population) would have on the financial stability of the prevailing system.

The system that was imposed was one of individual capitalization of quotas, in which the old-age pension results from contributions a worker accumulates over his/her economically-active life through the payment of mandatory social security quotas, plus the return from investments made with these contributions by the AFPs. Each member may add voluntary contributions to their mandatory quota,⁵⁷ thus increasing the amount of the pension. (Figure I summarizes some of the similarities and differences between the old and new systems.)

The AFPs are corporations with a sole purpose of administrating the funds of their members. Each AFP is financed with commissions charged to its affiliates. The state regulates and supervises the operation of the system. It defines the type of capital market instruments in which the funds accumulated by the AFPs can be invested. It guarantees a minimum profitability (3% annually) to the members and a minimum pension (fixed by law) for workers who, having paid quotas for a minimum period during their economically-active life (20 years), do not achieve this minimum pension with their social security savings.

The new system permits competition between the AFPs and the transfer of persons from one to another. Affiliation with an AFP is individual. In addition, the system eliminates the impact of demographic changes on financing social security, since workers and employees finance their own pensions. Furthermore, the quotas and the requirements for receiving benefits are uniform, with the exception of a lower age requirement for women to begin receiving pensions.

⁵⁷ These contributions, up to a certain limit, are tax exempt.

Figure 1

Comparison of Old and New Social Security Systems

Dimension of Comparison	Old System	New System
Nature of the system	Distribution: payment of pensions was covered with the quotas paid by active workers and employees at the moment the pension was paid. There was almost no accumulation of reserves.	Individual capitalization: the Retirement (old-age) pension comes from a fund that the worker or employee accumulates over his/her active life. There is accumulation of reserves. ^a
Administration	35 public or semipublic institutions.	Private sector: corporations (AFPs), exclusively dedicated to administering their members' funds, are financed with commissions paid by the members. The resources of the pension fund have to be invested in the capital market, in instruments defined by law.
Financing	Mandatory quotas paid by the workers and employees, and employer and state contributions.	Mandatory quotas paid by workers and employees.
Benefits ^b	Pensions for old age, disability, and survivors. Health and maternity benefits. Unemployment insurance. Family allowance. Fund for dismissal and indemnization for years of service. Diverse loans (housing, health, etc).	Pensions for old age, disability, and survivor. Protection against work accidents. Health and maternity benefits. Unemployment insurance. Family allowance.
Benefit-Contribution Relationship	The benefit was distinct from the contribution associated with taxable earnings in the period before retirement.	The benefit equals the accumulation of an individual's capitalized contributions.
Coverage of independent workers	Voluntary; did not cover health benefits.	Voluntary, with contributions and benefits similar to those of salaried workers.

^a In a system of distribution, accumulated funds are a very small fraction of the quotas paid by workers since pensions are paid with the current quotas of economically-active workers.

^b Both systems establish a minimum pension which is applied in those cases in which the years quotas have been paid (old system) or the individual contributions (new system) are not sufficient to finance such a pension. The new system requires 20 years of effectively paying quotas, which is stricter than the old system.

Like the old, the new system is mandatory for all salaried workers and employees. A percentage of their taxable earnings is withheld and deposited in the AFP of their choice. With these quotas the AFPs pay retirement (old-age) pensions when workers reach 65 years of age (60 in the case of women) and, when necessary, disability and survivor pensions, which are financed by a complementary collective insurance which is also capitalized.

After May 1981, workers and employees who affiliated for the first time to social security were obliged to become members of and pay quotas to an AFP. (Personnel affiliated with the Social Security Institutions of the National Defense and Police Forces were not included in the new system of pensions and retain their former institutions) Workers and employees affiliated with the old system had the option to remain or transfer to the new system. In the latter case, a 'coupon of recognition' was granted for quotas paid in the past. The coupon is paid by the state when the pension becomes effective.

TABLE 17

**Coverage of Social Security System
(December of Each Year)**

Year	Old System	Active Contributors		Percent of Labor Force	Percent of Employed
		AFP	Total		
		(Thousands)			
1974	1,863		1,863	60.9	67.0
1975	1,792		1,792	57.7	64.4
1976	1,727		1,727	52.7	67.4
1977	1,699		1,699	50.9	62.8
1978	1,670		1,670	47.8	58.2
1979	1,653		1,653	46.6	56.4
1980	1,679		1,679	45.9	55.3
1981	732	882 ^b	1,614	43.0	50.6
1982	489	907	1,396	36.8	49.8
1983	478	1,055	1,533	38.7	56.4
1984	459	1,139	1,598	39.7	52.7
1985	454	1,322	1,776	43.1	55.2
1986	442	1,494	1,936	45.9	55.5
1987	435	1,676	2,111	48.2	55.9
1988	428 ^a	1,772	2,200	48.8	54.9
1989	421 ^a	1,918	2,339	51.4	56.2
1990	414 ^a	1,962	2,376	49.8	54.6

Source: Arellano (1989: 67), Iglesias et al. (1991: 43).

^a Estimated, based on 1986–1987 coverage.

^b Information is not available for this year on active contributors. It was assumed that the percentage of active contributors of total membership was similar to the following year (1982).

Members pay a quota of 10% of their taxable income for the retirement pension. With these resources and the 'coupon of recognition,' once retirement age is reached, the member can buy old-age insurance or withdraw monthly quotas from the fund accumulated in his/her individual account.⁵⁸

A voluntary, rapid, and massive transfer of salaried workers and employees to the new system began in May 1981, when the reform came into force. In 1982, there were close to one million members (Table 17). The workers and employees who remained in the old system were those close to retirement age and women who obtained low earnings and for whom it was difficult to complete the 20 years of quota payments required to receive a minimum pension.

Two central factors prompted the population to change systems en masse. One was the generalized discontent with the old system, which was accentuated by declining benefits (pensions and family allowances) in the years before the reform (see Section III.6). However, probably the principal factor promoting the transfer was the fact that upon changing systems, workers and employees automatically acquired an increase in their liquid earnings (estimated, on average, at almost 12% of earnings). Those who changed to an AFP had to pay a maximum quota of 16.5% of their earnings, instead of the 25.6% paid to the old system (Table 18). The drop in the quota was possible because of a previous modification that canceled retirement based on years of service and established a minimum retirement age for men (65) and women (60). This modification permitted reducing the quota paid by the worker in the old and the new system, however, the law restricted the reduction to the members of the new system, imposing a punishment on those who remained in the old.⁵⁹

In 1990, 14 AFPs were in operation. Each one had accumulated significant funds. Three years after the reform was initiated, in 1984, the total funds accumulated by the AFPs reached almost 9% of GDP. In 1990, they represented 26% of GDP.⁶⁰ This figure will diminish once the AFPs begin to pay pensions in a significant way.

⁵⁸ It is possible to retire before 60 or 65 years of age, as long as the accumulated funds generate a pension above the minimum pension and equal to at least 70% of the workers' taxable earnings during the last 10 years.

⁵⁹ Another factor of lesser importance that facilitated the quota reduction was the elimination of benefits for dismissal, which were based on years of service.

⁶⁰ See Iglesias et al. (1991, 39 and 81). The accumulation of these funds has important macroeconomic consequences. Arellano (1985, 171-87) suggests that what occurs with the savings and accumulation of capital will depend on the policies which the government adopts to finance the social security deficit. If it covers the deficit selling assets and public firms (the dominant desire and posture today) and/or printing bonds or promissory notes, it will not increase savings or the volume of capital in the economy. A mere transfer from the public sector to the private would be produced. He also adds that the reform had important consequences on the distribution of property and control of capital. In this regard, it should be noted that the majority of the members were affiliated to a small number of the AFPs. Initially the larger AFPs belonged to the most important economic groups in the country. During the crisis of 1982-1983, the government saw itself obliged to temporarily assume the administration of these AFPs. Later they

The accumulation of funds in the AFPs was concomitant with an increase in the social security system deficit. In 1982, one year after the new system began operation, this deficit grew from the historical levels of less than 4% of GDP to 7.7%. It did not drop below 6% until 1988 (Table 19).

TABLE 18

Social Security Contribution Rates, 1970–1984
(% of Taxable Earnings)

A. Before Social Security Reform						
	SSS		Withholding Fund for Private Sector Employees		Withholding Fund for Public Employees	
	Worker	Employer	Worker	Employer	Worker	Employer
1973	9.5	40.4	14.6	44.4	18.8	7.0
1974	7.5	49.4	12.6	52.1	18.8	35.2
1975	7.3	44.1	12.3	46.9	18.5	32.0
1976	7.4	44.0	12.3	46.7	18.5	32.0
1977	7.3	41.0	12.3	43.7	18.5	29.0
1978	7.3	32.5	12.3	33.9	18.5	19.5
1979	7.3	29.0	12.3	31.7	18.5	17.0
1980	7.3	27.0	12.3	29.7	18.5	15.0
B. After Social Security Reform						
	Worker	Employer	Total			
1980 ^a	10.1	21.40	31.50			
1981						
Distribution System	25.6	3.85	29.45			
System of Capitalization (AFP)	16.5	3.85	20.35			
1982						
Distribution System	25.6	2.85	28.45			
System of Capitalization (AFP)	16.6	2.85	19.45			
1983						
Distribution System	27.1	2.85	29.95			
System of Capitalization (AFP)	18.8	2.85	21.65			
1984						
Distribution System	27.6	2.85	30.45			
System of Capitalization (AFP)	19.5	2.85	22.35			

Source: Arellano (1985, 92 and 149).

^a Average rate before the social security reform.

were reprivatized, remaining in the hands of international consortiums (see Marcel and Arenas 1991).

As in the health area, the primary and intermediate educational system was criticized for its high degree of centralization: the Ministry of Education was responsible for educational policy and also decisions related to the daily functioning of each school. The Ministry contracted teachers, managed facilities construction and maintenance, distributed texts, etc. Other problems included low teachers' salaries, inflexible programs of study, the pedagogic emphasis on memorization, and the insufficiency and weakness of technical-professional training.

8. Synthesis and Conclusions

Throughout the twentieth century the Chilean state played a key role in the formulation and design of social policy and in its financing, as well as in its execution and the provision of social services to the population. The state's activities slowly benefited wider sectors of the population: initially urban workers, then middle and lower urban sectors, and finally, although in lesser measure, the inhabitants of rural sectors.

The state operated through employment policies (income and collective bargaining), social policies (in education, health, and housing), and towards the end of the period, with policies supporting neighborhood and community organization. It also enacted pricing policies that subsidized basic goods and services supposedly consumed by lower income sectors. The increasingly complex operation of this 'welfare state' presented successes and advances. Ever wider sectors of the population improved their quality of life, or at least held on to the real expectation of bettering their situation, while the country had a fairly complete network of widely accessible social services. Proof lies in the indices of coverage by the health system, the rate of primary school enrollment, the population affiliated with social security, and the number of housing units constructed with public support.

In 1960, seen globally, the state's actions in the area of social policy were progressive. Thirty percent of the poorest families captured 18% of the benefits, improving their 7.6% participation in the original distribution of income (Table 8). Nevertheless, only a few programs provided a greater benefit per family in the poorest strata than in the richest strata. This occurred with preventive and curative services offered by the SNS and in some subprograms specifically defined for the lower income sectors, such as the assistance programs in schools. In all programs, including the assistance programs, there was ample room for making the distribution of benefits more progressive.

The state's actions were not sufficient to respond to the needs of the poorest population, whose needs and demands exceeded public supply at the end of the period (1970). There remained unsatisfied demands for health care, a growing housing deficit, a population marginalized from social benefits, and failure to attend or desertion from school, etc. The majority

of the population was incorporated into the system of social policy, but often those requiring public support did not succeed in gaining access to services, or gained access after much delay and difficulty.

The system was fragmented and stratified. The incorporated population had access to benefits of varying quality. The quality of social security and health benefits depended on insertion in the labor market. Housing benefits, also depended in part on employment, and in part on the implicit and explicit requirements and subsidies of the different plans and programs. In education, the system was less fragmented, however, the quality of benefits varied by establishment and by residential characteristics.

Multiple public and semipublic institutions coexisted in each social sector, with little coordination between them. They duplicated efforts and had sluggish administrative apparatuses. Attempts to make the system more equalitarian and efficient were oriented toward integrating diverse institutions into fewer larger organizations. These tended to be highly centralized, with the paperwork and rigidity of great bureaucratic machines, and with vertical, centralized decision-making processes. Efforts at homogenization and rationalization meant growing state intervention in the administration and direct production of benefits.

To a large extent, the expansion of the system of social policy resulted from group pressures. This led to increased spending and to situations in which the spending frequently was not financed, thus stimulating inflationary tendencies. The situation reached a crisis in 1972–1973 when the Popular Unity government expanded social spending and spending oriented toward supporting various reform programs, without the backing of policies to increase public sector income. In 1972–1973, public social spending represented 25% of GDP and the public deficit grew above this figure.

The social sector that absorbed the greatest quantity of public resources (approximately half) was social security, and within this area, pensions. Social security spending expanded as a consequence of an increase in the retired population as coverage widened and the system matured. In 1970 the demographic tendency of the aging of the population was not an important factor in explaining the deficit in social security programs. Throughout the previous years the system had required growing fiscal contributions. This occurred because, as already noted, the social security quota paid by the state as employer was significantly lower than that of private employers and also because the state contributed to SNS, the organization responsible for preventive health care activities for the entire population and curative medical care for the needy and low-income sectors.

The social policy system was the object of multiple criticisms regarding costs and efficiency, rigidities and incapacity to rapidly and adequately respond to the demands and needs of the population, the absence of user participation, and low wages for professionals and

functionaries. It was also faulted for geographic and economic inequalities, for being insufficiently progressive in the distribution of social spending, and for failing to adjust national policies to the needs of specific population groups.

Together with processes of economic development, industrialization, and urbanization, the social policy system had repercussions on the social structure. After 1930, middle sectors and urban popular sectors were consolidated as social sectors. They both partially benefited from the fruits of development and from the social policies of housing, education, social security, and health. The impact was double: access was widened to the benefits of education, health, housing, and social security and to opportunities for employment and social mobility.

At the end of the period, the middle and popular sectors demonstrated high internal differentiation, the product of dissimilar insertions in the labor market and of differential access to public housing, health, social security, and education programs. Living conditions, including levels of education and health, improved. In differing degrees, poor sectors gained access to services and urban consumption (water, electricity, sewage, gas, durable goods, and electric appliances). As a result of social policies and programs that were progressive, but insufficient given the needs of the population, poor families were able to satisfy some, but not all their basic needs. Thus the poverty of the late 1960s was heterogeneous; households deficient in one area were not necessarily deficient in others (Cortázar 1977).

The Retreat of the State: Social Policies under the Military Regime (1973–1990)

1. Society, Politics, and Economy

In the early 1970s, Chile confronted severe economic imbalances and sociopolitical conflicts. The military government which took power at the end of 1973 remained for 17 years, until March 1990. The ideology and doctrine of the government crystallized around a model that was economically neoliberal and politically authoritarian, breaking sharply with the system of economic and social organization and the strategy of development which prevailed between 1930 and 1973.⁴²

A closed and protected economy was replaced by an open one. The strategy of import substitution whose central component was the industrial sector and internal demand, was succeeded by a strategy that privileged external demand and the growth of exports, principally natural resources (mining, agriculture, marine products, paper and cellulose).

⁴² For a characterization of the model in its first stage see Ffrench-Davis (1983), Foxley (1983), and Vergara (1985). Analyses that incorporate the economy's more recent trajectory are: Ffrench-Davis and Muñoz (1990), Ffrench-Davis and Raczynski (1990), and Ffrench-Davis (1991).

The state, which had played a leading role in the growth and development of the economy and in business investment and administration, was transformed so that it played a subsidiary one, limited to the formulation of macroeconomic policies, determination of general rules, and intervention in exceptional situations (Muñoz 1991, 11).

The changes in the economy occurred in a closed political system which, during the majority of the period, maintained strict control over social organizations (particularly political, union, and business associations), over instances of collective expressions of social demands, and over communications media.

The application of this economic and social model over 17 years modified the institutions and policies (content and priorities) prevalent before 1970, the profile of the social structure and social actors, the role of the state, and more generally, state-society relations. It is beyond the scope of this work to recount each of these aspects, but the following sections consider some elements we believe should be taken into account in the analysis of social policy under the military regime.

a) The Performance of the Economy: Macroeconomic Balance⁴³

From 1974 to 1990 the Chilean economy was characterized by instability and, on average, a low rate of growth (Table 13). In 1975–1976 and in 1982–1983, Chile exhibited one of the greatest drops in GDP in the Latin American context and, in 1988 and 1989, once precrisis levels were recuperated, the greatest expansion. The net balance was a moderate growth rate (2.6% annually), inferior to what the country experienced between 1961 and 1971, which reached 4.6% annually (Ffrench-Davis and Muñoz 1990, Table 1).

This trajectory of GDP was accompanied by a strong expansion and diversification of exports, a balanced fiscal budget, and decreasing rates of inflation in the 1970s and moderate levels in the 1980s. The investment rate for the period was 15% below the historic rate. Further negative developments included the growth in the country's foreign debt, the magnitude of the service of foreign debt, and the enormous vulnerability of the Chilean economy to the international situation. Ffrench-Davis (1991, 33–37), analyzing the economy in the 1980s, notes that the contraction of 1982–1983 and the expansion of 1988–1989 were associated with external events: a deterioration in the terms of trade and the service on foreign debt in the first case, and an improvement in the terms of trade of unexpected magnitude in the second. He adds that the expansive process of 1988–1989 was based on an available installed capacity which by 1990 had been practically drained.

⁴³ This section is based on Ffrench-Davis and Raczynski (1990) and Ffrench-Davis (1991).

TABLE 13

Growth and Investment Rates, Foreign Trade and External Debt

Year	Per Capita GDP (1970=100)	Manu- facturing % GDP	Annual Inflation Rate	Investment Rate	Exports (FOB) ^a	Imports (FOB) ^a	Balance of Trade	Balance of Payments	External Debt
1970	100	25.2	36.1	20.2 ^b	1,112	851	261	108	3,123
1971	106	26.6	26.5	18.3	998	903	95	-241	3,196
1972	104	27.4	254.5	14.8	849	981	-132	-387	3,602
1973	98	26.7	606.1	14.7	1,309	1,288	21	-21	4,048
1974	102	25.1	369.2	17.4	2,151	1,794	357	-55	4,774
1975	87	21.5	343.3	15.4	1,590	1,520	70	-344	5,288
1976	89	22.0	197.9	12.7	2,116	1,473	643	414	5,233
1977	96	21.7	84.2	13.3	2,185	2,151	34	118	5,613
1978	103	22.0	37.2	14.4	2,460	2,886	-426	712	7,011
1979	109	21.9	38.9	15.6	3,835	4,190	-355	1,047	8,663
1980	116	21.6	35.1	17.6	4,705	5,469	-764	1,244	11,207
1981	121	20.9	19.7	19.5	3,836	6,513	-2,677	67	15,591
1982	102	19.3	9.9	15.0	3,706	3,643	62	-1,165	17,159
1983	99	20.0	27.3	12.9	3,831	2,845	986	-541	18,037
1984	104	20.7	19.9	13.2	3,651	3,288	363	17	19,659
1985	105	20.4	30.7	14.8	3,804	2,955	850	-99	20,529
1986	109	20.8	19.5	15.0	4,199	3,099	1,100	-228	20,829
1987	113	20.8	19.9	16.5	5,224	3,994	1,229	45	20,660
1988	119	21.1	14.7	17.0	7,052	4,833	2,219	735	18,960
1989	129	21.0	17.0	18.6	8,080	6,502	1,578	437	17,520
1990	130	20.6	26.0	19.5	8,310	7,037	1,273	2,368	18,576

Source: Banco Central, Cuentas Nacionales, INE.

