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Chile: The Success Story of a Developing Country

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Abstract
Chile is often cited as a target example for other countries in Latin America and Eastern Europe because of its success in economic restructuring, market liberalization, and stabilization. Deemed the "economic jaguar," Chile has undergone substantial economic, social, and political transitions over the past decade. However, several problems still need to be addressed before Chile attains developed economic status.

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I. INTRODUCTION

Chile is often cited as a target example for other countries in Latin America and Eastern Europe because of its success in economic restructuring, market liberalization, and stabilization. Deemed the "economic jaguar," Chile has undergone substantial economic, social, and political transitions over the past decade. Moving closer to the spectrum of developed countries, Chile continues to show productivity gains, high output growth, increased trade, decreased unemployment, and improved education as well as other indicators of positive development. However, several problems still need to be addressed before Chile attains developed economic status. These problems include poor income distribution and overpopulated metropolitan areas and their associated social and economic implications.

II. ECONOMY

Chile's economy enjoyed a remarkable boom in the early 1990s- the result of a comprehensive transformation that began in 1974 with the adoption of free-market economic policies. There was an overall increase in the output produced by all the sectors in the Chilean economy between 1973 and the present date. In 1998, the agricultural sector amounted to only 8.4 percent of the national GDP, which represents the world average and is less than half the average of the middle income economies. The industry and manufacturing sectors were very developed, accumulating 34.2% and 16.4% of the GDP, respectively. These averages are similar to those of high-income economies with Chile's industry sector being 2 percentage points higher. The service sector accounts for 57.4 percent of the GDP, while the average for high income nations is 61 %, and that of the middle and low income economies surrounds 39 % (World Development Report, 1998/99). These changes in the structure of the Chilean economy resulted in a huge influx of people in the urban sector and a shift of income distribution in favor of those in the city. As the economy is expected to continue growing at a rate of 5% (according to the to World Bank), this issue will become more pressing for the Chilean government.

1. Unemployment

Overpopulation in cities can often lead to high unemployment due to shortages of jobs available to meet the demand of the urban labor force. The average unemployment rate for Chile between 1980 and 1997 was 12.2%. This measurement, however, does not depict the fluctuations in unemployment over this time span. The unemployment rate in the early 1980s was high at 14.3% due to financial and economic troubles. The economy had entered into a recovery oriented toward production of non-tradable goods. This could not keep pace with the international debt that was accumulating and therefore resulted in high unemployment. In 1982, the economy switched gears and reoriented production to tradable goods and services. Along with these changes unemployment rates lowered and continued to drop in the next decade. The unemployment rate decreased to 8.1% in the late 1980s and 5.0% in the early 1990s. Likewise, the rate of growth in employment for the 1987-91 period was 3% per year. The rate was even higher from 1987 to 1989 (5%) after the quick recovery from the economic crisis of 1982-83 (Library of Congress).

In 1991 workers' wages increased substantially and almost recovered to their 1970 average levels. Possible explanations for this include Chile's return to democracy, which allowed workers to exercise their rights more freely, and labor market conditions that were closer to full employment. Chile's emphasis on the development of employment-intensive industries caused the unemployment rate to drop in the early 1990s. Between May, 1996, and July, 1997, 124,000 jobs were created, mostly in the areas of construction, business, and industry.

Along with increasing economic growth, Chile's government works to improve social equality. According to a government survey, employment rose even more in the poorest sectors of the population. This growth in jobs was also accompanied by improvements in the quality of the jobs. According to Walter Riesco, the President of the Production and Commerce Confederation, growth in the individual production sectors created jobs, but growth is meaningless if the jobs are of low quality. He suggested a higher degree of education and training so that the poorer members of Chile's population could begin to opt for higher quality jobs. His suggestions resulted in education reforms in the past years, but unemployment rates began to rise regardless. In June of 1999, the unemployment rate, measured as a percent of the active population, was 10.8% due to a more skilled labor force and rising inflation rates (Latin Focus, 1999).

2. Trade Reform

Over the past 25 years, Chile has transitioned from a closed, state-run economy into a model of free trade and market-oriented capitalism. Opening to trade was a major force in Chile's economic restructuring, and this continues to increase in importance, with exports and imports nearly tripling between 1972 and 1996, accounting for over 20% of GDP each (Hornbeck, 1998). The main goods Chile imports are industrial based products and come primarily from the European Union, United States, Japan, and Brazil. These goods include petroleum, wheat, capital goods, spare parts, motor vehicles, and raw materials. Import expenditures in 1993 were estimated to be at $10.1 billion US dollars. The main goods that Chile exports are copper, industrial products, molybdenum, iron ore, wood pulp, seafood, fruits, and nuts. Total export earnings in 1993 were estimated to be $9.3 billion US dollars (World Development Report, 1999).

