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ARCHIVO

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Chile Advances in a War on Poverty, And One Million Mouths Say 'Amen'

By NATHANIEL C. NASH
Special to The New York Times

SANTIAGO, Chile — Adán Ramírez and his wife, Gladys Fuentes, say that in the 1980's, when their family income was \$170 a month from his electrician's job, "we had to choose between eating and paying the bills." Then, in 1990, Ms. Fuentes borrowed \$350 through a new Government program set up to help tiny businesses, bought an industrial sewing machine and began doing piece work for clothing manufacturers.

Last year, another loan. Now she has five machines running, and Mr. Ramírez has given up his electrician's work to join the sewing business.

As machines hummed recently and the couple put the finishing touches on bright red, blue and yellow windbreakers, they beamed when asked about their present income: it is more than \$1,000 a month and for the first time they are taking vacations. "I could not ask more from God," Ms. Fuentes said.

Poverty Reduced Sharply

Or, apparently, from the Government of President Patricio Aylwin. Under Mr. Aylwin, Chile has removed an estimated one million people from the ranks of poverty over the last three years.

According to Government and United Nations figures, 40 percent of Chile's 13 million people, or 5.2 million, were living in poverty in March 1990 when Mr. Aylwin took office after 17 years of military government. United Nations officials estimate that 33 percent, or about 4.2 million, are now below the poverty line. In Chile, this is generally considered to be a monthly income of less than \$200 for a family of four.

Conservative politicians here dispute assertions of great advances against poverty, saying the Aylwin Government overestimated the number of poor in Chile at the end of the military regime. But United Nations officials who have been monitoring the Chilean program say the anti-poverty campaign is perhaps the best they have seen.

To achieve its goals, the Government has used an aggressive policy of tax increases, heavy social spending and vigorous free-market economic growth.

Classical Economics Defied

"While economic growth lifts a lot of people out of poverty, the Chilean experiment shows a government can do more than wait for the trickle-down effect of macroeconomic policies," said Francisco León, a population expert at the United Nations Economic Commission for Latin America and the Caribbean. "This means you can target policies to alleviate poverty."

The program's success has defied classical economic analysis. The

Government imposed a huge tax increase to pay for new social programs for the poor and sharply increased the minimum wage, measures that many economists predicted would increase unemployment, bring on a recession and fuel inflation.

Instead, the economy grew almost 10 percent last year, unemployment has fallen from 25 percent to 4.4 percent since 1990, and inflation is down from 26 percent in 1989 to 12.7 percent.

The income of the poor has risen 20 percent beyond inflation. The minimum wage has been increased 36 percent in real terms over the last three years, unemployment of people aged 18 to 24 has fallen from 12.5 percent to 4 percent in the same period, and unemployment of workers 30 years and older is almost nonexistent.

The progress does not mean that Chile has vanquished poverty or that levels here are lower than in Latin American countries like Argentina, Uruguay and Costa Rica, where the segment of the population in poverty ranges from 15 to 25 percent.

Inflation, 'the Worst Enemy'

But since economists predict the economy will continue to expand rapidly and the Government has agreed to continue the high levels of social

Chile's poverty programs go beyond the 'trickle-down effect.'

spending, Chile could soon be among the countries with the lowest poverty rates on the continent.

The Government's first steps in the war on poverty were free-market policies that promoted vigorous economic growth and created jobs and tight budget policies that have kept inflation under 15 percent a year, stopping the erosion of real income of poor people.

"Inflation is the worst enemy of the poor, and by cutting inflation in half a lot was done," said the Under Secretary of Planning, Álvaro García.

Though Chile has struggled with high poverty levels for decades, they greatly increased during the Government of Salvador Allende Gossens, which was plagued by political instability in the country, and continued through most of the 17 years of military rule under Gen. Augusto Pinochet.

Taxes Increased Sharply

Though General Pinochet instituted open-market policies, promoting foreign investment and export industries, the growth in jobs affected primarily middle-class workers, and the tax breaks he instituted instead of wider social spending also benefited the middle class.

When President Aylwin came into office he imposed a tax increase equivalent to 2 percent of gross domestic product, or about \$700 million a year, huge by Chilean standards.

The Government said it would dedicate all the revenues from the new individual and corporate taxes to social programs, and most agree it has kept that promise. So successful have been the policies that Mr. Aylwin's coalition Government is considered a shoo-in to win the elections scheduled for December provided it does not fragment.

The Government's strategy on social spending was twofold: attack the structural poverty of the country, which manifests itself in poor housing, education and health care, and institute programs to increase the earnings of the young and the owners of small businesses.

So-called microentrepreneurs like Ms. Fuentes make clothing, shoes and furniture, run fish farms and even engage in small mining operations. The products are then sold to larger manufacturers or traders for export.