^a FOB = free on board, before duty and freight costs.

^b 1961–1971 average.

b) Employment and Distribution of Income

The economic strategy substantially increased distributive inequalities. The unemployment rate, as would be expected, was closely associated with the cycles of recession and recuperation of the economy (Table 14). Nevertheless, the average unemployment rate for the period was 18%—three times the rate prevailing in the 1960s. Only in 1990, for the first time in 17 years, did the rate come close to its historical levels.

Throughout the period real wages and salaries were in continuously below 1970 levels; the 1989 rates were 8% below those of the 1960s. The minimum wage and family allowance also dropped. Their 1989 levels were significantly below those of 1970. The monthly value of the minimum pension showed a more favorable trajectory, but this was not the case for civil pensions as a whole.

Congruent with the evolution of unemployment, salaries, and other income, the distribution of family income and household spending deteriorated. Information for Greater

Santiago, where approximately 40% of the population lives, shows a persistent increase in the concentration of family income. The participation in this income of the poorest 40% of families decreased from 12.2% in 1965–1970 and 12.9% in 1971–1973, to 11.3% in 1974–1977, 11.1% in 1978–1981 and 9.8% in 1982–1985. The Gini coefficient increased from 0.50 in 1970 to 0.55 in 1984 (Riveros 1984; Labbé 1986). The surveys of family budgets conducted in 1969, 1978, and 1988 revealed a decline in household expenditures for the three lowest quintiles (Table 15). The decline between 1969 and 1988 was greater in the poorest households: 42% in the lowest quintile, 30% in the next, and 18% in the following. The richest quintile, on the other hand, improved their relative position.

TABLE 14

Labor Force, Employment, Unemployment, and Salaries, 1974–1990

Year	Labor Force	Employment ^a (Thousands of persons)	Emergency Employment Programs (PEM and POJH)	Open Unemployment	Unemployment Rates		Real Salaries (1970=100)	
					Open	With PEM + POJH	Average Wages and Salaries	Minimum Income ^b
1970	2,890.4	2,719.9	—	170.5	5.9	5.9	100.0	100.0
1974	3,059.6	2,780.3	—	279.3	9.1	9.1	65.1	100.6
1975	3,104.8	2,558.3	60.6	485.9	15.7	17.6	62.9	99.3
1976	3,279.8	2,560.4	172.0	547.4	16.7	21.9	64.8	99.9
1977	3,335.2	2,703.8	187.7	443.7	13.3	18.9	71.5	102.6
1978	3,496.1	2,867.3	145.8	483.0	13.8	18.0	76.0	116.2
1979	3,546.5	2,932.8	133.9	479.8	13.5	17.3	82.3	112.6
1980	3,654.6	3,035.6	190.7	428.3	11.7	16.9	89.4	112.7
1981	3,757.9	3,190.6	175.6	391.7	10.4	15.1	97.4	117.9
1982	3,793.8	2,803.1	247.1	743.6	19.6	26.1	97.7	116.6
1983	3,962.5	2,720.3	502.8	739.4	18.7	31.3	87.0	91.6
1984	4,022.8	3,031.2	336.2	655.4	16.3	24.7	87.1	80.1
1985 ^c	4,122.7	3,216.1	324.3	582.2	14.1	22.0	83.2	74.6
1986 ^c	4,219.7	3,488.7	221.4	509.6	12.1	17.3	84.9	69.6
1987 ^c	4,383.9	3,775.6	124.1	484.2	11.0	13.9	84.7	64.0
1988 ^c	4,504.2	4,009.2	33.9	461.1	10.2	11.0	90.3	66.4
1989 ^c	4,552.2	4,159.0	—	393.2	8.6	8.6	92.0	73.8
1990 ^c	4,770.0	4,354.6	—	414.9	8.6	8.6	93.7	78.8

Source: Jadresic (1986); CIEPLAN (1991).

^a Excludes labor force in emergency programs PEM and POJH.

^b The income of reference in 1970 is the 'minimum wage' of the period. The category 'minimum income' was created in October 1973, assuming on that date a value 2.9 times the 'minimum wage', which had lost two-thirds of its purchasing value with respect to 1970.

^c The series elaborated by Jadresic relied on the annual growth rates of employment and unemployment recorded by the University of Chile.

PEM: Minimum Employment Program.

POJH: Heads of Households Occupational Program.

TABLE 15

Household Expenditures by Income Percentiles
Greater Santiago, 1969, 1978, and 1988
(June 1988 pesos)

Quintiles	1 9 6 9		1 9 7 8			1 9 8 8		
	Household Expenditures		Household Expenditures		Per Capita Household Expenditures	Household Expenditures		Per Capita Household Expenditures
	(Pesos)	(%)	(Pesos)	(%)	(Pesos)	(Pesos)	(%)	(Pesos)
I Lowest	28,617	7.6	19,767	5.2	5,730	16,656	4.4	5,157
II	44,532	11.8	35,431	9.3	8,126	31,255	8.2	6,809
III	58,893	15.6	51,832	13.6	11,243	48,182	12.7	11,140
IV	77,636	20.6	79,904	21.0	16,241	76,638	20.1	17,084
V Highest	<u>168,003</u>	<u>44.5</u>	<u>194,372</u>	<u>51.0</u>	<u>40,920</u>	<u>207,749</u>	<u>54.6</u>	<u>48,348</u>
Means:	75,536	(100.0)	76,262	(100.0)	17,254	76,094	(100.0)	18,646

Source: INE, *Encuesta de Presupuestos Familiares 1969, 1978, and 1988*. Per capita household expenditure data for 1969 are not available.

The deterioration in the distributive situation was relative and absolute. The only quintile whose real family income rose between 1969 and 1988 was the highest. In the other extreme, the percentage of indigent and poor households significantly increased. Indigent families (with per capita incomes insufficient to cover the cost of a basic basket of foodstuffs) represented 6% of households in 1969, 13% in 1987 and 11% in 1990. During the 1982–1983 recession, the percentage reached 30%. The total poor population (including indigents, with per capita family incomes below the per capita cost of two basic baskets of foodstuffs) rose from 17% in 1969 to 38% in 1987; it declined to 34% in 1990 (Table 16).⁴⁴ In synthesis, in the 1970s and 1980s, the distribution of income became more unequal and the number of poor households significantly decreased. Simultaneously, the middle sectors experienced a deterioration in their income and spending on consumption. Only the highest quintile improved their position in absolute terms.

In addition to changes in the international economic situation and national economic policies, legislative and institutional transformations and modifications in the productive structure and labor market also contributed to the worsening distribution of income. The military government initially suppressed any protest by unions or the labor movement. Later it formulated and imposed the Labor Plan of 1979, which favored the negotiating power of the employer, created obstacles to unionization, and made the contracting of the work force more flexible (it facilitated limited-term or temporary contracts, the subcontracting of parts or units and/or payment per unit of production).

The drastic trade opening, the drop in tariff rates, and the stimulation of exports led to important changes in the sectoral distribution of the employed population: from industrial manufacturing to the agricultural and forestry industry—where the labor demand was largely seasonal or temporary. High rates of unemployment, the more flexible labor contracts, and the reduction of employment in the state sector⁴⁵ (a consequence of a restrictive public spending policy) contributed to an expansion of the urban informal sector (sidewalk vendors, trash collectors, self-employed businessmen, taxi drivers, workers who took odd jobs, labor collectives, etc.) and of temporary or seasonal jobs.⁴⁶

c) Modifications in the Profile of the Social Structure and Social Actors

The decades between 1930 and 1970 were marked by an expansion and diversification of the middle sectors and by increased participation (though unequal or partial) of poor urban and

⁴⁴ León's paper in this series (1994) provides an exhaustive analysis on the characteristics of indigent and poor families around 1987.

⁴⁵ Public employment, which included 387,000 persons in 1973, declined to 296,000 in 1979, and to 233,000 in 1983 (Velázquez 1988).

⁴⁶ See Martínez and Tironi (1985), Schkolnik and Teitelboim (1988a and 1988b), and Contreras and Weihert (1988).

rural sectors in the benefits of development, with processes of upward mobility and/or expectations of mobility for their children. In contrast, the decades of the 1970s and 1980s were characterized by an impoverishment of many middle sectors and obstacles to upward mobility for poor sectors and frustration of their expectations for their children. No studies have profiled the occupational stratification for any year around 1990, nor the processes and channels of mobility to which the population has had access.⁴⁷ Nevertheless, partial information suggests upward mobility for small segments of the middle sectors, urban and rural workers, and small businesspeople who work in dynamic sectors able to increase productivity and income. On the other hand, the data suggest stagnation for the majority of the population with salaried employment as well as those employed in the urban informal sector.

TABLE 16

Percentage of Indigent Poor and Total Poor Households (1969–1987)

Year	Chile		Greater Santiago	
	Indigent Poor	Total Poor ^a	Indigent Poor	Total Poor ^a
1969	6	17	8	28
1976			28	57
1979			12	36
1980			14	40
1982			11	31
1983	30			
1984			23	48
1985	25	45	19	45
1986			25	51
1987	13	38	23	49
1989	—	—	23	50
1990	11	34	15	41

Sources: Altimir (1979), Rodríguez (1985), Torche (1987), PREALC (1990), and CEPAL (1990, 1991).

^a Includes indigent poor.

Modifications in the behavior of social actors have also occurred. Alongside traditional businesses, a modern business sector has arisen that is more conscious of technical and economic efficiency, independent of the state, and ready to confront internal as well as external competition (Montero 1990).

⁴⁷ Martínez and Tironi (1985) analyze the evolution of the occupational and social structure until 1980. Díaz (1991) provides some background concerning the situation after the crisis of 1982–1983.

Among the younger generation there is a minority sector that no longer seeks salaried employment but takes risks, opting for independent work and exploring new activities. On the other hand, there is a sector that never has been involved in a stable way in economic activity.⁴⁸ The first is of middle- and upper-middle-class origin. The second, the majority, is of lower social origin.

The parties and the political leaders are less dogmatic and ideologized than in the 1960s and their behavior shows a greater propensity for negotiation and the search for agreements. For their part, workers and employees and their organizations, despite having been delayed for years, are making moderate demands with respect to the past, adjusting themselves to the economic restrictions.

New actors and movements have arisen: popular organizations, nongovernmental organizations of social support and promotion, and women's movements.

2. The Neoliberal Economic Model: Public Action in the Social Sphere

The military government, oriented by the neoliberal ideas of privatization and a free market, a) redefined the purpose, objectives, and spaces of public action in the social sectors; b) modified the institutional arrangements and organization to respond to social needs, and c) reduced the amount of resources designated to social programs, modifying priorities and the mechanisms of financing and allocating resources.

The objectives of social policy in this period, in contrast to the previous one, were subordinated to the objectives of economic policy. The goals of controlling inflation and economic growth took precedence over redistributive and social objectives. In a context which strongly limited the power of unions and with an economic policy that led to a growing concentration of income and the impoverishment of vast sectors of the population, the state attempted to restrict its social activities to fighting extreme poverty.

In accordance with the ideological inspiration of the government, the role of the state was to be reduced. Given that it corresponded to the market to assume the decisions regarding the maximum possible allocation of resources and the provision of services, the role of the state should be subsidiary. That is:

...[the state] assumes only those responsibilities that individuals or intermediate societies are not in a condition to fulfill, dictating general norms that don't discriminate between individuals, groups, and sectors of national life (Ministerio del Interior 1981, 5).

⁴⁸ The rate of juvenile unemployment over the period 1974–1989, doubled and at times tripled the adult unemployment rate. In 1989, the open rate of juvenile unemployment (14–24 years of age) tripled that of adults: some 16% and 5% respectively (Marcel 1990).

On the social plane, the state was to concentrate:

...its activities in the defense of the general good through general and impersonal norms and the direct realization of those activities that because of their social or strategic nature cannot be turned over to individuals, such as national security, the administration of justice, and *implementation of social policy in favor of the most needy* (ODEPLAN 1979; emphasis the author's).

In accordance with the idea of its subsidiary role, the state argued that the management and administration of social services should be transferred to the private sector and/or to decentralized bodies such as municipal governments. Social services should be provided, not by the central government, but by entities close to the population, such as municipalities and the private sector. The role of the central government, it was maintained, was to set norms and procedures, provide financing and supervise and evaluate social programs.

It was also argued that the allocation of public resources to social problems should be transferred from the supply side (delivering resources to the services) to the demand side. The subsidies should be handed over directly to the beneficiaries, it was thought, and the financing of social services should be based on services effectively rendered and not on budgetary allocations according to historical criteria. This modality, it was asserted, would assure that resources effectively reached the poorest sectors, and would motivate the operation of the market and competition between services since the user would elect where to seek services or where to obtain benefits. This would all result, it was argued, in greater efficiency and quality of services.

The priority target group of social policy was small children in poor households, with the understanding that programs of 'investment in human capital' at an early age (nutrition, health, education) would assure equality of opportunity.

The social objective was defined as 'eradicating extreme poverty.' The state's activities should benefit only those households that were not in a condition to meet their own most urgent basic needs. This principle oriented the policy of 'targeting,' in that it concentrated public resources in health, education, and housing in that segment of the population under a certain minimum threshold and unfolded a social assistance network towards the extremely poor.

Within this framework, the government studied and elaborated reforms of the institutions and organization of the social sectors, creating new mechanisms for the allocation of resources and subsidies and reformulating priorities and the content of specific programs.

3. Institutional and Financial Modifications in Social Policy Sectors

The social policy of the military government had two phases. The first, which extended until 1980, was one of normalization, rationalization, and preparation for the reform projects.

This phase was marked by:

1. A significant reduction in public social spending (Table 1).⁴⁹
2. The implementation of measures which tended to break some of the inequities of the social security system. For example, the value of the family allowance was equalized for workers and employees; a general and uniform system of subsidies for dismissal was defined; the value of minimum pensions for different labor categories was equalized; the rules of readjustment of pensions were made uniform and retirement for seniority was eliminated for the civilian population, defining homogeneous age requirements for all labor categories—65 years in the case of men and 60 in the case of women.
3. The reduction of the mandatory social security quotas of the employer and the worker, especially of the former. Nevertheless, differences in quotas were maintained for different labor categories (Table 2).
4. The application of measures which lead to targeting the state's activities in education and health in the poor sectors, and, within these, on children. In health, activity was concentrated at the primary level (physicians' offices) and in the maternal-infant health and nutrition programs. In education, the subsidies for higher education were reduced and preschool and primary education were stimulated.
5. The conducting of diagnostic studies on the magnitude, location, and characteristics of poverty,⁵⁰ and the elaboration of instruments which would permit identifying the poorest sectors to assure that only they benefited from fiscal contributions.⁵¹
6. Stimuli for public/private collaboration in the social sectors. Hospitals and other public institutions were allowed to subcontract services—cleaning, laundry, preparation of food—with private firms; a pilot program was approved for the private administration of health care facilities; the preparation and distribution of school food programs went to private hands; and the creation of subsidized private schools was motivated and facilitated.
7. The initiation of the social net. In response to the crisis of 1975–1976, which strongly affected the country with rates and periods of unemployment much higher than historical rates, two measures were adopted which provided subsidies for the population directly affected by the crisis. The Minimum Employment Program (Programa de Empleo Mínimo or PEM) was initiated and the regime of assistance pensions was widened to include all those over 65 years of age of scarce resources and the disabled over 18 years of age.
8. Preparation of the 'modernizing reforms' projects: the Administrative and Regionalization Reform, the Social Security Reform, the Presidential

⁴⁹ It should be noted that public spending in the social sectors on average fell less than total public spending (Marshall 1981).

⁵⁰ In 1975, the *Mapa de la Extrema Pobreza* was published. See ODEPLAN and Universidad Católica de Chile (1975).

⁵¹ The instrument that began to be applied was developed in neighborhood level Social Assistance Committees (Comités de Asistencia Social or CAS). These committees identified social needs, defined priorities, coordinated aid from various social agents, and evaluated social programs. This model was then used at the municipal level. See Raczynski (1991).

Directive on Education and the Restructuring of Health.⁵² The implementation of these reforms after 1980–1981 began the second social policy phase of the military government.

In general, the reform projects were elaborated behind closed doors and imposed without any public discussion or wide debate around them. The exception, in large measure because of the strength of the medical association, was the reforms in the health sector. From another point of view, diverse factors slowed or conspired against the full implementation of some of the projects. Among them, the existence of a tradition that the state should play a fundamental role in the supply of education and health services; the behavior of the users of the system, and principally, of professionals, technical personnel, and functionaries involved in the delivery of social services; the weak response of the private sector; the recession of 1982–1983, economic instability; the costs associated with the modifications in the existing institutions; and the increase in poverty and deteriorating income levels of the middle sectors.

At an early stage the government worked on a *political-administrative reform*⁵³ with two axes: regionalization and a new municipal regime. With respect to regionalization, three territorial levels were created below the national level (regional, provincial, and municipal), decentralizing the functions and tasks of the ministries toward lower levels. Additionally, a new municipal law was passed, giving the functions, responsibilities, and also resources of the social sphere to the municipalities. They were to take charge of planning local development—studying social problems, administering the 'social net,' managing educational and health establishments, and formulating specific social projects to address problems particular to their area. In order to carry out these new tasks, the municipalities received more resources and had to restructure their internal organization.⁵⁴ The municipal effort grew and became more technified, but implementing the reform and the manner in which the municipality assumed and carried out their new functions were not without difficulties.⁵⁵

The *Social Security Reform* ended the existing system of distribution, opening the way for and consolidating a private system of individual capitalization (See Section 4).

The *Presidential Directive on Education* included three fundamental transformations:

⁵² The government proposed seven 'modernizations': in addition to those already mentioned, the Labor Plan, the Modernization of the Judicial Sector, and the Reordering of Agriculture based on private property.

⁵³ In 1983 the National Commission for Administrative Reform (Comisión Nacional de Reforma Administrativa or CONARA) was created. On the reform see CONARA (1976, 1979). Critical analyses can be found in Cumplido (1983) and Tomic and González (1983).

