Chile: Successes and Failures in Poverty Eradication

Poverty eradication was at the core of development strategies in Chile during the Aylwin, Frei, and Lagos administrations of the 1990s. The social policies of all three governments were formed by a particularly difficult beginning. The Chilean economy went through a deep financial crisis in 1982, similar in severity to Argentina's crisis of 2001. In 1982 and 1983, Chile's GDP fell by 16 percent. The collapse of the financial sector cost Chilean taxpayers between 30 and 40 percent of GDP. Unemployment shot up to 30 percent. Around 50 percent of the population fell below the poverty line. Extreme poverty affected 30 percent of the population.

Starting in 1985, the focus of economic policies shifted toward financial solvency and economic growth. Exports grew rapidly and unemployment went down. On the poverty front, however, results were less successful. People living below the poverty line still represented 45 percent of the population in 1987. Additionally, a key decision by the Pinochet government to reduce taxes and government expenditures in 1988 had a further negative impact in social policies. The decrease in social expenditures was equivalent to 3 percent of GDP, resulting in severe deterioration in the coverage and quality of public health services, lower wages for teachers, and lower pensions for the elderly.

Growth with equity

It was against this background that the newly elected government of Patricio Aylwin came into office in 1990. The new government immediately put the fight against poverty at the top of the agenda. Chile's new "growth with equity" development strategy was based on an explicit pro-growth strategy balanced by aggressive social policies; the strategy continued through the decade. Between 1990 and 2000, poverty was reduced from 40 percent of the population to 20 percent. The pro-growth strategy included:

- Opening the economy to world trade
- Conservative fiscal policy pursuing simultaneously a budget surplus and reduction of public debt
- Expanding of the domestic capital market
- Reform of labor and tax policies, including a tax increase that allowed the government to expand social expenditures by more than 200 percent through the 1990s

The strategy enabled the Chilean economy to growth at 6 percent per year during the decade. The combination of high growth and active redistributive policies reduced by nearly one-half the extreme income disparity between the top 20 percent and the lowest 20 percent of the population.

An empirical study comparing social policies in the 1980s and 1990s shows that about 60 percent of Chile’s poverty eradication in the 1990s can be attributed to economic growth and 40 percent to social policies. The “easy” first phase represents a combination of high growth, increased wages and minimum wage, expansion in income-support schemes for low-income families, and improved minimum pensions with an immediate impact on poverty reduction.

The shift from income-support schemes towards social investment aimed at upgrading education, skills, and access to health services produced a much more gradual effect on the incidence of poverty. The initial expansion in funding for public health and education did have an impact, as schools and new hospitals were built. Teachers, doctors, and health care workers received better pay, and coverage slowly expanded. But after a few years, pouring more money into inefficient public health services or unaccountable school systems did not result in the expected rate of poverty reduction.

The slowdown in the second half of the 1990s had to do with decreasing returns to large expenditures in public health and education, after basic coverage problems were solved. Rigid, highly centralized, bureaucratic institutional arrangements in public hospitals, combined with active resistance from doctors and public health workers, resulted in great inefficiency. Though government expenditures in public health increased by 250 percent, output of healthcare services grew only by 22 percent.

A similar outcome was observed in education. Following a tripling of public resources, learning scores initially surged, but did not continue to improve. A significant part of this disappointing result has to do with the poor quality of teaching in the classroom. The National Teachers Unions succeeded in preventing performance evaluations of teachers or school administrators for 12 years. The lessons are that money does not guarantee effectiveness and that more attention should be paid to the political economy of institutional changes required to ensure cost-effective provision of basic health and education services.

Institutional innovation

As a complement to the poverty-eradication effort, an experimental program allowed community-based organizations to apply for public funds to develop projects to improve neighborhood infrastructure or start micro-enterprises. The program focused on the indigent population. To carry it forward a new institution was created: the Solidarity and Social Investment Fund (FOSIS). FOSIS has been successful in reaching the target group, but the coverage has been limited.

As programs for the extremely poor were scaled up, intersectoral coordination emerged as a serious problem. But a more serious problem is that the percentage of the very poor reached by the programs has been small. In fact, eradicating extreme poverty has proved to be much more difficult than improving the lot of people near the poverty line. The public, meanwhile, sees a very unequal society unable to deal with hard-core poverty, engendering feelings of frustration and futility.

Two approaches were developed to solve the scale-up problem. The first was the National Program of Poverty Eradication. In 1994, 80 municipal districts were selected on the basis of their high poverty ratios. Municipalities were asked to coordinate an effort to reach the poorest families. The program had some limited success, although sectoral coordination among ministries proved difficult. Municipalities complained about lack of resources, and those municipal districts left out of the program complained about discrimination.

A new approach was started in 2002. The Chile Solidario program targets the extremely poor in the country. It implements a decentralized approach where families are closely monitored by local public officials to make sure that they get effective access to income-support subsidies and public services, plus help in finding jobs or training for the head of household. It is too early to reach any conclusions about the success of the program, although preliminary evaluations do identify strong and weak aspects of the new approach.

Internal and external catalysts

It is remarkable that Chile's poverty ratio continued to decline after 1998, in spite of the fact that the economy was in recession. The countercyclical social expenditure policy was possible because of the budget surplus achieved throughout the decade. Public savings in good years could be used to protect the poor in bad years. This is where conservative fiscal policies and progressive social policies meet.

The transition from a traditional approach of extending coverage in public services toward an integrated, family and community-centered poverty eradication effort was heavily influenced by holistic approaches developed by the World Bank. **[identify]**

These were the result of theoretical contributions and hands-on experience by World Bank staff. In the case of Chile these contributions have proved to be a key factor in a learning process, still underway, to make antipoverty strategies more effective, particularly after the first easy phase has been completed.