J.F. Hornbeck, a specialist in International Trade and Finance, asserted that, "Ultimately, foreign competition led to a reallocation of resources to Chile's more competitive industries, which brought increased productivity and economic growth" (1998 p. 7). Because of its comparative advantage in agriculture, Chile has shifted its trade strategy from import substitution to export promotion. Chile has evolved from a state of tariffs as high as 750% under Allende's socialist government to its current position at 11% (Hornbeck, 1998). As a result of this strategy change, copper continues to account for almost half of the total value of Chilean exports, with rapid growth seen in exports of agricultural, fishing, and forestry goods.

By changing its emphasis to agricultural exporting firms and away from those industrial firms that benefit from import substitution, Chile may be in a better position to improve income distribution by promoting the production of poor, rural farmers. In the long-run, however, this promotion of rural goods may not be advantageous. According to the Prebisch-Singer thesis, the final demand for primary commodities increases less relative to income. Thus, if Chile remains an exporter of primary goods, the risk of reductions in export earnings, GDP, and investment emerges. Also, this shift in policy may simultaneously inhibit the development of its industrial sector, as small, domestic industries find themselves unable to compete with international competitors.

III. EDUCATION

According to economists Francisco Ferreira and Julie Litchfield, "Education may be the most important variable affecting the structure of, and changes in, inequality in Chile," (1998). The importance of education is obvious in regard to the economic development of a country. In order to see improvement and growth in an economy, attention must be given to the quality of education in the country. For developing countries such as Chile, focus should be directed at the promotion of primary education initially. Basic education increases people's ability to learn and to interpret information. A good education also fosters agricultural innovation and promotes the use of new technologies in all aspects of life, including health, nutrition, and contraception. One measure of the education level is the adult illiteracy rate, which is the percent of people 15 and above that cannot read. For Chile, the rates for both male and female in 1995 was 5%. This is astonishingly very low compared to the average rates for the world, which are 21% and 38% for males and females, respectively. Chile's illiteracy rates are also lower than the average for all upper middle income countries. These rates are 12% for males and 17% for females. In fact, Chile can almost be compared to the high-income countries that roughly have illiteracy rates less than 5% (World Development Report, 1998/99). The reason for such low illiteracy rates in Chile is due to the quality of education available to the citizens of the country. Although the education programs in Chile are below the standard of high-income countries, Chile fairs better than other developing countries.

Chile's government over the past several years has implemented educational programs in efforts to improve education and overall economic position. Public spending on education for the year 1996 was 923,943 million Chilean pesos representing 3.1% of the total public spending for the same year. In 1996 a five-year plan was implemented in order to improve the level of education provision throughout the country. The plan, called the Education Act, aims to narrow the gap between the present inequality in education within the country. In order to do this, teacher and in-service training is being provided by World Bank along with monetary funds. There is also concentration on syllabus development and the development of links with other universities outside of Chile.

Another step that is being taken by the government to improve education in the counrty is to lengthen the school day and calendar year. All elementary and secondary schools will move from a six-hour schedule to an eight-hour schedule. This change, along with the extension of the school year by two weeks, will increase the time spent in the classroom by 200 hours a year per student. Along with the increased classroom time, Chile's government is also spending money on further training for teachers at all levels. Through all this, Chile hopes to establish a solid educational program for its population.

IV. MEASUREMENTS OF POVERTY

Another measure of the development of a country is the level of poverty. The Head Count Index provides an alternative assessment of poverty, focusing on absolute numbers rather than the relative figures that result from income distribution measurements. This index uses poverty lines to show what percentage of the population can be classified as living in poverty. For the survey year 1992, 15% of Chile's population was living under $1 a day, whereas 38.5% was living under $2 a day.

Another measure of welfare is the poverty gap, which assesses the severity of poverty in a country by measuring the share of resources needed to raise the poor above the poverty line. The poverty gaps of 4.9% and 16% for the $1 and $2 day poverty lines, respectively, are significantly smaller than those of other developing countries (World Development Report, 1998/99). Although it is difficult to make cross-country comparisons due to reasons such as insufficient and untimely data, Chile's poverty, as measured by the Head Count Index and poverty gap, appears to be much lower than other developing countries. This is possibly due to Chile's economy having more natural resources and a very developed industrial sector, which makes its citizens better off than other developing countries. Although these measurement show that Chile is fairing better then other developing countries, they fail to capture how income is distributed among citizens earning different income levels. Regardless of the poverty measured used, it is obvious that a disparity between income levels in Chile exists. This problem will be addressed more fully in a subsequent section of this analysis.