⁵⁴ For example each municipality presently has a Municipal Planning Secretariat and departments and/or subdepartments for specific tasks (urban works, licenses, educational department, employment office, community organizations, social development, etc.).

⁵⁵ Raczynski and Serrano (1987 and 1988) studied the municipalities' new social responsibility and the way in which they have assumed these tasks.

i) The modification of the primary and intermediate school curricula: a flexible curriculum was established for primary education (which in practice was distorted since it resulted in a reduction in the content and areas of knowledge covered at this level); in intermediate education a sharp separation between scientific-humanist education in preparation for the university and technical-professional education, which was intended to be linked to private enterprise (an initiative which was successful in only a few cases). In fact, enrollment in intermediate technical-professional education declined.

ii) The transfer of public education establishments to municipalities and incentives for the private administration of transferred establishments. The transfer involved buildings, facilities, and all personnel. Initially the process was voluntary in the sense that municipalities solicited them, an initiative for which they received economic rewards. Later, coinciding with the 1982–1983 economic crisis, the transfers were frozen. In 1986, the Ministry of Education decreed the completion of the process, obliging municipalities which had not done so to take charge of establishments located in their jurisdictions.

There are no systematic studies of the impact of 'municipalization' on the school system, its coverage, quality, efficiency, etc. Some problematic aspects have been noted, however: the negative consequences for municipal finances and the deterioration in working conditions for teachers and other affected personnel who ceased to be public functionaries, thus losing labor rights, civil service careers, and income. It also has been argued that the transfer has had a negative impact on the quality of education. Espinola (1990) contends that it is not the transfer of educational establishments to the municipalities that 'would explain this deterioration,' but principally the new system of financing (subsidizing demand: basing school subsidies on the mean attendance of the previous month). This introduces distortions and flaws in educational practices and in school-community relations to the detriment of the quality of education. Aggravating the situation even more, after 1985 the value of the school subsidy per student fell.

On the positive side, improvements in school infrastructure have resulted as well as greater agility in decision making regarding maintenance, facilities, and the hiring of teachers.

As education was transferred to the municipalities incentives were also given to develop subsidized private establishments, with equivalent conditions to the municipal facilities. Subsidized education expanded greatly, especially in the first years when the value of the subsidy per student was more favorable. The same mechanism of resource allocation used in the municipal system, operated in the subsidized institutions, creating the same distortions in educational practices (Espinola 1990).

iii) The approval of the General Law of Universities, which transformed the regional branches of national universities into autonomous units and opened the door to a proliferation of

private universities. Free education—the state's contribution to traditional universities—came to an end.

The Presidential Directive on Education was implemented slowly due to various reasons: the implicit ambiguities and contradictions in the reforms themselves; the behavior of the agents charged with assuming new tasks (neither the private sector nor the municipalities responded with the expected speed and efficiency); and the passive resistance, growing over time, of teachers. This opposition was accentuated with the appearance of the Association of Chilean Educators (Asociación Gremial de Educadores de Chile or AGECH), an alternative organization to the official College of Teachers (which did not adopt positions more independent from the government until the 1980s).

The *restructuring of the health sector* was preceded by a sharp and conflictive public debate between government authorities and the Medical Association (Colegio Médico). Other professional associations joined the debate and groups of users sporadically participated. The discussion between authorities and the Medical Association was often agitated and on various occasions the government saw itself obliged to revise and postpone the reforms.⁵⁶ The initial proposals of privatization gradually were transformed to a posture that accepted a mixed system with state predominance. The reforms introduced the following modifications to the prevailing state system:

i) The functional and geographic decentralization of services. Differentiation and separation between three functions: the normative formulation of policies; the financial function of collecting and allocating resources; and the executive function of providing services. Each remained in the hands of autonomous entities. The Ministry of Health assumed the normative function and the global coordination of the system. The National Health Foundation (Fondo Nacional de Salud or FONASA) was created to oversee the financial function. It collected and assigned the resources from social security quotas and fiscal contributions. For the executive function the SNS was subdivided into 26 autonomous health services (plus an environmental service that operated in the metropolitan region of Santiago), which constituted the National System of Health Services (Sistema Nacional de Servicios de Salud or SNSS). Each one of these 26 services covered a geographic area and was charged with administering and directly or indirectly implementing preventive health activities, health promotion, and curative and rehabilitation activities under the technical control of the Ministry (Regional Secretaries of Health) and with resources from FONASA.

⁵⁶ Many aspects were intertwined in the debate: the role of the public and private sectors in the provision of health services, the priorities of health care policy, public resources assigned to health care, the reorganization of SNS and SERMENA and the medical association's interests in earnings, professional training, and participation in the management of health care policy. See Raczynski (1983).

ii) The transfer of primary service establishments (medical offices and rural stations) to the municipalities. The 26 autonomous health services were given power to delegate part of their functions to the municipalities and to the private sector. The municipalities had to assume the function of administering the primary service units and rural stations, receiving the use of the infrastructure and taking responsibility for their maintenance as well as the management of the transferred professional and nonprofessional human resources.

The transfer of health was slower than that of education. By the government's decision, the transfer was defined initially as a pilot plan which would include no more than 35% of the primary care establishments with a population not greater than 40,000 inhabitants. The transfer became massive during 1987–1988, affecting almost 100% of urban and rural medical offices. As with education, the transferred personnel ceased to be public functionaries. They lost their civil service careers and after an initial increase, the acquisitive power of their salaries persistently dropped.

As with the education transfer, the health transfer generated municipal deficits. The mechanism designed to allocate part of the resources, the billing for services rendered, introduced distortions. The prices for attention were fixed administratively by FONASA and did not necessarily coincide with the real cost of the service. This motivated some health care providers to order procedures and exams that were not absolutely necessary and led to overbilling for some medical services. This generated an increase in expenditures to the point that FONASA had to impose a ceiling on the amount of resources that an establishment could bill. Other difficulties included bottlenecks in the system of patient referrals when they required secondary or tertiary services—examinations, specialized consultations, or surgical interventions. The relationship between medical offices and hospitals, which was always difficult, became even less expeditious.

iii) The Law of Medical Services and access to health care by capacity to pay. Around 1978, a law was passed making the health care systems for workers and employees compatible. Employees were permitted to seek services free of charge in SNS and workers could seek services in the 'free choice' regime, incurring the required copayments. In 1984, the Law of Medical Services was passed, which suppressed totally free services at medical offices. The law limited free services to lower-income persons, defining percentages of copayment which increased with income levels.

iv) The creation of the Health Insurance Institute (Instituto de Salud Previsional or ISAPRE) and the incentives to the private sector. The social security reform approved in 1980 permitted members of the social security system to opt for placing the mandatory health quotas (initially 4%, then 5%, 6% and presently 7% of disposable earnings) in an ISAPRE. This opened

the door for the growth and development of the private health sector, an expansion which took resources from the public sector (see Section 4b).

Policies in the *housing sector* were marked by the following elements:

i) A minimum intervention of the state; elimination of regulations regarding urban lands and control of their use; sale of publicly-owned lands. The role of the state remained limited to financing and selecting the beneficiaries of some subsidies and fixing norms and rules. The tasks of urbanization, basic sanitation, housing construction and financial intermediation were transferred to the private sector.

ii) The channeling of state subsidies to demand and only to those persons who did not have access to dignified housing on their own. The distribution of fixed-sum coupons or certificates, one time only, to acquire housing on the market. The beneficiaries had to use their own savings and/or obtain a loan at bank interest rates in the private financial sector to cover part of the price.

Additionally, a policy was formulated, oriented toward regularizing property and sanitary infrastructure in collective land invasions (*campamentos*). This policy was intensified in the 1980s, with the programs of resettlement and reestablishment of populations in the metropolitan region.

The following section examines two linked structural reforms that had repercussions on the availability of public resources for social problems: the social security reform and the creation of ISAPRE. The section covers the trajectory of public social spending, its financing and sectoral composition in the period 1974–1989. Data on results are presented, incorporating information on the compensatory social net and successes in the targeting of social spending. Successes and failures or pending problems are identified for each sector, with emphasis on the most affected social groups.

4. Two Reforms and their Impact on the Availability of Public Resources

a) The Social Security Reform of 1981

In November 1980, the government dictated social security reform which came into force in May 1981. The former distribution-based regime was replaced by one of individual capitalization. This reform put an end to the multiple social security institutions which had emerged between 1930 and 1973, and gave birth to the Administrators of Pension Funds (Administradores de Fondos de Pensiones or AFP).

Since the 1950s the opinion prevailed that the system required profound reforms. The existing options were three: a) increase the administrative efficiency of the existing system and strengthen measures to do away with its inequities; b) move to a system of benefits with accumulation of financial reserves such as the sale of life annuities by life insurance companies

(state or private); and c) move to a system of defined contributions with accumulation of financial reserves (Iglesias et al. 1991).

The latter path was chosen. The creator of the reform, then Labor Minister José Piñera, said:

The basic problem of the system of distribution lay in its collectivist conception of man and society...a mistaken ideological notion about the nature and behavior of human beings. The system of distribution ignored ample evidence about human behavior, according to which men show greater effort when this effort is related to a specific compensation... As a consequence, the great lesson for the design of the new system was not to neglect the free choice and decisions of individuals, nor to break the indispensable tie between personal effort and compensation (cited by Iglesias et al. 1991).

This normative argument was accompanied by a technical argument: the impact that medium-term demographic changes (aging of the population) would have on the financial stability of the prevailing system.

The system that was imposed was one of individual capitalization of quotas, in which the old-age pension results from contributions a worker accumulates over his/her economically-active life through the payment of mandatory social security quotas, plus the return from investments made with these contributions by the AFPs. Each member may add voluntary contributions to their mandatory quota,⁵⁷ thus increasing the amount of the pension. (Figure I summarizes some of the similarities and differences between the old and new systems.)

The AFPs are corporations with a sole purpose of administrating the funds of their members. Each AFP is financed with commissions charged to its affiliates. The state regulates and supervises the operation of the system. It defines the type of capital market instruments in which the funds accumulated by the AFPs can be invested. It guarantees a minimum profitability (3% annually) to the members and a minimum pension (fixed by law) for workers who, having paid quotas for a minimum period during their economically-active life (20 years), do not achieve this minimum pension with their social security savings.

The new system permits competition between the AFPs and the transfer of persons from one to another. Affiliation with an AFP is individual. In addition, the system eliminates the impact of demographic changes on financing social security, since workers and employees finance their own pensions. Furthermore, the quotas and the requirements for receiving benefits are uniform, with the exception of a lower age requirement for women to begin receiving pensions.

⁵⁷ These contributions, up to a certain limit, are tax exempt.

Figure I

Comparison of Old and New Social Security Systems

Dimension of Comparison	Old System	New System
Nature of the system	Distribution: payment of pensions was covered with the quotas paid by active workers and employees at the moment the pension was paid. There was almost no accumulation of reserves.	Individual capitalization: the Retirement (old-age) pension comes from a fund that the worker or employee accumulates over his/her active life. There is accumulation of reserves. ^a
Administration	35 public or semipublic institutions.	Private sector: corporations (AFPs), exclusively dedicated to administering their members' funds, are financed with commissions paid by the members. The resources of the pension fund have to be invested in the capital market, in instruments defined by law.
Financing	Mandatory quotas paid by the workers and employees, and employer and state contributions.	Mandatory quotas paid by workers and employees.
Benefits ^b	Pensions for old age, disability, and survivors. Health and maternity benefits. Unemployment insurance. Family allowance. Fund for dismissal and indemnization for years of service. Diverse loans (housing, health, etc).	Pensions for old age, disability, and survivor. Protection against work accidents. Health and maternity benefits. Unemployment insurance. Family allowance.
Benefit-Contribution Relationship	The benefit was distinct from the contribution associated with taxable earnings in the period before retirement.	The benefit equals the accumulation of an individual's capitalized contributions.
Coverage of independent workers	Voluntary; did not cover health benefits.	Voluntary, with contributions and benefits similar to those of salaried workers.

^a In a system of distribution, accumulated funds are a very small fraction of the quotas paid by workers since pensions are paid with the current quotas of economically-active workers.

^b Both systems establish a minimum pension which is applied in those cases in which the years quotas have been paid (old system) or the individual contributions (new system) are not sufficient to finance such a pension. The new system requires 20 years of effectively paying quotas, which is stricter than the old system.

Like the old, the new system is mandatory for all salaried workers and employees. A percentage of their taxable earnings is withheld and deposited in the AFP of their choice. With these quotas the AFPs pay retirement (old-age) pensions when workers reach 65 years of age (60 in the case of women) and, when necessary, disability and survivor pensions, which are financed by a complementary collective insurance which is also capitalized.

After May 1981, workers and employees who affiliated for the first time to social security were obliged to become members of and pay quotas to an AFP. (Personnel affiliated with the Social Security Institutions of the National Defense and Police Forces were not included in the new system of pensions and retain their former institutions) Workers and employees affiliated with the old system had the option to remain or transfer to the new system. In the latter case, a 'coupon of recognition' was granted for quotas paid in the past. The coupon is paid by the state when the pension becomes effective.

TABLE 17

**Coverage of Social Security System
(December of Each Year)**

Year	Old System	Active Contributors		Percent of Labor Force	Percent of Employed
		AFP	Total		
		(Thousands)			
1974	1,863		1,863	60.9	67.0
1975	1,792		1,792	57.7	64.4
1976	1,727		1,727	52.7	67.4
1977	1,699		1,699	50.9	62.8
1978	1,670		1,670	47.8	58.2
1979	1,653		1,653	46.6	56.4
1980	1,679		1,679	45.9	55.3
1981	732	882 ^b	1,614	43.0	50.6
1982	489	907	1,396	36.8	49.8
1983	478	1,055	1,533	38.7	56.4
1984	459	1,139	1,598	39.7	52.7
1985	454	1,322	1,776	43.1	55.2
1986	442	1,494	1,936	45.9	55.5
1987	435	1,676	2,111	48.2	55.9
1988	428 ^a	1,772	2,200	48.8	54.9
1989	421 ^a	1,918	2,339	51.4	56.2
1990	414 ^a	1,962	2,376	49.8	54.6

Source: Arellano (1989: 67), Iglesias et al. (1991: 43).

^a Estimated, based on 1986–1987 coverage.

^b Information is not available for this year on active contributors. It was assumed that the percentage of active contributors of total membership was similar to the following year (1982).

Members pay a quota of 10% of their taxable income for the retirement pension. With these resources and the 'coupon of recognition,' once retirement age is reached, the member can buy old-age insurance or withdraw monthly quotas from the fund accumulated in his/her individual account.⁵⁸

A voluntary, rapid, and massive transfer of salaried workers and employees to the new system began in May 1981, when the reform came into force. In 1982, there were close to one million members (Table 17). The workers and employees who remained in the old system were those close to retirement age and women who obtained low earnings and for whom it was difficult to complete the 20 years of quota payments required to receive a minimum pension.

Two central factors prompted the population to change systems en masse. One was the generalized discontent with the old system, which was accentuated by declining benefits (pensions and family allowances) in the years before the reform (see Section III.6). However, probably the principal factor promoting the transfer was the fact that upon changing systems, workers and employees automatically acquired an increase in their liquid earnings (estimated, on average, at almost 12% of earnings). Those who changed to an AFP had to pay a maximum quota of 16.5% of their earnings, instead of the 25.6% paid to the old system (Table 18). The drop in the quota was possible because of a previous modification that canceled retirement based on years of service and established a minimum retirement age for men (65) and women (60). This modification permitted reducing the quota paid by the worker in the old and the new system, however, the law restricted the reduction to the members of the new system, imposing a punishment on those who remained in the old.⁵⁹

In 1990, 14 AFPs were in operation. Each one had accumulated significant funds. Three years after the reform was initiated, in 1984, the total funds accumulated by the AFPs reached almost 9% of GDP. In 1990, they represented 26% of GDP.⁶⁰ This figure will diminish once the AFPs begin to pay pensions in a significant way.

⁵⁸ It is possible to retire before 60 or 65 years of age, as long as the accumulated funds generate a pension above the minimum pension and equal to at least 70% of the workers' taxable earnings during the last 10 years.

⁵⁹ Another factor of lesser importance that facilitated the quota reduction was the elimination of benefits for dismissal, which were based on years of service.

⁶⁰ See Iglesias et al. (1991, 39 and 81). The accumulation of these funds has important macroeconomic consequences. Arellano (1985, 171-87) suggests that what occurs with the savings and accumulation of capital will depend on the policies which the government adopts to finance the social security deficit. If it covers the deficit selling assets and public firms (the dominant desire and posture today) and/or printing bonds or promissory notes, it will not increase savings or the volume of capital in the economy. A mere transfer from the public sector to the private would be produced. He also adds that the reform had important consequences on the distribution of property and control of capital. In this regard, it should be noted that the majority of the members were affiliated to a small number of the AFPs. Initially the larger AFPs belonged to the most important economic groups in the country. During the crisis of 1982-1983, the government saw itself obliged to temporarily assume the administration of these AFPs. Later they

The accumulation of funds in the AFPs was concomitant with an increase in the social security system deficit. In 1982, one year after the new system began operation, this deficit grew from the historical levels of less than 4% of GDP to 7.7%. It did not drop below 6% until 1988 (Table 19).

TABLE 18

Social Security Contribution Rates, 1970–1984
(% of Taxable Earnings)

A. Before Social Security Reform						
	SSS		Withholding Fund for Private Sector Employees		Withholding Fund for Public Employees	
	Worker	Employer	Worker	Employer	Worker	Employer
1973	9.5	40.4	14.6	44.4	18.8	7.0
1974	7.5	49.4	12.6	52.1	18.8	35.2
1975	7.3	44.1	12.3	46.9	18.5	32.0
1976	7.4	44.0	12.3	46.7	18.5	32.0
1977	7.3	41.0	12.3	43.7	18.5	29.0
1978	7.3	32.5	12.3	33.9	18.5	19.5
1979	7.3	29.0	12.3	31.7	18.5	17.0
1980	7.3	27.0	12.3	29.7	18.5	15.0
B. After Social Security Reform						
	Worker		Employer		Total	
1980 ^a	10.1		21.40		31.50	
1981						
Distribution System	25.6		3.85		29.45	
System of Capitalization (AFP)	16.5		3.85		20.35	
1982						
Distribution System	25.6		2.85		28.45	
System of Capitalization (AFP)	16.6		2.85		19.45	
1983						
Distribution System	27.1		2.85		29.95	
System of Capitalization (AFP)	18.8		2.85		21.65	
1984						
Distribution System	27.6		2.85		30.45	
System of Capitalization (AFP)	19.5		2.85		22.35	

Source: Arellano (1985, 92 and 149).

^a Average rate before the social security reform.

were reprivatized, remaining in the hands of international consortiums (see Marcel and Arenas 1991).