In education, the Government concentrated on the 1,500 primary schools in the poorest districts, rais-

A \$350 loan sets one family on the road to success.

ing the salaries of teachers and offering them special training courses, buying new books and investing in better maintenance.

More Homes for the Poor

Among the programs intended to help the very poor is the building of 105,000 new homes a year by the Government, compared with 40,000 a year built by the Pinochet Government.

In health, while some money was spent refurbishing hospitals in the poorest areas, much more was spent improving medical treatment centers around the country, enabling them to stay open longer and pay workers more.

But the Government has perhaps shown the most innovation in its effort to create a work force not dependent on a higher minimum wage or higher union wages, but capable of earning more because of their greater skills.

Almost 300,000 students a year were leaving high schools because their families either could not afford the cost or needed extra income. The Government introduced scholarships that paid for students' books, transportation and meals, and provided prizes like bicycles for those who excelled.

Officials estimate that the program has kept 100,000 students in school.

Help for Small Companies

For those students that had to join the work force, the Government created work-study programs, contracting with employers to hire students and give them on-the-job training and a modest salary, subsidized by the Government.

"Youth unemployment was one of the biggest problems and the fear with this program was that the kids would not be interested," said Joseph Ramos, director of the division of production, productivity and management at the United Nations Economic Commission. "But it's oversubscribed."

The Government program of reaching tiny businesses that make up what is known as the informal economy has shown particular success. These unregistered companies, which pay no taxes and are surprisingly productive, have little hope of expansion, primarily because they have no access to credit.

Generally employing fewer than five people, they are critical to the economy since they employ 40 percent of the work force and 80 percent of the country's very poor.

"The idea is to increase the productivity of these small companies and connect them not to the Government, but to the financial system," Mr. García, the Under Secretary of Planning, said.

Under one program, the Government contracts with several Chilean banks or nongovernmental agencies to make small loans to these businesses — often no more than \$1,000 — at market interest rates while working closely with the owners.

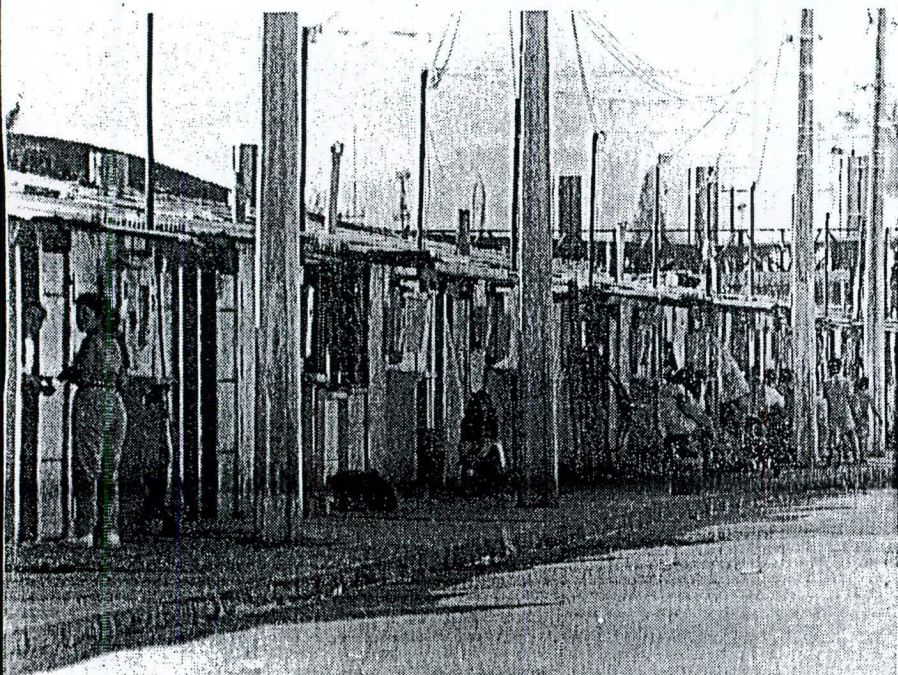
Government Subsidizes Loans

The businesses are generally good credit risks, but the loans are too small to be worthwhile for the banks. Thus the Government subsidizes the added cost of such transactions.

Under another program, a private organization studies the needs of a small company, works with the owner to produce an investment plan and then approaches a bank that has agreed to extend the small business credit cards that can be used only to buy income-producing equipment.

Work for a Brother, the group overseeing Ms. Fuentes's sewing operation, says that of all the loans it has supervised 95 percent of the money has been paid back.

Ms. Fuentes says she plans to continue expanding, "and I haven't missed a loan payment yet."



Martin Thomas/Agence France Presse for The New York Times

United Nations officials estimate that 33 percent of the people in Chile still live below the poverty line, although successful economic programs have

helped an estimated one million people escape poverty. In the barrio of La Legua in Santiago, residents still live in crowded homes.