V. THE PROBLEM OF URBANIZATION

As Todaro points out in "Urbanization and Rural-Urban Migration: Theory and Policy," the urban growth rate in less-developed countries has grown exponentially. By the year 2000, there will be an added 1.32 billion urban citizens in Third World regions (Todaro, 1997). Chile is not exempt to this prediction by any means. By 1991, the urban population was 86 % of the total population. The most prominent example of this urban growth is in Santiago, Chile. Urban growth that began in the middle of the twentieth century multiplied in the second half of the century with advancements in transportation and communications. The majority of this growth occurred in the lowest classes. Rural Chileans and some migrants found Santiago especially attractive for many reasons. Although there are positive externalities that arise in adding to the urban population, such as an expanded labor pool and economies of scale, Santiago is an excellent example of how these possible benefits are dwarfed by the economic and social costs of intense urban population growth.

The main problems with urban growth in Santiago stem from the fact that it has absorbed about 39% of the Chilean population, according to the 1992 census figures. Santiago grows at a rate of about 30% to 50% every 10 to 12 years (Library of Congress, Urbanization). Although a portion of this can be accounted for by the wealthy upper class from other parts of Chile who reside in the Andes foothills of the city, the majority of migrants are the extreme poor. The migration of large numbers of poor Chileans creates the first economic cost with which Santiago as a city and Chile as a whole must deal: need for low-income housing.

According to 1990 estimates, there was a need for one million more housing units that were affordable to low-income persons in order to alleviate the problem. The financing of this endeavor by municipal authorities presented a high economic cost to the Chilean government. Moreover, when these housing units are built, the government must also finance the provision of running water, electricity, garbage collection, and sewerage. In the past, the government has successfully incurred the cost of providing many poorer areas with access to all these necessities. For example, by 1987, "98% of the population in towns and cities had running water, 98% had garbage collection, and 79% had sewer systems" (Library of Congress, Urban Areas). These statistics are impressive and are also indicative to the fact that the Chilean government is willing to act on the needs of the poor to their best ability. If and when these new housing units are provided, the government will, yet again, be required to provide running water, garbage collection, sewer systems, and electricity to these areas as well.

The Chilean government is faced not only with the dire need of low-income housing for the poor, but also with the need of reducing the poverty of all those in need of that type of housing. High economic costs are associated with the financing of low-income housing units that hold at the minimum four people each. There are also high economic costs for social health and well-being programs for the poor. The Chilean government has attempted to fill this through an extensive system of state run welfare programs, including social security, health, and education. From the mid-1970s to the early 1990s, welfare spending ranged from as little as 19% to as much as 26% of the gross domestic product (Library of Congress, Welfare Institutions and Social Programs).

Evidently, the Chilean government faces daunting economic costs due to the intense urbanization of Santiago. There is a dire need for housing as well as for social programs to aid the poor. Examples of these programs are universal access to health care which focuses on programs of preventive care for all expectant mothers, infants, and children. Also, the government financed the state-run educational system, which was open to every child at primary and secondary levels. Moreover, Chile offered low-income housing to the poor at heavily subsidized rates. Due to the decline in the mortality rate and a constantly increasing poor population, spending for these various programs increasingly outpaced revenues.

Looking at a more specific portion of the urban population, the focus will shift from the generic urban Chilean laborer to the informal sector worker. Moreover, the following will also illustrate how the government attempted to encourage the poor to improve their income status, thus making them less dependent on the social welfare programs. Todaro asserts that all migrants to urban areas are not absorbed into the workforce and that an extensive informal sector of the economy is created (1997). Santiago exhibits this characteristic. In the past, the Chilean government has heeded Todaro's advice that the "informal sector [has the] ability to generate employment and income" (1997 p. 271). The informal sector was seen as having "income-producing" potential. The government attempted to organize it by licensing stalls on sidewalks. Not coincidentally, the demand for these stalls exceeded the rate at which they could be financed by the government. Obviously, the government's ability to finance and organize this aspect of the informal sector was less than the informal sector's demand for this service.