TABLE 19

**Income and Spending of Central Government
(Percentage of GDP)**

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Income	28.4	33.3	37.2	38.6	32.4	34.1	33.9	35.5	36.2	30.7	31.8	31.6	32.9	33.6	34.7	33.2	28.3
- Taxes	20.4	24.2	23.6	22.9	21.8	18.9	19.2	19.5	18.9	19.4	20.4	20.0	20.2	20.8	19.8	19.3	17.8
- Social Security	3.1	3.4	3.4	3.7	3.7	5.3	5.5	4.2	2.6	2.4	2.2	2.1	2.2	2.0	1.6	1.4	2.0
- Other current income	6.8	7.3	10.3	12.1	7.7	7.7	7.4	9.5	9.8	6.9	6.7	7.6	7.8	7.4	9.5	9.4	6.8
- Net capital income	-1.9	-1.6	-0.1	-0.1	-0.8	2.2	1.7	2.3	5.0	2.0	2.4	1.8	2.8	3.4	3.8	3.2	1.7
Spending	35.0	33.3	34.2	37.2	30.2	28.9	28.0	32.3	38.8	34.3	34.8	33.5	33.4	31.1	30.7	27.6	26.8
- Personnel and goods & service	14.3	13.6	12.6	15.9	14.7	11.1	10.3	11.0	12.8	11.8	11.3	10.3	9.7	9.1	8.2	7.7	7.4
- Social Security	4.5	7.2	6.9	7.0	6.9	7.0	6.9	7.9	10.3	9.4	9.7	9.0	8.8	8.0	7.0	6.4	6.9
- Other current spending	7.6	6.8	11.5	10.1	5.2	5.8	5.8	7.9	9.6	9.0	8.9	8.9	8.8	7.8	7.6	8.6	6.6
- Capital formation	8.7	5.7	3.1	4.2	3.5	5.1	5.0	5.4	6.2	4.1	4.9	5.3	6.1	6.2	8.0	4.8	5.9
Global deficit/surplus	-6.6	0.0	3.1	1.4	2.2	5.1	5.8	3.2	-2.6	-3.6	-2.9	-1.9	-0.5	2.5	3.9	5.6	1.6
Social Security deficit/surplus	-1.4	-3.8	-3.6	-3.4	-3.2	-1.7	-1.4	-3.8	-7.7	-7.1	-7.4	-6.9	-6.6	-6.0	-5.4	-5.1	-4.8

Source: Contraloría General de la República.

The deficit was caused in part by the transfer of contributors from the old to the new system while the retired beneficiaries remained in the former. Another contributing factor was the obligation of future payment of the 'coupons of recognition' and the state's guarantee of a minimum pension. The economic crisis of 1982–1983 weighed heavily on the high rise of the deficit. The reduction in the level of employment and in earnings contributed to a drop in public revenue from social security taxation and demanded greater spending to finance the programs of emergency employment, the unitary family subsidy, assistance pensions, etc. The deficit in the defense social security institutions also contributed to the social security deficit. Two-thirds of the deficit in 1989 was attributable to the reform, a fourth corresponded to contributions to the defense institutions, and 10% to the payment of subsidies (Marcel and Arenas 1991, 33–36). It has been estimated that after the new system has operated for 35 years, the public sector social security deficit due to the reform will be on the order of 2% of GDP (Marcel and Arenas 1991, 38–39).

b) The Creation of the ISAPREs: Effects on Public Health Spending

After the social security reform, in April 1981, the formation of the ISAPREs—private, for-profit health insurance entities—was authorized. By law each ISAPRE was to offer plans for medical services and assume the responsibility for disability pensions for their members. At first the ISAPREs also were to provide a maternity subsidy, a clause which was later eliminated.

After 1981, the members of the system of benefits could opt for placing their mandatory health quotas⁶¹ destined to FONASA in an ISAPRE. A member of the system could, within limits, move between ISAPREs and between these and the state system (FONASA). The ISAPREs offer health plans in which each member signs a private contract which specifies the monthly sum to be paid, the health services included,⁶² the reference rates, and allowances. If the cost of the health plan is higher than the sum of the resources derived from the mandatory quotas, the member has to pay an additional quota or look for another ISAPRE or another plan with fewer benefits, or remain in FONASA. If the cost of the health plan is lower than the sum of resources which correspond to the health care quotas, the ISAPREs keep the balance.

Table 20 shows the sustained expansion of the ISAPREs between 1981 and 1990. Three factors explain this evolution. First, the rise in the health care quota from 4% to 6%, and in 1985 to 7%, of taxable earnings. Second, the decision in 1986 to transfer the financial

⁶¹ Set at 4% of taxable income in May 1981 and raised to 6% in 1983 and to 7% in 1985.

⁶² What is agreed to is the plan for medical services. By law, the disability subsidy also should be included.

responsibility for the maternity subsidy from the ISAPREs to the state.⁶³ Third, the option for employers to increase by 2% the quota to the ISAPRE for workers and employees who earn close to the minimum wage (these additional contributions are tax deductible).

TABLE 20

**ISAPREs: Number, Quota Paying Members, and Beneficiaries, 1981–1990
(December of Each Year)**

Year	Number	Quota-Paying Members (Thousands)	Beneficiaries (Thousands)	Dependents/ Quota-Paying Member	Quotas Paid/ Beneficiaries (Dec. 1989 pesos)	% of Population Covered
1981	6	26.4	61.7	1.3	2,217	0.5
1982	10	66.8	164.3	1.5	3,752	1.4
1983	13	82.0	229.8	1.8	4,739	2.0
1984	15	131.6	365.3	1.8	4,032	3.1
1985	17	198.8	545.6	1.7	3,739	4.5
1986	20	336.3	921.3	1.7	3,621	7.5
1987	24	457.4	1,205.1	1.6	3,599	9.6
1988	30	567.6	1,450.2	1.6	3,856	11.4
1989	31	705.6	1,756.2	1.5	3,834	13.6
1990	34	863.3	2,108.3	1.4	3,853	16.0

Source: Sánchez (1990: Tables 1, 2, and 3); Superintendencia de ISAPREs, Boletín Estadístico del Sistema de ISAPRE, years 1989 and 1990: INE, population projection, 1987.

By 1990, 16% of the population were beneficiaries of the system. The employees and workers who had been able to transfer to an ISAPRE had high earnings and/or a small family, and were less prone to health risks. The ISAPRE legislation afforded this social sector greater freedom of choice and an increase in the allowances for curative medical services. Marginalized from the system were the lower-middle and lower sectors, larger families, the chronically ill, and the elderly population.

The ISAPREs have grown and diversified. The first ISAPREs were open institutions acting as financial intermediaries, offering health plans to the general public. With time, 'open' ISAPREs were structured with and without their own infrastructure; some were formed as nonprofit cooperatives and compensation institutions. Simultaneously, 'closed' ISAPREs were created, which, with the 7% mandatory quotas and contributions from firms, affiliated persons from the same workplace and/or type of activity.

⁶³ The maternity subsidy includes time off and pre- and postnatal medical attention and time off for sickness of children under one year of age. The expenditures for medical attention and giving birth continued to be the responsibility of the ISAPRE.

TABLE 21

**ISAPREs: Characteristics of Quota-Paying Members and Beneficiaries
by Type of ISAPRE, December 1990**

	Open For Profit	ISAPREs Not for Profit	Closed ISAPREs
•Number	20	3	13
•Quota-Paying Members (thousands)	427.5	371.2	64.6
•Beneficiaries (thousands)	1,016.4	883.9	208.0
•% of Population Covered	7.7	6.7	1.6
•Monthly Quota/Member (thousands, December 1990 pesos)	12.9	9.0	16.1
•Monthly Quota/Beneficiary (thousands, December 1990 pesos)	5.4	3.8	2.4
•Dependents/Member	1.4	1.4	2.2
•Distribution by Age of Beneficiary			
Under 25 (51.7) ^a	48.3	51.6	48.2
26-35 (16.8)	22.1	23.0	13.0
36-45 (11.8)	14.0	13.9	20.6
46-60 (11.4)	10.7	9.3	12.1
Over 60 (8.2)	4.9	2.2	6.2
TOTAL (99.9)	100.0	100.0	100.1
•Distribution by Level of Taxable Monthly Earnings (%)			
50 thousand or less	12.5	14.0	10.2
51-80 thousand	17.9	23.3	9.7
81-120 thousand	19.5	23.3	9.1
121-160 thousand	12.7	13.6	7.2
161-240 thousand	14.4	12.8	15.9
Over 240 thousand	23.0	13.0	47.8
TOTAL	100.0	100.0	99.9
•Mean Taxable Monthly Income (thousands, December 1990 pesos)	184.7	128.0	229.6

Source: Sánchez (1990: Tables 1, 2, and 3); Superintendencia de ISAPREs, *Boletín Estadístico del Sistema de ISAPRE*, 1989 and 1990; INE, population projection, 1987.

^a Numbers in parentheses represent the national population distribution.

The various ISAPREs affiliate populations with minor distinctions in income, age, and number of dependents (Table 21). For example, the open, nonprofit ISAPREs affiliate a younger population with a relatively lower taxable income. The closed ISAPREs affiliate an older population with a higher taxable income and more family dependents. Despite these internal differences, the ISAPRE system is strongly selective by income and age. Almost 50% of AFP-affiliated workers pay taxes on incomes below \$50,000 per month, compared to barely 14% of those affiliated to open, nonprofit ISAPREs. At the national level, some 8% of the population are older than 60 years of age, but among the ISAPRE beneficiaries this percentage is hardly 4%.

The transfer of the higher income population from FONASA to the ISAPREs meant a loss of income for FONASA. In 1988, the ISAPRE system served 11% of the population but collected more than half of the mandatory health care quotas and absorbed almost 38% of expenditures on health care in the country (Miranda 1990, Tables 11 and 12). It should be noted that the creation of the system meant that growing volumes of resources collected by the state system for health care were turned over to the private sector. The state system of free choice experienced a drop in resources even as it continued to serve some 60 to 65% of the population, a percentage similar to 1970 levels. The drop in resources had a greater effect on the state system of free choice than on the SNSS. In 1988, the SNSS spent 1% less and the free choice system 32% less than in 1981. This translated into lower per capita indices of services in the free choice system than in the SNSS. Both, in turn, were surpassed by the ISAPRE system (Table 22).

TABLE 22

**Medical Consultations, Laboratory Exams, and
Surgical Interventions per Beneficiary by Health Care System**

	SNSS	FONASA	ISAPRE
Medical Consultations			
1986	2.1	0.5	3.3
1987	2.1	0.4	3.4
1988	2.2	0.5	3.9
Laboratory Exams^a			
1986	1.7	0.3	3.2
1987	2.2	0.4	2.5
1988	2.4	0.4	2.6
Surgical Interventions			
1986	0.083	0.009	0.191
1987	0.111	0.008	0.229
1988	0.119	0.011	0.156

Source: Revista de Administración de Salud and Ministerio de Salud.

^a Clinical laboratory, x-rays, ultrasound, scanning exams, and pathological anatomy.

5. Public Social Spending

The military government was cautious with monetary expansion and maintained a balanced fiscal budget. The experience of the previous period, particularly between 1970 and

1973, made it evident that incurring fiscal deficits to finance greater public spending was an illusory path if one wished to improve personal incomes and purchasing power.⁶⁴

The government reduced the general fiscal deficit from 10.5% of GDP in 1973 to zero in 1975. Between 1975 and 1981, the government operated with a surplus—a situation reversed by the social security reform of 1981 (Table 19). In 1987, there was again a surplus. This recuperation was aided by a drop in the relative burden of spending on earnings and salaries and by an increase in other current income and net capital income, which pertain to the sale of services by the public sector and the privatization of firms (Marcel 1989).

A fiscal balance can be maintained in two ways: by diminishing spending or by increasing income. The military government opted for the first. Furthermore, in 1984 and in 1988, it applied tax policies that reduced fiscal income. The tax modification with the most impact was that of 1988,⁶⁵ which was felt in 1990.

Consistent with the neoliberal focus and the conception of the subsidiary role of the state, and obliged by macroeconomic restrictions and budget adjustments demanded by economic policy, the military government reduced public spending, including social spending.⁶⁶ Thus ended five decades of almost continuous expansion of public social spending (PSS); it fell in absolute and per capita terms and as a percentage of GDP.⁶⁷ In each year of the period except 1982, per capita PSS was below the 1970 level (Table 23).

In 1970, PSS represented 24% of GDP. Under the military government, only in 1982 did it surpass this level, reaching 26%. It is important to note that while social spending effectively increased in 1982, its greater weight in GDP was principally a consequence of a 17% drop in per capita GDP. In 1989, PSS represented 18% of GDP. The decline in PSS was particularly strong in housing, education, and health. The housing sector experienced the sharpest decline. In every year between 1975 and 1989, it was at least 25% below its 1970 level. Per capita PSS in

64 "The first year of the Popular Unity government was very favorable: growth reached 8% [and] inflation was reduced from 36% in 1970 to 22% in 1971. But in the second and third year, inflation accelerated rapidly to the point that it completely counteracted real increases in earnings and pensions, and after mid-1972, the economy entered a depressive phase" (Marcel 1991, 55).

65 The principal measures were: lowering of the special value added tax (VAT) on luxury goods, reduction by 50% of the tax on legal documents, reduction of the general import tariff from 20% to 15%, lowering of the tax on combustibles, elimination of the 2% tax on earnings from employers, reduction to half of the declaration of dividends received from corporations, drop in the tax on credit from 2.4% to 1.2%, and reduction of the VAT tax from 20% to 16%.

66 Nevertheless, public social spending diminished less than total public spending. The evolution of social spending under the military government had caused polemics and debate. The government, when referring to the issue almost always alluded to figures on fiscal spending. As a consequence of accounting modifications associated with the financing of some programs, as well as the institutional reforms that affected the different social areas, fiscal spending effectively increased in the context of a drop in public social spending.

67 The figures on public social spending (PSS) and its participation in GDP do not coincide with the figures presented in the first two sections. They come from different sources for estimating both PSS and GDP.

education, after a deterioration in 1974–1976, recuperated until 1982, to fall again in 1983–1984 without any later recuperation. In 1989, the PSS in education was 26% lower than in 1980 and, on average, between 1974 and 1989 was 22% lower.

TABLE 23

**Per Capita Public Social Expenditures, 1970–1989
(1985 pesos)**

	Education	Health	Social Security	Housing	Other	Total	Index 1970=100
1970	11,773	6,438	24,359	4,941	271	47,782	100
1974	9,401	5,577	14,509	6,416	345	36,248	76
1975	7,441	4,321	14,765	3,662	106	30,296	63
1976	7,955	4,036	14,601	2,707	276	29,576	62
1977	9,290	4,366	16,698	3,034	545	33,934	71
1978	9,774	4,829	19,970	2,836	466	37,875	79
1979	10,695	4,754	22,308	3,541	567	41,865	88
1980	10,441	5,302	23,216	3,519	573	43,051	90
1981	10,844	4,814	26,974	3,482	473	46,587	97
1982	10,953	5,049	31,079	2,442	367	49,890	104
1983	9,276	4,017	28,830	2,022	558	44,703	94
1984	8,967	4,244	28,729	2,362	489	44,791	94
1985	8,899	4,096	26,299	3,241	469	43,004	90
1986	8,371	4,002	25,391	3,036	491	41,291	86
1987 ^a	7,418	3,970	24,916	3,333	478	40,115	84
1988 ^a	7,690	4,434	25,081	3,727	497	41,429	87
1989 ^a	8,727	5,620	26,695	2,523	549	44,113	92

Source: Cabezas (1988).

^a Estimated by annual rate of change registered in Contraloría General de la República, Informe de la Gestión Financiera del Estado.

Two sectors of PSS showed a different trajectory—they increased. One of these, the 'other' category, is small and includes components of the 'social net,' for example, the emergency employment programs. Per capita spending in this sector fell 40% in 1974–1976, but later experienced a strong recuperation to the point that in 1981–1982 spending was 19% higher than in 1970. Between 1983 and 1989, spending on social security fell below the 1981–1982 level, but remained, on average, 9% above the 1970 level. The rise in per capita PSS on social security stemmed from the fiscal cost of the social security reform.

6. Social Security: Coverage, Benefits, and Beneficiaries

Table 17 shows the social security coverage of the labor force between 1974 and 1989.⁶⁸ After 1974 and until 1982 there was a strong drop in the percentage of the labor force covered. After the reform, coinciding with the economic recovery, the index of coverage initiated an ascendant tendency. Nevertheless, in 1989, coverage was still below 1974–1975 levels.

The magnitude of the open unemployment rate directly influenced the social security coverage of the work force. The employed population also experienced a decline in coverage during the 1970s and the expansion after 1982 was not pronounced. Between 1983 and 1990, around 55% of the employed population was covered by social security, compared to 65% in 1974–1975. In synthesis, social security coverage for the labor force deteriorated under the military government.

In 1987, those affiliated with the social security system exceeded 70% among salaried employees and workers (with the exception of domestic service) and was below 33% among self-employed workers. The rate of affiliation was greater in the mining industry, municipal and government services, industry, construction, and transport than in agriculture and personal services. The rate maintained a positive relation to family income. In the three highest deciles it exceeded 70%, while in the three lowest deciles it was below 50%. Furthermore, according to a survey conducted in Greater Santiago, social security coverage was lower among salaried workers of small size firms (Table 24).

Compared to the previous period, the population marginalized from the social security system between 1974 and 1989 was relatively larger, but similar in terms of occupational characteristics. One difference is that the affiliation of independent workers is greater than in the past. It is possible that access to health services, a benefit which independent workers had not obtained in the past, has been an incentive to affiliate.

The number of pensions paid by the social security system continued to expand, but at a slower rate than in the past (Table 25). In 1975, as a compensatory policy for the deterioration of the labor and income situation of households, a program of social assistance pensions (pensiones asistenciales or PASIS) was established. This program benefited the elderly above age 65 and the disabled above age 18 who lacked resources (qualified as poor) and had not been able to obtain this benefit in a social security regime. The amount of this pension was established

⁶⁸ For this period, information is available for the quota-paying members or active affiliates—those in a position to obtain present benefits from the system. The social security reform tightened the requirements for obtaining benefits: it was necessary to be up to date in quota payments. The inclusion solely of the active affiliates explains the lower coverage of the labor force compared to coverage levels in the prior period (1930–1973) presented in Table 4. In 1970, active affiliates represented 50% of the labor force.

TABLE 24

Social Security Affiliation by Characteristics of the Work Force, 1987^a
(Members as Percentage of Total Workers in Each Category)

	Chile (1987)	Greater Santiago (1988)
A. Occupational Category		
Employer	61	65
Self-employed worker	31	29
Public Employee	93	
Private Employee	84	84 ^b
Public Worker	80	
Private Worker	70	
Domestic Service	47	64
B. Economic Activity		
Agricultural	49	
Mining	83	
Industry	69	
Construction	64	
Commerce	54	
Government Services	70	
Community Services	83	
Transportation	67	
Other	56	
C. Deciles of Family Income		
1 and 2 Lowest	31-47	
3 and 4	51-59	
5 and 6	59-61	
7 and 8	65-71	
9 and 10 Highest	75-73	
D. Size of Firm		
Under 5 persons		52
6 to 9 persons		71
10 to 49 persons		79
50 and more persons		92

Source: Haindl et al. (1989: 196-98); Arellano (1989: 68).

^a Both studies inquire about 'affiliation,' which does not mean that people are up to date on their social security tax payments.

^b This figure represents the average of public and private employees and public and private workers.

at a value equivalent to a third of the minimum pension.⁶⁹ The program expanded rapidly. In 1986, the peak distribution year, 324,100 PASIS were distributed, which signified a 30% increase in the number of regular pensions paid. A study conducted in 1987 (Haindl et al. 1989, 71)

⁶⁹ The amount is increased (up to a ceiling equivalent to half the minimum pension) if the beneficiary registers more than 50 weeks of payments in any retirement institution.

concluded that some 10% of the population above age 65 received this benefit, in the majority women.⁷⁰

What happened with the benefits of the system? The two most important social security expenditure outlays were the payment of pensions and family allowances.⁷¹ After 1975, the year in which the values of family allowances for workers and for employees were equalized, the purchasing power of the allowance persistently deteriorated. By 1989 its value was barely 30% of what it had been in 1970 (Table 25). The monthly average number of allowances paid remained relatively stable, despite the increase in the population.

As a consequence of reduced social security coverage of the labor force, some households lost the family allowance benefit. To counteract this effect the government designed the unitary family subsidy program. Beginning in August 1981, this subsidy was distributed to children under age 6 in situations of extreme poverty who did not benefit from the family allowance tied to the social security system. In July 1982, the benefit expanded to include pregnant women in the same situation and children up to age 8 (and later to age 15). The amount of the subsidy was equivalent to the family allowance. As in the case of the social assistance pensions, the number of subsidies increased rapidly, from a monthly average of 527,000 in 1983 to over 900,000 between 1985 and 1988.

Who benefited from the family allowance and the unitary family subsidy? Information for 1987 reveals that some 52% of children under age 15 received the family allowance. However 35% of children in the lowest income quintile benefited (Haindl et al. 1989, 72). Family allowance coverage was clearly inferior in poorer households than in the rest of the population. Despite this, in 1985 and in 1987, each quintile received a similar percentage (between 18 and 22%) of the total resources the state allocated for family allowances (Haindl et al. 1989, 75) (Table 26). Behind this result—equitable distribution of resources by quintile and a lower benefit coverage in poorer households—lies a demographic factor: poorer households have more children. The family allowances program did not alter the distribution of income. After 1981 the lower coverage for children of poorer households was compensated for by the program of the unitary family subsidy. Although it preferentially benefited children and pregnant women of the poorest quintile of households (which, in 1987 received 57% of unitary subsidy benefits), 34% of the children and pregnant women of the lowest quintile did not receive either the family allowance or unitary subsidy.

⁷⁰ The study adds that a considerable proportion of the beneficiaries were younger than 65, which would imply a high rate of disability or that a significant percentage of cases were not complying with the requirements of the PASIS program.

⁷¹ Until 1981, family allowances were financed by the mandatory retirement quotas. Thereafter, they were financed by fiscal contributions (national budget with funds collected through taxation).

TABLE 25

**Pensions, Family Allowances and Unitary Family Subsidy, and Unemployment Subsidy, 1970-1989
(December 1988 pesos)**

Year	Pensions				Assistance Pension		Family Allowance		Unitary Family Subsidy	Unemployment Subsidy	
	Total Number ^a (thousands)	Civil Sector ^a (Average Monthly Amount, pesos)	Defense Sector	Minimum Old-Age Pension ^b	Number (thousands)	Average Monthly Amount (pesos)	Average Monthly Number (thousands)	Unitary Value (pesos)	Average Monthly Number (thousands)	Average Monthly Number (thousands)	% of Work Force Unemployed
1970	614.2	22,678	68,754	12,405							
1974	782.4	11,706	59,998	10,501				1,879		3.7	1.3
1975	823.0	11,437	43,185	10,065	27.8	4,175		1,781		29.3	6.0
1976	849.6	11,916	52,652	10,621	39.0	5,063		1,643		75.5	13.8
1977	883.7	12,993	62,276	11,616	66.0	5,050		1,532		57.0	12.9
1978	909.7	14,162	63,339	13,709	91.8	4,865		1,490		60.7	12.6
1979	939.9	16,443	71,622	13,280	113.1	4,676		1,443		69.6	14.5
1980	970.2	16,937	79,830	13,561	131.7	6,370		1,445		74.3	17.3
1981	1,006.0	17,780	82,632	13,827	156.2	7,102	3,962	1,443		75.1	19.2
1982	1,034.3	19,042	83,414	13,712	183.9	7,576	3,871	1,404		130.4	17.5
1983	1,030.4	18,971	82,568	13,268	228.1	7,161	3,929	1,131	527	142.5	19.3
1984	1,054.9	20,443	90,432	13,843	278.4	7,562	3,990	1,112	699	97.8	14.9
1985	1,058.1	18,426	84,572	12,510	320.8	6,656	4,026	967	967	97.3	16.7
1986	1,047.7	18,858	82,236	12,594	324.1	6,552	4,024	810	1,044	84.4	16.6
1987	1,034.7	18,493	82,059	12,168	318.7	5,351	4,014	675	955	66.0	13.6
1988				12,461	291.0		3,817	589	914	52.9	11.5
1989				12,670 ^c	292.2	5,945 ^c	3,735	505		39.2	

Source: Arellano (1989: 71) and MIDEPLAN (1991a: 268).

^a Excludes assistance pensions.

^b Beginning in 1981 old-age pensions are registered separately for those above and below age 70. The figures here are a simple average of the two.

^c April.

TABLE 26

Distribution of Direct Social Fiscal Spending^a

Quintiles of per Capita Family Income	Monetary Subsidies								Health				Housing 1987
	Assistance Pension		Family Allowance		Unitary Family Subsidy		Unemployment Subsidy		Health Services		PNAC		
	1985	1987	1985	1987	1985	1987	1985	1987	1985	1987	1985	1987	
I Poorest	39	50	20	19	51	57	53	64	34	40	35	41	25
II	27	23	22	22	25	25	17	20	29	27	27	28	25
III	17	17	22	21	16	12	13	12	18	17	20	18	20
IV	11	7	19	20	5	4	8	4	14	10	13	10	19
V Richest	6	3	17	18	3	2	9	0	5	6	5	3	11
Total	100	100	100	100	100	100	100	100	100	100	100	100	100

Quintiles of per Capita Family Income	Education										Employment Programs	
	Preschool		Primary		Intermediate Scientific Humanities		Higher		School Nutrition		1985	1987
	1985	1987	1985	1987	1985	1987	1985	1987	1985	1987		
I Poorest	32	36	33	35	25	25	7	8	46	53	63	55
II	23	23	26	25	24	24	10	9	27	26	19	20
III	21	19	19	18	22	21	11	14	15	12	10	13
IV	14	13	13	14	17	19	20	26	8	6	7	9
V Richest	10	9	9	8	12	11	52	43	5	3	1	3
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Haindl et al. (1989: 44–45, 77–79, 102–103, 148–149, and 171); Haindl and Weber (1986: 48–53).

^a Fiscal contribution that allows financing goods and services directly distributed to the population. Excludes the fiscal contribution of financing administrative spending as well as contributions to the Social Security Institutions. In 1985 direct social spending represented 58%, and in 1987, 50% of total social spending.

PNAC = Programa Nacional de Alimentación Complementaria (National Complementary Nutrition Program).

The average monthly value of the pensions paid to the civil sector in 1987 was 18% lower than that of 1970. The value dropped most sharply in 1972–1973. It remained low until 1977, when an economic recovery began, which later stagnated during the 1982–1983 economic crisis. The military government did not readjust pensions at the same rate as inflation. The fiscal deficit, produced by the social security reform of 1981, influenced this decision.

The minimum pension for old age, fixed by law, showed a more favorable trajectory; in each year of the period 1981–1989 (except 1987) it remained above the 1970 rate. The average unitary value of the social assistance pension fluctuated between 4,000 and 7,500 pesos (in December 1988 pesos), representing between 35 and 55% of the value of the minimum pension for old age.

As in the past, the value of the pension of the defense sector was higher on average than that of the civil sector. With time, this disparity increased. In 1970, the average, defense-sector pension was three times greater than that of the civil sector. In each year of the 1980s, it was at least 4.5 times higher.

One benefit that expanded under the military government was the unemployment subsidy to persons who lost their habitual occupation against their will. In 1974, this benefit covered only 1% of the unemployed work force; in 1981–1983, it covered 18 to 19%, then fell to 11% by 1988. The distribution of the benefits of this program were highly progressive (Table 26).

In sum, in the 1974–1989 period, measures were taken to standardize some important aspects of the social security system. With the reform of 1981, access to the system was made independent of insertion in the labor market. The nature of the system changed; it became one of individual capitalization in which the administration and management of accumulated funds in individual accounts were passed to the private sector. By the end of the period the accumulated funds reached more than 25% of GDP. The new system eliminated the demographic impasse that systems of distribution inevitably face with the accentuated aging of the population—a situation Chile would have encountered after the year 2,000 without the social security reform.

During the military government there was a drop in the social security system coverage of the work force and an important reduction in the real value of benefits paid (pensions and family allowances). This deterioration in benefits was accentuated by the pressures which the 1981 reform placed on the fiscal balance.

The future values of the pensions of AFP members depend on what happens in the capital markets. Between 1987 and 1990, the situation of this market was very favorable and the average pension benefit grew by 29% (Iglesias et al. 1991, 175). Nevertheless, the number of pensions paid was not very significant (some 2% of the old-age pensions in 1987). For its part, the evolution of the real value of pensions paid by the old system depends on the availability of fiscal resources and on the extraordinary pension readjustments that governments and Congress

decide. Family allowances face a similar situation. As already discussed, the military government allowed the real value of family allowances and pensions to fall.

On the positive side, the government designed a series of highly progressive programs that targeted the poorest sectors: the unitary family subsidy, the social assistance pension, and the unemployment subsidy. These subsidies reached important percentages of the poor population, compensating one sector, which had been eliminated from the social security system, and providing benefits to other sectors, which never had gained access to the social security system.

7. The Health Sector: 'Maternal-Infant Success' and an Accumulation of Difficulties

As noted, per capita public spending on health during the 1974–1989 period was at an extremely depressed level in comparison to 1970. How did the sector confront this drop in spending? How does one explain the strong decline in the infant mortality rate in Chile between 1974 and 1989 when, simultaneously, there was an increase in absolute poverty, a deterioration in the standard of living of the middle strata, and a strong drop in per capita public health care spending?

Diverse factors contribute a response to these questions. a) The restrictions on public health care spending principally affected investment, hospital facilities, and spending on personnel. In 1969–1970, close to 9% of public spending on health was allocated to investment. Under the military government this percentage declined significantly each year. What little investment was made was at the primary level (rural posts and physicians' offices). This reallocation of resources permitted maintaining service levels in the short term. The counterpart was an accumulation of problems with infrastructure and facilities, particularly at the level of secondary and tertiary services. After 1980, physicians denounced with increasing frequency the deterioration of the hospital system, a situation which reached a crisis in 1984–1985.⁷²

The other item of health care spending which strongly declined was earnings. This was manifested in lower salaries and in personnel reductions and/or the substitution of paramedical personnel (mid-wives, nurses, assistants) for physicians. It should also be noted that part of the drop in resources in the public health sector was absorbed by functionaries.

⁷² Jiménez (1985) notes: "Type A hospitals (between 300 and 500 beds) had, in almost the whole country, an average annual deficit of 150 million pesos each. Today they are threatened with carrying out reductions of 15 to 20% in current spending including food for patients, fuel, clothes, medicines and repairs, among others." It should be noted that many of the largest and most important public hospitals in the country are old, and thus require important resources for their maintenance and renovation.

b) As in the past, spending on health care was concentrated on the poorest households. A study for the years 1985 and 1987 measured the distributive impact of transfers made by the treasury to the health sector. The study quantified the effects of two types of transfers: health services and distribution of foodstuffs by the National Complementary Nutrition Program (Programa Nacional de Alimentación Complementaria or PNAC). The fiscal contribution in health care was progressive and antipoverty. The poorest 20% of households received between 34 and 40% of this part of spending on health. The next quintile was also favored, receiving 27 to 29% of spending. In contrast, the three highest quintiles received a percentage of spending inferior to their relative importance (Table 26).⁷³

c) The public effort targeted maternal-infant health and nutrition programs.⁷⁴ The country has a long history dating back to the 1930s of specific programs directed toward mother and child. Since the 1960s, these programs contemplate prenatal, birth, and postpartum attention for mothers and periodic examinations for children up to age six; diagnosis and prevention of pathologies; vaccinations and immunizations; sanitary and nutrition education for the mother; the promotion of lactation; activities for responsible paternity and regulation of fertility; and diverse activities of nutritional intervention. During the military government and especially after 1975, these programs were perfected, made more technical and more selective, focusing special attention on children under age six and mothers. The diminished resources were concentrated in this population sector, to the detriment of attention to other segments. The number of beds in obstetrical wards increased, as did the number of obstetrical examinations and midwives per live births, and pediatric examinations per inhabitant. Meanwhile the indicators of attention for other population sectors stagnated or deteriorated.

Beginning in 1975, at the level of health clinics, a system was initiated to identify children under age six with nutritional deficits or biomedical risks. It was accompanied by a linked program of preventative and curative health and nutrition activities for children and their mothers before, during, and after birth. Three programs which cover close to 95% of pregnant women and children in poor areas—prenatal exams, well-child exams, and the general PNAC—are the doors to enter the system. The universality of these programs assures the detection and identification of mothers and children effectively malnourished or with biomedical risks and their referral to some of the 'curative' programs. Despite the economic deterioration and the drop in the level of income

⁷³ It is important to note that the 1969 study by Foxley et al. cited in section three is not comparable to that cited here. Each study was based on different assumptions, conceptualizations, and measures, including the definition and measurement of family income, the concept of social spending (in 1969, it was public spending; in 1985 and 1987 it was limited to a part of the fiscal contribution), the components of health care spending included, and the suppositions for valuing benefits.

⁷⁴ The information comes from Raczynski and Oyarzo (1981), Raczynski (1987, 1991) and Ffrench-Davis and Raczynski (1990).

of poor households, these programs succeeded in improving the indicators of nutrition, infant mortality (neonatal and late), and maternal mortality.

In 1983, for the first time since 1975, a deterioration in the indices of survival and nutritional condition of children was observed. The drop in the infant mortality rate diminished, while the rate of mortality rose for children ages one to four. This occurred in a moment when the economic crisis worsened (unemployment rose and salaries decreased), which made it indispensable to maintain and intensify the nutritional programs. However, such measures were not taken and the programs experienced restrictions. The kilograms of milk distributed by the general PNAC were 31% lower in 1983 than in 1982 and the additional foodstuffs distributed to children with declared risk (targeted PNAC) were reduced by 10%. During 1984, the restrictions on the general PNAC continued, but the distribution of diverse types of foodstuffs to high-risk beneficiaries increased. Thus, the nutritional indicators and the mortality rates improved. These results show both the extent to which the nutritional condition of children in poor households depends on public programs and the effectiveness of those programs.

The success of the health and nutritional intervention programs rested in great measure on the structure and coverage that Chile's public health sector had achieved in the past (Monckeberg et al. 1983). The experience of Chilean mothers in primary health care, their relatively high level of education, and their conviction that taking their children for well-child examinations was a duty and access to nutritional supplements a right, also contributed to the success.⁷⁵

Two additional factors contributed to the decline in the infant mortality rate, one of a socio-demographic nature and the other related to the availability of and access to potable water and to the sewage system.

d) In the mid-1960s, Chile initiated a gradual decline in the birth and fertility rates, which was concomitant with a concentration of births in sociodemographic strata with lower risks of death (level of education and age of the mother, and spacing between children). For 1974–1979, it has been estimated that around 25% of the decline in the infant mortality rate was attributable to this factor (Raczynski and Oyarzo 1981; Taucher 1982).

e) Advances were made in sanitary infrastructure, extending water and sewage connections. The coverage of potable water greatly expanded under the military regime. In urban areas it increased from 70% of the population in 1974 to 98% in 1988 and in rural areas, from 35% to 75%. The sewage system, which benefited 38% of the urban population in 1974, reached 81% in 1988 (MIDEPLAN 1991a, 32). In the households of the poorest quintile, 75% had

⁷⁵ In 1985, the government attempted to substitute the distribution of milk with rice. The measure was canceled due to the pressures from these mothers who visited the health clinics as well as from the experts.

potable water and 53% had sewage systems (Haindl et al. 1989, 153–174). These advances had an important impact on the decline of infant mortality (Castañeda 1984).

In synthesis, the efforts of the military government to perfect the longstanding programs of maternal-infant health and nutrition played a fundamental role in the decline of the infant mortality rate. These programs, together with advances in the sanitary infrastructure, improvements in the level of education of mothers, the drop in the birthrate, and a concentration of births in demographic sectors which exhibited less risk of death, succeeded in making the trajectories of the infant and child mortality rates independent of economic cycles and the impoverishment of the middle and lower strata.

In this context it is important to inquire about the quality of life of children that survived their first few years. Indicators are scarce. Information on some infectious diseases with mandatory notification shows that in the 1970s and 1980s there was a strong increase of illnesses, particularly typhoid fever and hepatitis, related to the sanitary quality of foodstuffs and the presence of vectors, and whose transmission occurs fundamentally through the digestive tract. The greatest incidence of these cases after 1975 were concentrated in large cities and were associated in important measure with inadequate or nonexistent sewage systems. Waste water enters rivers and the Pacific ocean, contaminating agricultural products and marine life. This aspect of the sanitary situation constitutes as ongoing concern.⁷⁶

Nonquantitative information suggests an increase in non-life-threatening illnesses among school-age children and adults, for example, detection of higher levels of malnutrition among school-age than among preschool-age children, high prevalence of skin infections, problems of alcoholism, drugs and mental health, and work related illnesses (Chateau 1981; Echeverría 1984). The available information also reveals that, except in the case of mothers and small children, the population had greater difficulty gaining access to health services than in the past. Thus, there was a notable increase in the volume of urgent consultations in the emergency rooms of public hospitals, waiting lists of one to two years for exams and hospital beds, and for those who were able to enter, longer hospitalizations than in the private sector, due to the lack of necessary implements for expeditious medical attention (Rodríguez and Jiménez 1985).