Another cost that the informal sector created in Santiago was through its Public Employment Program. The "Programa de Empleo Minimo (PEM)" paid a small salary to unemployed workers who performed menial public works' tasks. In May, 1982, there were 23,000 Chileans involved in the PEM. By May, 1983, there were 93,000 Chileans involved. As the number of PEM employees increased, so did the cost to the government. Programs like the PEM are in high demand during times of recession or when the whole country is in the most need. Ironically, this is the time when the government can least afford it.

In the past, it is evident that the Chilean government has pursued many costly programs to lessen the problems associated with urbanization. All of the aforementioned programs eased some of the social strife of Santiago's poor. However, the Chilean government's most pressing problem beyond the immediate welfare of its citizens is a social cost external to the costs of poverty itself. The intense crowding in Santiago and, to a lesser extent, other urban cities has created a pollution problem. Santiago's air pollution and the ocean pollution along the coastal regions are issues that need to be addressed by the government (Library of Congress, The Future of the Economy). Earlier, the difficulty of financing the poor's need for housing and social programs was highlighted. The government had to divert revenue from other areas of the economy in order to pay for such costly programs. Therefore, the likelihood of alleviating the most prevalent social cost of urbanization, pollution, is very small.

Santiago is under duress due to massive influxes of Chileans. The entire country seems to be in a mode of movement. For example, 8.6% of the population had come to their current place of residence only in the past five years. Santiago has absorbed the vast majority of this movement, and the government has had to deal with both economic and social problems associated with this skyrocketing urban growth rate. In doing so, it has had the added pressure of these costs on top of the economic disadvantage associated with less developed countries.

VI. POLICIES TO CORRECT URBANIZATION PROBLEMS

Chilean policymakers have a disadvantage due to the geography of the country. The process of urbanization takes a large toll on the country which is only 300 miles across. A large majority of the population currently lives in cities of 200,000 or more. Policies that promote the agricultural sector are the first step to reducing the urbanization problem. Examples of such policies are the use of high yield seeds, investment in human intensive production, and continued promotion of agricultural exports. These types of policies will increase the demand for labor which will in turn, increase the agricultural wage and employment. Chileans will see opportunities in the urban sector as less attractive. There will be an increase in rural population, or at least a decrease in rural to urban migration. As a result, urban unemployment will decrease; however, urban wages will be unaffected in this traditional sector enrichment. Although these policies are successful in theory, there are a few problems that must be addressed in order to make this proposal realistic. First, the use of high yield seeds as a means to improve the rural sector can fail for the following reasons: farmers lack resources for fertilizers and technology necessary, such as irrigation; farmers lack access to affordable credit to sustain them through seasonal variations in income; farmers lack the ability to transport yield to the market due to lack of reliable roads and vehicles. In order to make the use of high yield seeds effective, there must be resources to circumvent the aforementioned problems. If the government were to assume responsibility in financing these infrastructure improvements, it could use a progressive tax or a tax on luxury items. A portion of the revenue from these taxes must be invested into the rural sector to make the necessary improvements.

Problems with promoting labor intensive methods of production are varied. Industries might need to switch from capital to labor intensive production processes. These industries must also be solely promoted in the rural sector. If labor intensive production begins developing in the urban sector, more rural Chileans will migrate. Therefore, it is imperative that this policy is centered in the rural sector only.

Finally, a program that continues and expands agriculture export promotion will be highly advisable and successful, but only to a point. As the Prebisch-Singer theory asserts, due to the low income elasticity of agricultural products, profits from these primary exports will reduce over time. Therefore, the agricultural export promotion program is a stepping stone for export promotion of final goods, which will allow for continually increasing profits.

VII. THE INCOME DISTRIBUTION PROBLEM

Income distribution is a measure that assigns a certain percentage of the population (usually tenths or quintiles) the percentage of income consumed or earned by that segment. Economists use this distribution to measure the extent to which income is distributed among the population. Data available from the World Bank Development Report for 1994 shows that income in Chile is very poorly distributed. The lowest 20% of the population holds only 3.5% of national income, while the highest 20% possesses 61%. The distribution in this top quintile is skewed towards the top as well, with the top 10% claiming 46.1% of total income.