We previously presented information for 1968 on satisfied and unsatisfied health consultations. No equivalent information exists for the period of military government. Nevertheless, the 1987 study by Haindl et al. (1989), shows per capita rates of consultation

⁷⁶ In early April 1990 Chile reported its first case of cholera. In the following weeks, there were 41 cases, involving 38 hospitalizations and two deaths. No further cases were reported. The epidemic was controlled through a rapid and effective educational campaign (carried out in clinics, hospitals, television, and supermarkets, centered in ways to prevent the illness—avoiding uncooked fresh vegetables and raw seafood), through the destruction of vegetables that grow close to the soil and are irrigated with contaminated water, and through sanitary inspection of irrigation systems and of vegetables that reached the city markets.

sought in that year. For the whole population the rate was 2.3; 3.4 for the population under 15 years of age; and 1.8 for the population over 15. In 1968, the rates were 2.1, 2.0, and 2.1, respectively (Table 10). It should be noted that the rates of consultation improved for children under 14 years of age (especially for children under six), and worsened for the older population.

TABLE 27

Principal Causes of Death (1965–1988)

Causes	1965		1975		1980		1988	
	%	Ranking	%	Ranking	%	Ranking	%	Ranking
Circulatory Apparatus ^a	10.6	4	21.1	1	26.6	1	27.9	1
Malignant Tumors	9.5	5	14.1	2	15.4	2	18.0	2
Traumatism and Poisoning	8.3	6	10.2	4	11.9	3	12.1	3
Respiratory Diseases	18.3	1	12.1	3	9.5	4	12.0	4
Digestive Diseases	11.1	3	6.9	6	8.1	5	6.5	5
Infectious and Parasitic Disease ^b	7.2	7	8.5	5	4.8	6	3.5	6
Perinatal Diseases	14.5	2	6.0	7	4.3	7	2.5	7
Pregnancy, Birth and Postpartum Complications	0.9	8	0.4	8	0.2	8	0.2	8
Other	19.6	—	20.7	—	19.2	—	18.3	—
Total	100.0	—	100.0	—	100.0	—	100.0	—
Number of deaths	(91,491)	—	(74,182)	—	(73,710)	—	(74,436)	—

Source: Anuarios de defunciones y causas de muerte, Ministerio de Salud. Miranda (1990: Table 4).

^a Includes encephalic vascular accidents.

^b Includes influenza and diarrhea.

A health policy such as that of the military government, with an almost exclusive emphasis on primary attention for mothers and small children, although successful for that sector, is not adequate in a country like Chile where the principal causes of death by 1975 were circulatory problems, tumors and cancers, trauma, and poisoning (Table 27). A country with this structure of causes of death should also treat the adult population with preventive and curative programs. Neither can it ignore infrastructure maintenance and investment programs in secondary and tertiary levels. The crisis in the hospital system in the 1980s, already referred to, confirms this conclusion.

The military government opened the door to the creation of the ISAPREs, stimulating the development of the private sector and facilitating access to curative medicine for the higher income population. This policy took resources from SNSS and the state system of free choice. The creation of the ISAPREs had regressive redistributive effects of significant magnitude, contributing to a deterioration of infrastructure and health care not oriented toward mother and

child. The policies for this latter segment were a recognized success. Chile, together with Cuba and Costa Rica, registers the lowest infant mortality rates in Latin America.

8. The Housing Sector

The housing sector experienced a drastic reduction of resources. Between 1974 and 1984, an average of 42,600 houses were constructed per year, a figure above the average for the 1960s. However, considering the increase in population, not more than 56% of the new households formed gained access to their own housing, a percentage significantly lower than in the past (Table 11). It has been estimated that towards the end of the period, the housing deficit surpassed one million units—twice the level inherited by the military government—and affected almost 40% of households. Almost half the deficit represented *allegados*, families without their own dwelling who lived with relatives or friends. The rest represented *allegados*, families living in deficient housing.⁷⁷

In a first stage, the housing policy visualized family savings as the basic pillar upon which the possibility of acquiring a home was based. The initial programs distributed a direct, one-time subsidy to families who, despite their savings, had been unable to gain access to minimal housing. These programs preferentially benefited middle sectors (Tagle 1982; Necochea 1984; Arellano 1985). Later, the previous savings requisite was more flexible. A program of basic housing and a variable housing subsidy were begun, specifically oriented toward the poor and lower-middle sectors. The coverage of these programs however was initially less than expected; the financial system did not grant long-term mortgage credits for the required amounts (the difference between the value of the housing and the subsidy, plus savings), and the private sector did not consider it profitable to build houses with the characteristics (size and value) defined by the program. Nevertheless, overall spending on housing had progressive characteristics (Table 26). The experience with these programs, as Vergara (1990) noted, corroborates that:

...so that the benefits of the housing programs directed toward extreme poverty effectively reach the most needy, it is not enough to establish a good mechanism for selection of the applicants; conditions also need to be created so that the beneficiaries can make use of the subsidies once they are allocated, assuring an adequate supply of minimal housing options and lines of complementary financing accessible to families who live in that situation of privation (Vergara 1990, 240).

⁷⁷ Scherman (1990, 21) estimated for 1987 a total deficit of 1,131,000 homes; of this 552,000 represented families without homes, living with relatives or friends, 349,000 was housing in poor condition; and 229,000 were emergency dwellings.

Vergara further noted that the housing options offered in the market were more expensive than those directly contracted by the state. Additionally, their location was defined by the price of land, which is lower in remote areas, with difficulties of access and deficiencies in community infrastructure and basic social services (Vergara 1990, 241).

In 1981, an open political mobilization was initiated around housing needs. Families and groups of families without homes participated in successive attempts to occupy lands. In 1983, around 8,700 families (one of the largest occupations in Chilean history) took over lands in a peripheral suburb of Santiago, founding two settlements, Raúl Silva Henríquez and Francisco Fresno. The scope of the land occupation, the support of the Catholic church, and wide coverage in the press (relatively open in that period), prevented the government from sending police to dislodge the squatters—its response to previous land-occupation attempts. The government had to accept the occupation and, later, search for ways to allocate basic housing to the inhabitants of both camps.

At the beginning of the 1980s, programs to reestablish and resettle encampments gained importance in the metropolitan region of Santiago. Between 1979 and 1984, these programs reached almost 60,000 families (approximately 20% of the poor households of the city), 'cleaning up' the majority of the encampments, lots, and/or occupied land inherited from the pre-1973 period.

The reestablishment (*radicación*) program undertook authorizing ownership titles, drainage of lands, and improving the infrastructure in squatter settlements (electrification, provision of potable water and sewage connections, and installation of outhouses). This program benefited close to 30,000 families.

The resettlement (*erradicación*) program transferred inhabitants of camps and squatter settlements in deteriorated and/or irregular situations to other lots, equipped with basic housing of 25 square meters and an outhouse. Close to 28,000 families were obligated to change their place of residence. The dominant direction of transfers was from districts with easier access to the city center, with a higher socioeconomic level and greater employment opportunities, to poor, remote districts, deficient in social infrastructure and with scarce employment opportunities. The program was meant to eliminate camps and squatter settlements from districts of higher socioeconomic levels, recuperating valuable lands for the state and the private sector. In a definitive way, the program intensified the social segregation of the city. Those who were resettled received an improved housing solution, but they simultaneously confronted employment problems, marked distances to health and educational services, and higher

transportation expenses. They also suffered the uprooting of their networks of social relations, an important social capital for the survival of poor households (Raczynski and Serrano 1985).⁷⁸

Throughout the 1970s and 1980s, the expansion of potable water, sewage systems, and electrification continued. By 1987, these connections benefited the majority of the poor population (Haindl et al. 1989, 159–61). A new problem, which deepened in the 1982–1983 crisis, was that important segments of this population were not able to pay for the services. Consequently, these households at times were denied services.⁷⁹ With some delay, the government recognized this situation and designed programs to subsidize the services in poor areas and/or to provide means for paying the water and electricity debts.

9. The Education Sector

Per capita public spending for education during the entire military period was inferior to that of 1970. Congruent with the doctrine of the subsidiary state, freedom of choice, payment according to income level, and investment in human capital at an early age, the government reinforced its support of preschool and primary education, diminishing the fiscal contribution to higher education, and promoting the private administration of educational establishments. Table 26 presents the distribution of the fiscal contribution to education by level and quintile of per capita family income. Information on enrollment at the preschool, primary, intermediate, and university levels is presented in Table 28.

Preschool enrollment in establishments receiving fiscal contributions, as a percentage of the population between 0 and 5 years of age, increased from 3% in 1970 to 12% in 1989. In the last years of the 1980s, the coverage of this educational level remained stagnated. At the same time, alternative models for preschool care were developed through 'open centers,' serviced by municipalities, church organizations, and diverse nongovernmental institutions.⁸⁰ In 1987, an approximate additional 10% of children under age six attended these centers. The distribution of the fiscal contribution for this level was progressive and antipoverty, benefiting the two poorest quintiles, particularly the first, in a proportion superior to the households in each quintile. By 1989, the coverage of preschool services in poor areas was at a maximum of 40% of children under age six (Vergara 1990, 157). Nevertheless, information from these establishments

⁷⁸ On the resettlements see Molina (1985), Morales and Rojas (1986), Labbé and Liévenes (1986), and Alvarez et al. (1988).

⁷⁹ In the first months of 1983, 26% of the users of the Metropolitan Sanitation Works (Empresa Metropolitana de Obras Sanitarias or EMOS) owed one or more months for water services, and it was estimated that about 130,000 poor families had been denied access to that vital service (Avec, *Boletín Codo a Codo*, Year II, No. 4, April, 1983).

⁸⁰ Vergara (1990, 125–72) provides a detailed description of these alternatives for infant and preschool care.

TABLE 28

Preschool, Primary, Intermediate, and University Enrollment

Year	Preschool ^a		Primary ^b		Intermediate ^c			University ^d	
	Thousands	% population 0-5 years	Thousands	% population 6-14 years	Scientific Humanist Thousands	Technical Professional Thousands	% population 15-18 years ^e	Thousands	% Population 19-20 years
1970	59.0	3.8	2,039.2	94.4	202.5	99.7	37.9	77.0	7.8
1974	109.6	7.2	2,332.7	102.3	291.1	164.6	51.2	144.5	12.8
1975	117.0	7.7	2,299.0	100.2	285.8	163.1	49.2	147.0	12.6
1976	131.6	8.8	2,203.3	95.8	307.8	158.0	49.8	134.1	16.6
1977	148.2	10.0	2,242.1	97.7	318.4	168.8	50.7	130.7	10.5
1978	157.9	10.8	2,233.0	97.7	324.4	186.1	51.8	130.2	10.2
1979	163.0	11.2	2,332.6	102.6	358.1	178.3	53.3	127.4	9.7
1980	173.3	11.9	2,186.6	96.6	371.6	170.0	53.2	119.0	8.9
1981	175.5	11.9	2,139.3	95.0	392.9	161.8	54.2	119.0	8.6
1982	184.5	12.3	2,092.6	93.6	418.6	147.1	55.5	122.8	8.7
1983	191.8	12.5	2,085.1	94.0	488.3	125.2	60.6	135.6	9.4
1984	176.2	11.2	2,045.9	92.7	524.9	112.2	63.4	144.2	9.8
1985	202.3	12.5	2,062.3	93.6	539.2	128.6	66.8	150.7	10.1
1986	210.0	12.8	2,048.1	92.9	553.0	127.1	68.2	156.5	10.4
1987	228.2	13.5	2,007.5	90.8	579.8	116.0	70.0	156.7	10.4
1988	217.1	12.7	2,004.7	90.1	601.8	133.9	74.1	159.3	10.6
1989	213.2	12.3	1,987.8	88.6	538.0	204.0	74.9	153.1	10.3

Source: Junta Nacional de Jardines Infantiles (JUNJI), Ministerio de Educación; INE-CELADE, *Proyecciones de población 1987*.

^a Establishments under the National Board of Kindergartens (JUNJI) or the Ministry of Education.

^b Excludes differential enrollment.

^c Excludes enrollment of adults over age 18.

^d Universities and professional training institutes with and without fiscal support. Excludes technical training centers.

^e Scientific-humanist and technical-professional as percentage of population 15 to 18 years of age.

suggests that important distribution problems existed: kindergartens and open centers in some areas had vacancies while establishments in other areas had long waiting lists.

During the military government the kindergartens and open centers were an essential component for the social network. These centers gave preferential admittance to children with nutritional problems, referred by health centers, and/or children, who by national standards, were classified as poor. The kindergarten and open centers played an important social assistance role; pedagogy and preparation for school became secondary. Because of the selection criteria (malnutrition and poverty), the centers tended not to favor children of working mothers or of women seeking work (Raczynski et al. 1990).

Enrollment in primary education, as a percentage of the population between 6 and 14 years of age, grew until 1981 and then experienced a decline. The gross rate of enrollment, which at the end of the 1970s bordered on 100%, did not reach 90% in 1989. Information by region reveals that this decline was concentrated in the regions surrounding the two largest cities, Santiago and Valparaíso-Aconcagua. It is not clear whether the decline was the product of greater promotion per grade and, consequently, a more opportune graduation from eighth grade⁸¹ or if it resulted from a greater rate of desertion. In 1987, the coverage of primary education for households was relatively similar according to income level (90% or more), which would indicate that there was no grave problem of desertion from the system (Haindl et al. 1989, 90). All in all, problems of repeated grades and educational quality remain. According to some, these problems became more severe after the process of municipalization of education, with the multiplication of subsidized private schools, and the new instrument of resource allocation (Varas and Moreno 1983; Espinola 1990).⁸²

During the military government the private administration of educational establishments was promoted. In 1980, before the process of municipalization, 79% of primary school enrollment was public, 14% subsidized private, and 7% paid private. By 1988, these percentages were 60%, 33%, and 7%. It should be noted that there was a transfer of students from state/municipal establishments towards subsidized private ones, which increased in number.

⁸¹ Of the cohort that entered first grade in 1975, 23% graduated from eighth grade without repeating any grades. This percentage rose to 25% for the cohort entering in 1976 and 26% for the one entering in 1977. Of those with up to three years of repetition, some 59% of the first cohort, 53% of the second, and 55% of the third graduated from eighth grade before 1985, 1986, and 1987, respectively. The average period for completing eight grades for those three cohorts was 12.2, 11.6 and 11.3 years.

⁸² In the 1970s and 1980s, diverse national standardized tests were devised, oriented toward measuring the achievement of educational objectives. The results of these tests, administered on different dates, revealed a low achievement of objectives (below 50%), which were on average more severe in municipal schools, closely followed by subsidized private ones. Both types of education were far removed from paid private schools, which obtained higher achievement indices. The latter served no more than 7% of national school enrollment.

The military government continued with the School Nutrition Program (Programa de Alimentación Escolar or PAE) which dates back to the 1950s. The program was modified: the caloric-protein content of the meals was improved, the preparation and distribution of foodstuffs was transferred to private sector firms, and the allocation of food within the school was limited to children who qualified as extremely poor. The total number of meals distributed did not increase and the coverage of the program as a percentage of enrolled students declined. In 1974, about 60% of enrolled students received breakfast and almost 30% received lunch at school. In 1989, both percentages were 22%.

As in the past, the direct fiscal contribution to primary education had a progressive and antipoverty effect. The contribution favored the two poorest quintiles (Table 26). The most progressive component of the fiscal contribution to primary education, possibly more so than in the past, was the PAE.

Throughout the 1970s and 1980s, intermediate education experienced a continuous increase in enrollment, both in absolute and relative terms. Increasingly wider sectors of the population gained access to intermediate education. In 1989, the enrollment rate reached 75% of the population between ages 15 and 18. Almost three-fourths of the enrollment corresponded to the scientific-humanistic program, a proportion significantly greater than in the past. The technical-professional program declined in importance, particularly during the 1980s (Table 28). Intermediate education coverage was greater in urban than rural areas and increased with family income. Nevertheless, coverage in the lowest deciles surpassed 70% (Haindl et al. 1989, 90). State spending on intermediate education was mildly progressive (Table 26). Intermediate education manifested serious problems of repeated grades, desertion, and of quality. The difficulties of insertion in the labor market confronting the young educated population is symptomatic of this situation.⁸³

University-level enrollment was restricted after 1976 and until 1982. Later it grew, largely as a result of the creation of new universities and private professional institutes. The Presidential Directive on Education opened the door to the subdivision of the traditional universities. From the eight traditional universities,⁸⁴ 12 were created, fundamentally as regional branches of the originals. Additionally, the Directive stimulated the creation of private universities, which multiplied after 1988 (Table 29). In 1989, the country had 41 universities and 56 professional institutes. Enrollment in these institutions totaled almost 160,000 persons (19% of the population between

⁸³ Between 1975 and 1984 the open unemployment rate in Santiago, including those enrolled in emergency employment programs, fluctuated between 42% and 24% among the 14- to 19-year-old population and between 15% and 35% among the 20- to 24-year-old population (Marcel 1984, 1990). Forty to forty-five percent of the unemployed labor force in 1975–1982 was 25 years or younger (Foxley and Raczynski 1984). See also Cox and Cariola (1990).

⁸⁴ The first, the University of Chile, was created in 1842 and the last, the Austral University of Chile, in 1954.

ages 19 and 24). Of these 97 institutions, 22 had state support. The fiscal contribution to higher education in 1987 represented close to 23% of fiscal spending on education and was, as in the past, highly regressive (Table 26).

TABLE 29

**Number of Establishments and Enrollment in Post-Secondary
Education System, 1980-1989**

	1980	1985	1989 ^a
Number of Establishments			
• Universities			
With state support	8	18	20
Without state support	—	3	21
• Professional Training Institutes			
With state support	—	6	2
Without state support	—	19	54
• Technical Training Centers (Without state support)	—	102	150
Enrollment (thousands)			
• Universities			
With state support	119.0	113.1	116.3
Without state support	—	5.0	9.2
• Professional Training Institutes			
With state support	—	18.1	10.0
Without state support	—	14.6	23.8
• Technical Training Centers	—	50.4	73.8

Source: Cox and Jara (1989: 39 and 45).

^a Institutions approved by the Ministry of Education by 31 July 1989.

When analyzing postsecondary education it is important to mention the technical training centers. These private centers have experienced vigorous and mostly uncontrolled development. In 1982, 43 centers enrolled 33,000 students. By 1989, enrollment reached 74,000 students in 150 centers. These centers provide an alternative technical education for the secondary education graduates who are not accepted at universities. Nevertheless, the cost of the centers is high, and the quality of the training and its utility for the workplace are highly variable (Vergara and Rodríguez 1986).

In synthesis, under the military government the educational system continued to expand quantitatively. Since coverage of primary education was almost universal by 1974, the expansion

was concentrated at the intermediate level. Also, the government stimulated expansion in preschool education—kindergartens and open centers—in poor areas. Enrollment in higher education expanded after 1988, principally in its private component (without fiscal subsidies), and the number of private technical training centers increased.

During the military government, because of the magnitude of unemployment, the problems of insertion in the labor market worsened for those who graduated from the educational system (who were more educated than in the past). The traditional path—primary, intermediate, and university education—which already had created problems by 1970, reached a crisis in the 1980s. In addition to the restricted demand for labor and the consequent high rates of unemployment which dominated until 1987, other factors intervened: a) the expansion of intermediate education; b) the problems of quality in primary and intermediate education; c) the deterioration in regular technical-professional education which was historically deficient; and d) restrictions on enrollment at the university level and the cost of higher education. By 1989, the problems of youth—their training for the workplace and insertion in the labor market—were a primary concern of public opinion. The problems significantly affect a broad sector of youth who are not all so young, including the population close to age 30 who never achieved a continuous insertion in the labor market during the 1970s and 1980s.

As the educational system expanded it underwent fundamental changes in its organization, administration, and financing. The once large and powerful Ministry of Education handed over the administration and management of the educational establishments and personnel to the municipalities and to the private sector. The municipal and subsidized private establishments receive state resources and are financed with state support. The financing mechanism—a subsidy for mean attendance of students—introduced a series of distortions in pedagogical practices, which were further exacerbated by the fact that the per-student subsidy lost purchasing power. Additionally, the administrative transfer negatively affected the labor situation of teachers. These combined processes eroded the quality of primary and intermediate education.

It should be added that recent opinion polls and qualitative studies, similar to those undertaken in the 1960s, have verified that the adult population expresses high educational aspirations for their children. Even in the poorest sectors, parents would like their children to complete their intermediate education and pass the academic aptitude test. They perceive this as the necessary educational level for obtaining employment, even for unskilled jobs. As in the 1960s, education is valued for its link to employment and for its credentialing and certification function. While adults in the 1960s viewed the permanence of children in the school system as a sure path to upward social mobility, today there are signs that education is seen as a barrier to downward mobility (Cox and Cariola 1990; Raczynski et al. 1990).

10. The Social Net and the Struggle Against Poverty⁸⁵

As already noted, the military government defined the eradication of poverty as the priority objective of its social policy. This priority was advanced in the context of an economic policy that favored the concentration of family income distribution, an increase in absolute poverty, and the impoverishment of some middle sectors.

The trajectory of the population's monetary income contrasts with the positive evolution of some social indicators widely used in international spheres as indicators of social development: infant mortality rates, malnutrition in the population under age six, educational levels, primary and intermediate enrollment, and the extension of water and sewage systems.

The improvements in each of these indicators have an explanation that is not associated directly or principally with household income levels. Instead, the explanation is linked to investments in social development made by successive governments during previous decades, principally since the 1940s. The military government built on these investments, mounting targeted programs which were successful in improving specific situations.

Vergara (1990) provides evidence of the dangers of targeting which occur, as in Chile, when the search for selectivity is accompanied by a restriction in available resources for social programs. In this situation, the objectives for which a program is designed are often distorted. This is what happened, for example, with PNAC. To confront the restriction of resources in 1983, a subprogram was created, targeting children and pregnant women at risk of malnutrition, and they received a large part of the aid. Thus, a program that had preventive objectives, acquired a curative nature—eliminating malnutrition once it had been detected (Vergara 1990, 301–2).⁸⁶

Kindergartens provide another example. The selection criteria is based on "risk of malnutrition or nutritional condition of the children." Mothers of poor families who want to work to augment household income are often not able to, because if their children are not malnourished there is no place for them in kindergarten. Thus, the mother's initiative to acquire more income is undermined by a targeted and rigid policy that attempts to exclusively reach households in which the effects of poverty have been greatest. From another point of view, if the objective of a kindergarten program is to prepare and psychologically stimulate children, to give them the capacity for greater success in school, it is erroneous to give preference only to children who are

⁸⁵ Vergara (1990) reviews the programs applied to alleviate critical poverty: their objectives, the beneficiary-identification mechanisms, the benefits granted, and the coverage and degree to which they satisfy the most urgent social needs.

⁸⁶ It has also been suggested that this modification in the program has diminished its coverage. The reduction in benefits in the preventive component of PNAC made it a less attractive program for mothers. The cost of gaining access to it would surpass the benefit received.

malnourished. To combat malnutrition it would be more appropriate and efficient to create a program of child feeding centers (*comedores infantiles*) (Raczynski 1991b, 145).

Public social spending was reduced in the housing, education, and health sectors, but the cutbacks were not homogeneous. Additionally, in the most severe moments of economic crisis, the government developed an ad hoc series of subsidies to combat the effects of the crisis and/or the applied economic policy. Some of these subsidy programs were new. Other existed previously and were reformulated and targeted toward the poorest population. To assure this, a system of documenting the socioeconomic characteristics of households was developed.⁸⁷

Throughout this work, reference has been made to almost all programs and subsidies included in the social net. The discussion regarding the reduction in the coverage of the social security system referred to the social assistance pensions and the unitary family subsidy. In presenting the programs of health care and maternal-infant nutrition and the widening of preschool education, mention was made of the state-supported open centers and kindergartens that reinforced the nutritional programs for children. The section on primary education mentioned the school meals program. And, the section on housing described the programs of lots with services, of resettlement and reestablishment as well as the subsidy for habitational marginality, etc.

One very important component of the social net, to which we only have made marginal reference, was the emergency employment programs:⁸⁸ the Minimum Employment Program (PEM), begun in 1975, and the Heads of Households Occupational Program (Programa Ocupacional para Jefes de Hogar or POJH), initiated at the end of 1982. Workers, who year by year were enrolled in these programs, represented an important percentage of the work force. In 1983, in the midst of the crisis when the open unemployment rate was 19%, some 13% of the labor force was enrolled in these programs (Table 14).

Both programs were initiated as transitory measures to alleviate unemployment, giving a direct subsidy in exchange for a reduced workday in jobs that benefited the community. The real value of the subsidy that each participant in PEM and POJH received was reduced year by year, so that by 1987, the PEM subsidy was 27% of its 1975 value. The POJH subsidy value, higher in absolute terms, suffered a 36% decline between 1982 and 1987. Participants in neither program were covered by social security. In 1981, with the creation of the unitary family subsidy, the children of PEM or POJH participants gained access to that benefit.

⁸⁷ For an analysis of the adopted targeting system, the social characterization applied, and its advantages and disadvantages, see Vergara (1990) and Raczynski (1991a).

⁸⁸ Initially the emergency policies to counteract unemployment also included a subsidy to employers for contracting additional labor. Solimano (1983) concludes that these actions did not have much effect providing employment.

Diverse studies have shown that the income from PEM and POJH played an important palliative role in family subsistence in the severest moments of the crisis. Despite its low value, the subsidy was a source of relatively stable income in a context of high unemployment and income instability. Male workers sought out these programs as a resource of last resort, when the possibility of finding alternative employment was all but nonexistent. Adult males evaluated these programs negatively. They considered the earnings very low and the work humiliating, unsatisfactory, and a potential source of 'bad habits' (alcoholism), loss of work discipline, and social stigmatism for future employment (Ruiz-Tagle and Urmeneta 1984; Raczynski and Serrano 1985).

The case of adult women and youth was generally different. They viewed PEM and POJH employment as positive when the work was close to home, part-time, and socially defined as appropriate to their sex. After the severest moments of the crisis, the majority of participants in these programs were women (and youth) who became marginalized from the labor market when they got married. They valued obtaining an income and access to a place where they could share and co-exist with other women. The programs provided them with economic, as well as psychosocial, gratification (Raczynski and Serrano 1985).

The government's social net played an important role in the survival of the poorest households. In 1985, one-third of the monetary income of the poorest quintile of households was supported by the money subsidies they were able to obtain from the social net; in the next quintile, the figure was 13%. In 1987, as would be expected given the improvement in employment statistics, the percentages were lower, 21% and 6%, respectively.

The subsidies tended to benefit the same households. The beneficiaries of the different programs were selected with the same instrument, and access to one program facilitated access to others. Enrollment in PEM or POJH opened the door to the unitary family subsidy, free medical attention, kindergarten placement, school lunch, and a social assistance pension for the elderly in the household.

The social net effectively compensated the decline in the material living standards of the population. Nevertheless, it is doubtful that the net and the targeted social programs among poor groups contributed to eradicating poverty. A minimalist state social activity that is highly targeted cannot break, and at most will reproduce, the social situation of the poorest sectors. If the programs had effectively benefited all the households in poverty, which did not occur, the most that could have been achieved was to erect a barrier against further impoverishment. The deteriorating purchasing power of the subsidies slowly weakened this barrier.

11. Synthesis and Conclusions

If the period 1930–1973 was one of unequal expansion of opportunities, of growing access to education, health care, and an urban life-style, with a vision (partially real and partially symbolic) of opportunities for upward social mobility for important sectors of the population, the period 1974–1989 was characterized by obstacles to achieving better opportunities for the poorest and for important middle sectors of the population.

In this period the poorest sectors, which had lost employment and income opportunities, could count on a state which protected them with a social net and continued to finance programs in education, health, and some housing programs. The middle sectors also lost employment and income opportunities and, simultaneously, were marginalized from state assistance under which they had grown. The reduction of public spending and its targeting of the poorest sectors took away benefits from the middle strata.

Between 1974 and 1989, Chilean society modernized and advanced in many respects; in others it remained backward. Diverse writings point to the two faces of the Chilean model and the dualization and segregation of the social structure (Ortega 1987; Foxley 1988; Lavín 1987; Tironi 1988; Schkolnik and Teitelboim 1988a).

The social policy system did not reverse, but deepened this process. Public social spending was reduced. A part of this spending was oriented toward the poorest sectors, but the percentage of fiscal spending that effectively reached these sectors was low. According to Haindl et al. (1989, 332–46), public social spending in 1987 represented about 20% of GDP; the fiscal contribution to this spending represented 13% of GDP; the social fiscal contribution that went to goods and services that were directly distributed to people represented 7% of GDP; and the social fiscal spending that directly benefited the poorest 20% of households reached hardly 2.2% of GDP. If the poorest 40% of households is considered, the latter figure reached 3.6% of GDP. It should be noted that despite all the efforts to target the state's social activity on the poorest households, only 28% of the fiscal contribution effectively reached the poorest 40% of households through the distribution of goods and services.

The contraction of social spending and the attempts to target it toward the poorest sectors and to create a compensatory social net were not the only legacy that the military government left Chile's system of social policy. Other institutional reforms affecting various social areas were important.

a) The social security reform standardized the financing and benefits of the system and transferred its administration to the private sector. The state oversees it and insures minimum benefits. The rest depends on the savings efforts of workers and the investments which the private sector makes with social security funds.

The new system eliminated the imbalance in the spending/income equation that the system of distribution would have confronted in the first years of the next century as a consequence of the aging of the population. At the same time, the transition from the old to the new system entailed a large deficit that the state had to assume.

The benefits that the new system will distribute in the future depend on what happens in the national and international capital markets. For its part, the substantial funds which had been accumulated in the AFPs (25% of GDP), depending on how they are administered and what is done with them, will have repercussions on the economy, on savings, and on national investment. The government, as well as the AFPs, will have an enormous responsibility in this area.

b) In the health sector, services were decentralized and municipalized, processes which were probably in the right direction, but which encountered difficulties and distortions in their implementation, due to resource restrictions and other factors (the method of allocation of resources, organization of services, defined priorities, human resource policies, etc.). The resource restrictions in the public system after 1984 resulted largely from the creation of the ISAPREs, which by 1987 captured close to 50% of the social security quotas. In the past, these quotas were destined to FONASA, which allocated them to SNSS and to the public system of free choice. The creation and expansion of the ISAPREs favored the growth of the private health sector and facilitated access to curative medical attention for the upper-middle and upper sectors. The expansion of the system to wider sectors of the population basically depends on a rise in the population's salaries and income and the possibilities of containing increases in health care costs. The creation of the ISAPREs was a clearly inequitable reform, both in terms of social sectors and in terms of the life cycle. Due to income levels, lower and lower-middle sectors have difficulty gaining access to the system. As elderly ISAPRE affiliates grow older, they find the costs of their plans rising, often beyond their ability to pay, and are thus obliged to return to the public health system.

c) State activity in the housing sector was redefined so that its role was limited to normative and regulatory functions and to contributing resources to subsidize families who lacked sufficient means to procure minimal housing. The responsibility for construction, and an important part of financing, were transferred to the private sector.

As a result of the application requirements, the selection criteria for beneficiaries and the characteristics of the housing options that could be acquired with the subsidy, the housing programs initially benefited the upper-middle and upper sectors. Later, after making the requirements for previous savings more flexible and diminishing the quality (size and cost) of the housing options, the programs became more progressive.

d) The education sector experienced advances and setbacks. The state contribution to higher education was reduced, eliminating free university education, a measure aimed at greater equality. The massification of the educational system was completed at the primary and intermediate levels. Nevertheless, problems of educational quality remained and probably worsened, as did those concerning links between formal education, training, and employment.

The primary and intermediate educational system, which counted on fiscal contributions, experienced processes of decentralization and privatization. As in the health sector, the process of transfer was marked by difficulties and distortions in its implementation. The legacy of these processes includes: a) teachers who have lost their labor rights, income, and negotiating power and who have been transformed into a sector overwhelmed by problems of material subsistence and labor satisfaction; b) municipalities that have had to finance growing educational deficits, a situation for which poor municipalities (the majority) have no solution, thus creating more serious disparities in education quality; and; c) mechanisms of financing (subsidy per student) that should be revised to correct for distortions introduced with the dynamic of the educational process.

e) Another legacy of the military government is a deterioration in the coverage and quality of social services. In the area of social security, associated with modifications in labor legislation, transformations in the labor market and in the organization of firms, there was a deterioration in the rate of affiliation to the system, a situation that affected salaried employees and workers. Although self-employed workers increased their affiliation, it continued to be low.

f) In the health area, those who were favored were pregnant women and children. The 'losers' were the adult population of middle and lower sectors and the elderly. The deficiency of health programs for adults and the elderly is serious since Chile is in an advanced stage of its epidemiological transition, in which it must simultaneously prevent and treat infectious and respiratory diseases (linked to situations of poverty) and 'modern' illnesses (cardiovascular and circulatory, tumors of different types, and accidents and traumatism). Preventive activities practically have not been developed for the latter and public infrastructure is not prepared or equipped to deal with these problems.

The system of social policies which prevailed until 1970 required profound modifications. The military government introduced reforms, some in the correct direction, and others which proved inequitable. Many experienced problems of implementation. These changes took place in the context of economic policies that concentrated income and wealth, that operated on the basis of salaries below historic levels and, except in the last two years of the military period, with very high rates of unemployment. The government created a compensatory social net that was important for the survival of the population, but that in no case substituted for the losses of employment and income suffered by the population.

Democratic Government and Challenges for the 1990s

1. The Challenge: Growth with Equity

The socioeconomic legacy of the military government has two faces. On the positive side is an economy whose fundamental macroeconomic variables are in balance and whose price system did not show major distortions; a private sector which was planning its investments for the medium term; and, after 1986, the economy had initiated a process of growth with low inflation, a situation atypical in the Latin American context.⁸⁹

In the neoliberal vision that inspired the military government, growth comes first, followed naturally by redistribution. The role of the state in the social sphere was subsidiary and targeted on the poorest sectors. As we have seen, despite important efforts to increase their selectivity and exclusively benefit the poorest population, social programs only partially alleviated the impoverishment of households. In the late 1980s, when the economy reinitiated a path of growth and absorption of employment (after 15 years, open unemployment finally declined to its historical level), real salaries and other monetary benefits (pensions, family allowances) continued to lag, while absolute poverty did not significantly diminish and the impoverishment of parts of the middle sectors persisted.

The democratic government which assumed power in March 1990, set out to make economic growth, based on private enterprise and oriented toward exports, compatible with the improvement of distributive conditions, in a framework of macroeconomic equilibrium. The government's program was based on two fundamental premises: a) Chile has an open, capitalist economy oriented toward export, inserted in the international financial system, and it is not advisable to change the bases of productive growth that were generated in the 1980s; and b) it is indispensable that international competitiveness be made compatible with greater domestic equity, which demands a more accelerated redistributive strategy than that which the market permits but which does not interfere with economic growth (Muñoz 1991). The government thus proposed continuity in economic policy and changes in social policy.

For the new government, the state had an active role in the social sphere, a role not restricted to the traditional social sectors and to assisting the poorest sectors, but which included innovative programs of investment in human capital, of support for productive activities and improvement in the labor conditions of the work force. Attending to new problems in the different social areas was emphasized: improving the quality of education; increasing investments in

⁸⁹ According to CEPAL, between 1981 and 1989 Chile reached a growth in per capita GDP of 9.6%, compared with a drop in that indicator of 8.3% for the region as a whole. While in the region inflation rose from 56% in 1980 to 1,023% in 1989, in Chile it declined from 31% to 21% between those years (Muñoz 1991, 22).

health, overcoming the inequities of the sector and addressing emerging problems; intensifying housing programs and the design of specific programs for the poorest households. Additionally, the government proposed serving the poorest segments of the population without undermining, and wherever possible, improving opportunities for middle sectors. The government also planned to advance the process of decentralization initiated under the military regime, democratizing local governments and promoting efficient local administration, which would sponsor participatory and intersectoral social programs agreed upon by all those affected—the private sector, the municipalities, the ministries of the sector, the universities, and nongovernmental organizations which operate at the local level.

To achieve these multiple and diverse objectives, the government initiated a strategy of political and social agreements (*concertación*) between business, unions, and the political parties. The government stimulated the search for coordinated solutions to the problems of employment, earnings, and labor conditions, and the identification of public, private, national, and international resources to respond to social needs. The role of the state in the social sphere thus includes promoting a system of political and social negotiation that contributes to making diverse social demands compatible among themselves and with macroeconomic and external restrictions. The government has made the decision that the social activity of the state should respect the economic equilibrium, increase social spending, and assure adequate financing (Marcel 1991; García 1991; MIDEPLAN 1991b). Clearly, the challenge is not only to secure more resources for social ends without risking the macroeconomic equilibriums, but also to organize and make the administration more efficient to respond to social demands and needs.

2. The Two First Initiatives: The Tax and the Labor Reforms

The first year of democratic government was not easy in terms of social problems. The reforms in the conception, priorities, and content of social policy had to be initiated in a context that demanded economic adjustment to control inflationary tendencies that had sharpened after 1989. Furthermore, it was necessary to confront the economic effects of the crisis in the Persian Gulf (MIDEPLAN 1991b, 20). As a consequence, during 1980 the economy grew weakly (less than 1% per capita) and annual inflation was 27%. In 1991, inflation dropped to somewhat less than 19% and the rate of growth of GDP per inhabitant was almost 5%.

The first two projects of the government in the social sphere were the tax reform, designed to increase state resources for social ends, and the labor reform, intended to eliminate the most regressive aspects of the labor legislation inherited from the military regime. In addition,

the government initiated the strategy of *concertación* with business, unions, and opposition parties, which enabled the approval of both proposals in Congress, with some modifications.⁹⁰

The tax reform permitted increasing the fiscal contribution to social programs by 17% with respect to the spending budgeted by the military government for 1990. In 1991, there was an additional increase of 12%. This increase in resources permitted enlarging the income and monetary subsidies that the poorest population received, as well as expanding the fiscal contribution to different social areas (health, education, and housing). For 1992, the Congress approved an increase of 9% in resources oriented toward social ends.