The Gini coefficient is another measure of income inequality used by economists. The Gini coefficient for countries with highly unequal income distributions usually is between 50 and 70, while for countries with relatively equitable distributions, it falls around 20 to 35. Chile has a Gini coefficient of 56.5, which is the eighth highest of all countries included in the report and also classifies it as being highly unequal in income distribution. In comparison, we contrasted these statistics with two countries with roughly the same population (the Netherlands as a developed country, and Kazakhstan, a developing country). The Netherlands shows a much better distribution of income, with a Gini coefficient of only 31.5. The lowest quintile has 8% of the income, while the richest one holds only 39.9%. Kazakhstan, a former soviet republic, also shows better distribution of income. While the poorest 20% holds 7.5% of the national income, the highest quintile accounts for 40.4% of the wealth, setting the stage for a Gini coefficient of 32.7. Since the Gini index "measures the extent to which the distribution of income (or in some cases consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution," the higher value presented by Chile in respect to the other countries indicates a poorer distribution of income within Chilean borders (World Development Report, 1999 p. 236).

Table 1: Percentage Share of Consumption or Income

Gini Index	56.5
Lowest 10%	1.4
Lowest 20%	3.5
Second 20%	6.6
Third 20%	10.9
Fourth 20%	18.1
Highest 20%	61.0
Highest 10%	46.1

Source: 1999 World Bank Indicators

Latin America has traditionally had one of the most unequal income distributions in the world. Chile has not been an exception to this rule. It has been estimated that in 1985 about 25% of households lived in extreme poverty, and that 45% of households lived below the poverty line. During the 1990-1993 period, the incidence of poverty declined substantially. In late 1993, the Ministry of Planning and Cooperation estimated that between

1990 and 1993 more than 1.3 million people moved out of poverty. This was the result of a combination of social programs, such as the distribution of food through the preschool nutritional program, aimed at the poorest groups in society. Table 1 shows the distribution of income in Chile as of 1994, along with its Gini coefficient.

The distribution of personal income is quite regressive in Chile in general, and Santiago in particular. There is evidence that suggests that during the years of military rule income inequality increased significantly. The personal income in Santiago is very high, and it enjoys about 40% of the total income. Despite changes in the Chilean economy during the military period, the distribution of personal income remains rather stable, even though a somewhat greater concentration can be seen in 1989 than in previous years (see Table 2). The new policies on income and taxes of the Aylwin government were expected to slightly reverse this trend.

Table 2: Distribution of Personal Income by Decile in Metropolitan Region of Santiago, 1969, 1979, and 1989
(in cumulative percentages)

Decile	1969	1979	1989
1	1.3	1.4	1.2
2	3.7	3.8	3.5
3	7.0	7.0	6.6
4	11.3	11.1	10.6
5	16.7	16.1	15.7
6	23.4	22.6	22.0
7	32.0	31.0	30.0
8	43.6	42.8	41.0
9	61.0	60.9	58.4
10	100.0	100.0	100.0

Source: Based on information from Programa Economía del Trabajo, Serie de indicadores económico sociales: Series anuales, Santiago, 1990, 68.

The distribution of consumption by household in Santiago showed a strong tendency toward the concentration of expenditures in the higher-income groups during the military government. The figures for the first two years of the Aylwin government show a small change in the direction toward a more equitable distribution of consumption, although it is still significantly more concentrated in the richest quintile than in 1969 (see Table 3). The data shows that the richest quintile of households increased its consumption steadily from 1969 to 1989 but declined in 1990 and 1991. Moreover, by 1991 the bottom two quintiles had increased their share of consumption slightly at the expense of the fourth quintile. Hence, the distribution of household consumption was slightly more equal in 1991 than in 1988.

These results must be interpreted with caution. The distribution of household incomes is affected by the average number of income earners by household income levels, and in times of economic crisis the poorer segments may be forced to rely on the income of fewer household members. This apparently happened in Chile in 1983, when there were only 1.1 income earners in the poorest 20% of families; in the 30% of households in the middle- to lower-middle incomes, there were 1.4 income earners; in the 30% of households in the middle- to high-income group, there were 1.7 income earners; and in the 20% percent, there were two income earners per household. Because their incomes were also higher, the concentration of consumption in the high-income families was magnified. Similarly, the expansion of secondary school enrollment during the 1980s benefited the children of poorer households, but it may have deprived them of income derived from youth employment.

VIII. CONCLUSION: POLICIES TO IMPROVE INCOME DISTRIBUTION

The functional income distribution of an economy translates into a size distribution through knowledge of how ownership and control over productive assets and labor skills are concentrated and distributed throughout the population. The distribution of these asset holdings and skill endowments ultimately determines the distribution of personal income. Modifying the size distribution through progressive redistribution of asset ownership is one policy that the Chilean government can undertake to help lessen the inequality in income distribution.