For their part, during the first year, unions, business, and the government subscribed to a model accord, without precedent in the history of the country, in which they concurred on a common vision of social, economic, and political development. They agreed to promote efforts for concerted solutions and to consolidate a path that would replace the old schemes of confrontation. On the basis of this fundamental consensus, agreements were achieved on the readjustment of earnings for the public sector, of the minimum wage, and of pensions. Modifications to labor legislation, oriented toward greater equity in the power of workers and employers, were also approved in Congress. These modifications involved labor contracts, union organization, collective bargaining, and the right to strike.

3. Policies and Programs in the Different Social Areas and the Social Net⁹¹

The increased resources from the tax reform, added to important international contributions, permitted the following achievements:

a) Increased *income* and value of the *monetary subsidies* received by the poorest population. The unitary family subsidy was adjusted from 552 to 1,100 pesos monthly, benefiting 920,000 children in situations of poverty. The assistance pension was also readjusted, benefiting 314,000 needy elderly or disabled persons.

Family allowances were readjusted according to a scale, based on taxable income so that low-income workers receive an allowance per dependent that is higher than that of high-income workers. In the second semester of 1991, these increases were complemented with another readjustment that raised the family allowance and unitary family subsidy for children of poor and indigent households.

⁹⁰ An almost unanimous national consensus, forged and consolidated during the presidential campaign, on the magnitude of poverty in the country and the need to allocate more national resources to resolving the problem, also contributed to the approval of the tax reform.

⁹¹ The information presented here came from MIDEPLAN (1991b), newspaper articles, and interviews with public sector functionaries.

Pensions were adjusted in phases to 10.6% above the adjustment set by law, an increase that the treasury owed pension recipients since 1985. In 1990, the value of the minimum pension was readjusted. In 1991, this readjustment was extended to pension recipients with monthly incomes below 80,000 pesos.

The minimum salary also was adjusted. In 1990, it was raised to 26,000 pesos and in June 1991, to 33,000 pesos per month. For its part, the index of wages and salaries, which is the result of legal readjustments and salary negotiations and which had been recuperating its value since 1987, continued to rise (1.8% in 1990 and 5.1% in 1991).

These measures, combined with the growth in the economy and earnings, made possible a recuperation of household purchasing power. Between November 1987 and November 1990, the percentage of indigent households dropped from 13% to 11% and that of poor households from 38% to 34% (Table 16).

b) Perfecting the *social security system*. A system of pensions for partial disability was put into place, increasing the coverage of this benefit. Measures were taken to streamline the mechanisms for obtaining benefits in the AFP system⁹² and in the Institute for Social Security Normalization (which groups the old social security and withholding funds). New investment instruments for the substantial funds accumulated in the new system are being studied, as are initiatives designed to achieve greater coverage and more continuous membership in the social security system, for example, for temporary and/or seasonal employment.

c) The fiscal contribution to the *health sector* increased by 7% over the amount foreseen by the military government in 1990 and by 21% in 1991.⁹³ These resources, together with significant international contributions (Inter-American Development Bank, World Bank, US Agency for International Development, and others) were allocated to:

—Investment and maintenance of infrastructure, to partially respond to the deterioration at the primary level, and particularly of the hospital system.⁹⁴

—Implementation of activities to facilitate the population's access to health services: increase in personnel and operational capacity in urban and rural medical offices; extension of the hours of attention (third shift) in 57 medical offices; a 50% increase in the pharmacy budget; creation of 27 Urgent Primary Attention Services (Servicios de Atención Primaria de Urgencia or SAPU); widening of free curative services to the whole population seen in the medical offices of

⁹² After October, 1991, a mechanism for the preliminary payment of pensions began to operate. It permits members to receive their first payment approximately 14 days after their request is registered.

⁹³ The budget bill for 1992, foresaw a real increase of 27% with respect to 1991.

⁹⁴ MIDEPLAN (1991b, 67–68) provides a detailed diagnostic of deficiencies in buildings, equipment, and vehicles.

SNSS (approximately 1,600 million persons regained free services for this type of medical attention).

—Reformulation, deepening, and/or initiation of programs oriented toward serving specific population groups and/or preventing and treating specific illnesses. These included modifications in the foodstuffs distributed by PNAC; programs to reinforce the diagnosis of cervical, uterine, and breast cancers; improvement in the quality of prenatal attention and neonatal care; special programs for pregnant adolescents; health programs for school-age children; mental health programs; adult health examinations; prevention and treatment of AIDS; and management of respiratory illnesses.

—The situation of health care personnel deteriorated significantly during the military government. In September 1990, a graduated compensatory allowance was decreed and in 1991, the value of services in the system for billing services was readjusted. Nevertheless, the labor and earnings situation of the sector (at the central and municipal level) is an unresolved problem. Throughout 1991 there were work stoppages and strikes in diverse municipal and labor sectors.

Achievements in the health sector in 1990–1991 were meager given the magnitude of the problems accumulated at the primary, secondary, and tertiary levels. Few health centers are able to affirm that they have sufficient ambulances (when the government assumed office, 50% of ambulances were unusable), or that the waiting period for hospitalization is close to zero, or that they have doubled the number of surgical interventions per month, or that they have improved organization and medical attention at the primary level. Innovative programs are few.

Behind the perception of meager results in the health sector are hidden and intertwined problems associated with scarcity of resources, difficulty in administration, bureaucratic inertia, group pressures, insufficient training, and labor conditions of auxiliary and administrative, paramedic, and medical personnel. A lack of clarity and minimum consensus regarding the priorities of the sector also has a negative impact. A new actor with influential power (private sector ISAPREs) weighs on the system, competing with the public sector, draining its financial and human resources. The ISAPREs serve a significant but minority segment of the population (younger households in better relative position, with fewer family dependents and less risk of illness), which has a voice, as do the directors of the ISAPRE system and the professionals affiliated to it.

d) The fiscal contribution to the *housing sector* increased by 39% with respect to what was programmed by the military government for 1990 and by 23% during 1991.⁹⁵ The government continued to implement solutions which the previous government was developing, introducing modifications in the systems of allocation and application for housing, in the forms of

⁹⁵ The budget for 1992 projected a real increase of 12% with respect to 1991.

participation of the beneficiaries, and in the cost of credit to promote application by those who are unable to carry out systematic savings efforts and by weaker sectors, such as women heads of households and the elderly.

The group participation of housing beneficiaries is promoted, integrating their contributions to achieve more adequate solutions to families' needs and to assure ongoing activities in the construction, improvement, expansion, and conservation of housing and neighborhoods. In this direction a new housing program has been initiated, intended especially for *allegados*, which enables them to contribute nonmonetary savings (materials and/or work for the construction of the home). In addition, other housing programs have been defined for consolidated marginal squatter settlements with the purpose of improving existing housing. A pilot plan was also developed for urban rehabilitation of a deteriorated sector of Santiago. The various programs seek to build neighborhoods and to invest in community facilities (basic services, paving and roads, parks and recreational areas, etc.).

The quantitative objective is to freeze the housing deficit, a goal which demands between 80,000 and 90,000 housing units per year. During 1990, the construction of 79,000 units was initiated and by July 1991, another 50,000 had been started.

In addition, assistance programs have multiplied and expanded to confront the problems of debtors of the Housing and Urban Development Service (Servicio de Vivienda y Urbanismo or SERVIU), of the consumption of potable water, and of land taxes in poor areas and among impoverished middle sectors. During 1990, 324,000 families were able to renegotiate their housing credit with SERVIU according to a model that distributed the largest benefits to the poorest families and to those who had fulfilled their monetary obligations. For their part, close to 435,000 contributors benefited from the forgiveness of debt or interest, or from readjustments in land taxes owed. In the metropolitan region, about 193,000 families with a monthly consumption of water below 20 cubic meters were able to renegotiate their debt. Additionally, a permanent subsidy was instituted for water consumption in poor areas.

e) The objectives defined by the government for the *education sector* were to improve the quality and equity of the system. To achieve these objectives, with contributions from the tax reform and international organizations,⁹⁶ the education budget was increased⁹⁷ and changes were implemented at the different educational levels:

⁹⁶ The government won World Bank approval and financing of a large project for Improvement in the Quality and Equity of Education (Mejoramiento de la Calidad y Equidad de la Educación or MECE). Its principal objectives were to improve the quality and equity of education and of the administrative capacity of the Ministry of Education at the national level.

⁹⁷ The fiscal contribution in 1990 increased by 23% with respect to what was programmed for that year by the military government, by 7% in 1991, and a real increase of 9% was programmed for 1992.

—Preschool education: Expansion of coverage (it increased 12% during 1990) and improvement of quality through innovations in and diversification of programs.

—Primary education: A program was initiated in 1990 to improve the quality of primary schools in poor sectors. It proposed raising educational outcomes in 900 schools located in rural areas and urban areas of extreme poverty. The program concentrates its activities in the first cycle. In 1991, 400 additional schools were incorporated. At the end of 1991, the program benefited close to 17% of free primary schools, almost 20% of the total enrollment of the first cycle, and supported more than 5,000 teachers. It also included improvement of infrastructure, distribution of school texts and supporting educational material, teacher training, development of extracurricular activities, and incorporation of the community in the schools activities.

The programs of school assistance have been strengthened, the coverage of the school nutrition program expanded, the diet in some areas improved, and a massive program of summer colonies organized for school-age children of poor areas.

The minimum objectives and fundamental content for each grade of primary education have been elaborated as a framework for the school establishments that wish to exercise the right to design their own curriculum. The free distribution of school texts also increased. In the second semester of 1990, according to plan, the system of measurement of the quality of education (Sistema de Medición de Calidad de la Educación or SIMCE) was administered to the fourth grade. The SIMCE is a test designed to measure fulfillment of the educational objectives in the school system.

—Intermediate education: Within the World Bank funded project for Improvement in the Quality and Equity of Education, a series of studies and projects are being prepared, oriented toward improving the quality and creating a public debate to establish a proposal for changes and investment in intermediate education. Simultaneously, activities are being developed to reinforce technical-professional education and to prepare the student for incorporation into the work force. These initiatives complement a training and employment program for unemployed youth, coordinated by the Ministry of Labor. The latter program, which has the support of the Inter-American Development Bank, will benefit 100,000 youth between 1991 and 1994.

—Higher education and technological development: The government created the Commission on Higher Education, a pluralist entity of high academic level, which has elaborated a reform proposal to the Organic Constitutional Law on Education and designed legislation to regulate the system of higher education. Resources allocated to higher education have been increased, including those of the National Fund for Scientific and Technological Investigation.

—Participation and training of teachers: One of the first tasks in this sphere was the Congressional elaboration and approval of a Teachers' Statute, which regulated and standardized the career of teachers, making labor conditions homogeneous and imposing a floor on earnings.

—Other activities and programs have been oriented toward supporting cultural activities, adult education, and activities outside school.

This summary of the programs and initiatives in the different social areas reveals continuity and change in the policies and programs inherited from the military regime. The institutional reforms remained: decentralization and municipal administration of health and education. The new social security system, the ISAPREs, the housing subsidy programs, and legislation on higher education were untouched, except on minor points. The idea of targeting social spending and maintaining (improving benefits) some components of the social net remained. On the other hand, changes also occurred. A tax reform was formulated and approved, providing greater resources for social spending. Monetary benefits were improved according to a model in which the increase is greater in the lower income brackets. Programs were designed to improve the quality of primary education and to support occupational training for youth, to facilitate the population's access to primary health services, to recuperate the infrastructure and equipment of the health sector (hospitals), to freeze the housing deficit, to adjust housing programs to the requirements of specific sectors, and to improve existing housing and neighborhoods. The allocation of resources through the educational subsidy per student and billing for services rendered has not been touched.

It is premature to draw conclusions on the results of these programs. There are severe bottlenecks in the personnel situation in the education and health sectors. Assistants, paramedics, physicians, and teachers have not seen their wage demands satisfied and have manifested their discontent, organizing work stoppages and strikes. They perceive wage adjustments in health and the Teachers' Statute as insufficient responses to their demands. At the same time, there are restrictions in human resources, in equipment, and more generally, in administration at regional and local levels, and in the relationship between the national and local administration.⁹⁸

4. The New Target Groups

The military government defined the priority target group as pregnant mothers and children under age six in poor households. The democratic government continued the maternal-infant programs, but it proposed that the priority was to allow for maturation of the social investment at an early age. As a consequence, it intensified programs for the school-age population (program of school nutrition, extracurricular activities, and health) and programs oriented toward the integration of youth in the labor market and in society. In line with this

⁹⁸ This issue and the regional and municipal reform debated in Congress are beyond the limits of this work.

perspective, the Institute of Youth was created and programs were initiated for professional-technical education and employment training.

Women comprise another new target group to which the democratic government has given priority. The National Women's Service was created (whose director has the rank of minister) to promote and oversee women's access to health, employment, housing, and politics and to promote specific programs for them. The Service also studies legislation to eliminate discrimination against women in civil, labor, penal, and procedural matters.

Another important target group for the government is small producers (urban micro-enterprises, peasant agriculture, fishermen, and small mining businesses). This heterogeneous sector grew numerically under the military regime, which ignored it. The government is considering and implementing ways to support small producers that would allow them to modernize and to increase their productivity and competitiveness. The programs that are being implemented coordinate and attempt to support the efforts of the producers themselves, with the backing of the state and contributions and initiatives of nongovernmental organizations and the private sector. Public and private institutions have been given responsibility to support these programs in the areas of finance, technical and production assistance, legal and administrative advise, and commercialization.

5. A New Social Policy Instrument: FOSIS

The Solidarity and Social Investment Foundation (Fondo de Solidaridad e Inversión Social or FOSIS) is similar to a bank for social projects. It finances and backs projects to overcome poverty and marginality presented by communities or groups, municipalities, public and private institutions, and nongovernmental organizations. Peasants, mechanics, fishermen, urban microenterprises and labor collectives can find backing through FOSIS financing to improve their management capacity, elevate the technical and organizational level of their work, gain access to forms of credit, technical assistance, and technology, and perfect their means of commercialization and insertion in the market. Additionally, FOSIS supports initiatives and projects to improve the quality of life for families in poor communities. In this regard, it motivates the use and equipping of community centers, supports improvement in nutrition and preventive health care, promotes learning, recreational and cultural activities, and backs occupational training. Finally, FOSIS has assumed a role in improving the information systems on rights, resources, and social services available to poor sectors (Flaño 1991, 156).

FOSIS is a complementary instrument for social policy in the traditional social areas. By its nature and because of its defined priorities, it favors intersectoral projects which come from the grass roots and which overcome the paternalistic and social assistance character of many

ministerial programs. It also favors decentralized social policy and collaboration between diverse agents (those affected, nongovernmental organizations, municipalities, and community organizations).

Implementing FOSIS has been a complex task. Inserted within the Ministry of Planning and Cooperation, FOSIS began to function in late 1990, having to define and legitimize its role, overcome legal and bureaucratic obstacles, outline and design operational methodologies (processes for soliciting FOSIS financing, rules for the presentation of projects, criteria for deciding between them, and the design of instruments for the monitoring and evaluation of projects), and train personnel in the application of these methodologies.

At the end of 1991, FOSIS had approved and financed more than 1500 projects. In terms of support for productive initiatives, 735 projects are being implemented that benefit urban micro-enterprises and the peasant economy (programs of irrigation and forestation). In support to poor areas, FOSIS has identified the 300 poorest populated areas throughout the country and has initiated competitions for regional projects in their favor, has supported consumption programs, and has implemented information and training activities about social organization and the presentation of projects. Some 585 related projects are underway. In terms of support for priority groups, 145 projects have been initiated, 98 in indigenous communities and 46 oriented toward youth (occupational training and youth development centers). Each project is small in terms of the resources provided by FOSIS. The programmed spending for projects as a whole in 1990–1991 was below 10,000 million pesos, representing less than 1% of social fiscal spending.

In synthesis, FOSIS represents a social fund in germination. It complements social policy and is not a substitution, as is the Bolivian Social Fund. Its first projects are producing results, which will need to be vigorously evaluated.

6. Synthesis and Results

The years 1990 and 1991 brought a shift in the orientation of social policy (active role of the state, emphasis on investment in human capital and in productive projects). The government contributed more resources (duly financed) to the social sphere. The state undertook explicit efforts to expand the bases of economic growth, thus creating more and better employment. It also stimulated programs and projects oriented toward investment in human capital and social infrastructure, particularly within poor localities or groups and in the most vulnerable segments of the population, building on and incorporating the contributions of these sectors. Simultaneously, it provided training and tools so they may progress individually and organizationally. The programs have been oriented toward responding to 'new problems' in the different social areas: the quality of education; the search for responses to the epidemiological profile of the country; progressive

housing programs, programs for community facilities and the rehabilitation of deteriorated neighborhoods; labor and social insertion of youth; and support of small-scale productive activities. At the same time, the national government intends to reinforce local and regional governments and to give them the maximum possible authority over decisions in the social sphere.

The results of this new social policy in terms of coverage, benefits, satisfaction of basic needs, and in terms of poverty and social inequality, will only be known in the years ahead. The new orientation involves programs that have a long maturation period. Improving the quality of education, training for better insertion in the labor market, opening opportunities for a greater yield of small-scale productive activities, etc., are ambitious goals, implemented slowly and with difficulty.

On the other hand, what happens in terms of poverty and social inequality does not only depend on social policy, as understood in this work—social security, health, education, housing—but also, and in important measure, on tendencies and processes tied to the creation of jobs, the organization of work, productivity, and wages. In this view, the strategy of *concertación social* initiated by the government in the area of labor legislation, is particularly important.

Finally, it is important to note that in the 1980s, for the inhabitants of large cities, 'social' has acquired a new dimension: citizen security. Physical security, violence, robberies and assaults, and delinquency are as much a concern as poverty, low income, and access to housing, health services, and education, according to opinion surveys undertaken in recent years. A November-December 1991 survey in Santiago asked, "When people express their opinions about the social situation they consider different aspects. Of the things shown on this card, which, in your opinion is the most important, and which is the second most important in characterizing the social situation?" The card proposed eight categories of responses, including physical security, economic situation (poverty, employment, unemployment, wages, prices, inflation), health services, housing, and education. Physical security received 48% of the responses as being of primary importance. Some 27% chose the economic situation and together, 20% chose the situation of health, housing and education. The factors considered second most important were the economic situation (35%), physical security (16%), health (14%), housing (10%), and education (9%).⁹⁹

⁹⁹ Preliminary results of a CIEPLAN survey on the perception of social policy and political perceptions carried out during Phase 3 of this project ("Social Policies for the Urban Poor in Southern Latin America: Welfare Reform in a Democratic Context").

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