The ultimate cause of the unequal distribution of personal incomes in most Third World countries is the unequal and highly concentrated patterns of asset ownership in these countries. The principal reason why less than 20% of their population receives over 50% of the national income is that this 20% owns and controls well over 80% of the productive resources, especially physical capital and land, but also human capital in the form of better education.

The more important line of policy to reduce poverty and inequality is to focus directly on reducing the concentrated control of assets through the unequal access to educational and income-earning opportunities that characterize many developing countries. A classic case of such redistribution policies as they relate to the rural poor, who comprise 70% to 80% of the target poverty group, is land reform. The basic purpose of land reform is to transform tenant cultivators into small landholders who will then have an incentive to raise production and improve their incomes. However, land reform may be a weak instrument of income distribution if other institutional and price distortions in the economic system prevent small farm holders from securing access to much needed critical inputs such as credit, fertilizers, seeds, marketing facilities, and agricultural education.

Human capital in the form of education and skills is another example of the unequal distribution of productive asset ownership. Public policy should therefore promote wider access to educational opportunities as a means of increasing the income-earning potential for more people. However, as in the case of land reform, the mere provision of greater access to education is no guarantee that the poor will be any better off, unless complementary policies are adopted to capitalize on this increased human capital.

Table 3: Distribution of Household Consumption by Quintile in Metropolitan Region of Santiago, Selected Years, 1969-91

(In percentages)

Quintile	1968	1978	1988	1989	1990	1991
1	7.7	5.2	4.4	4.6	4.9	5.5
2	11.8	9.3	8.2	8.0	8.4	9.2
3	15.6	13.6	12.7	11.3	11.5	12.4
4	20.6	21.0	20.1	16.6	17.2	18.2
5	44.5	51.0	54.6	59.5	58.0	54.7

Source: Based on information from Joaquín Vial, Andrea Butelmann, and Carmen eledón Cariola, "Fundamentos de las políticas macroeconómicas del gobierno democrático chileno (1990-1993)," Colección Estudios de CIEPLAN [Santiago], No. 30, December 1990, 60; and La Nación [Santiago], December 27, 1992, 15.

Reducing the size distribution at the upper levels through progressive taxation of personal income and wealth is another possible policy that can be undertaken. Such taxation increases government revenues and converts a market- and asset-determined level of personal income into a fiscally corrected "disposable" personal income. Any national policy attempting to improve the living standards of the bottom 40% must secure sufficient financial resources to transform paper plans into program realities (Todaro, 1997).

The major source of such development is the direct and progressive income taxation of both income and wealth. In either case, the burden of the tax is designed to fall most heavily on the upper-income groups. Unfortunately, in many developing countries, the gap between what is supposed to be a progressive tax structure and what different income groups actually pay can be substantial. Progressive tax structures on paper often turn out to be regressive in practice in that lower- and middle-income groups pay a proportionately larger share of their incomes in taxes than the upper-income groups. This is because the poor are often taxed at the source of their incomes or expenditures. By contrast, the rich derive by far the largest part of their incomes from the return on physical and financial assets, which often go unreported (Todaro, 1997). Policies to enforce progressive rates of direct taxation on income and wealth, especially at the highest levels, are what are most needed in this area of redistribution. The government should also consider taxing luxury items that are imported into the country, as only the wealthy can afford these items.

Another alternative available to the government is the moderating of the size distribution at the lower levels through public expenditures of tax revenues to raise the incomes of the poor either directly or indirectly. Such public policies raise the real income levels of the poor above their market-determined personal income levels. The direct provision of tax-financed public-consumption goods and services, such as public health projects in rural areas, school lunches, and the provision of clean water and electrification to remote areas can help eradicate poverty. All these policies have the effect of raising the real personal income levels of the Poor beyond their actual market-derived, monetary incomes. Unfortunately, in the 1980s and early 1990s, with the Third World Debt crisis and the implementation of World Bank and IMF-induced structural adjustment programs, the first victims of mandated public expenditure retrenchments were the rural and urban poor, especially women (Todaro, 1997). That is, the poor were made even worse off by the cutbacks in government expenditure.

As with all policies, the Chilean government needs to carefully weigh all the options, and make sure that the negative aspects do not outweigh the benefits. In order for the policies to be successful, they need to positively impact the people that they are supposed to be helping. Chile has shown tremendous progress in its economic reform. However, several issues, specifically urbanization and income distribution, still remain problematic. The Chilean government should continue to attack these areas, but should also be cautious of potential secondary consequences of the policies implemented.

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