

Inequalities in Chile – Case Study

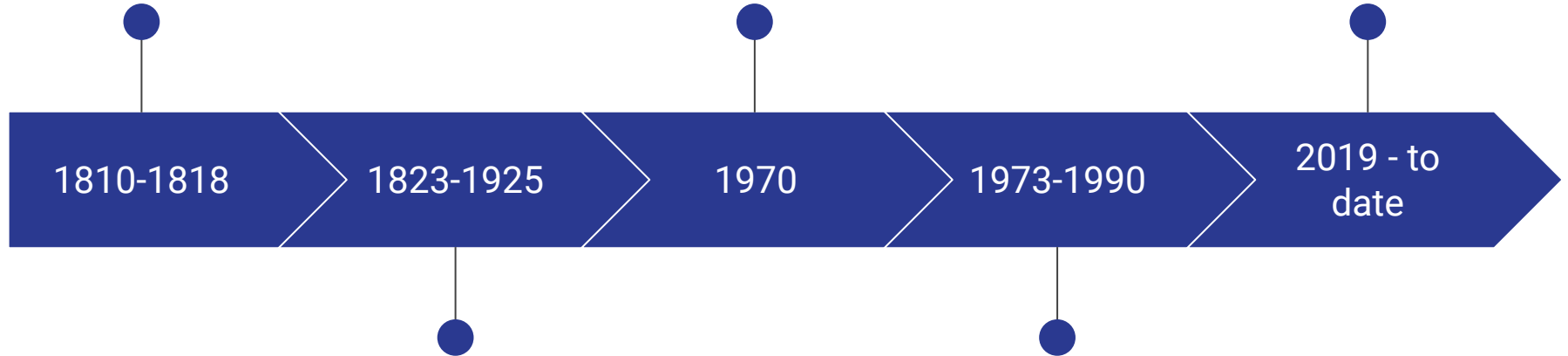
Inequality in the Post-pandemic Era

6th Summer Academy for Pluralist Economics, 29th July – 5th August 2022

Chile fights and gains independence from Spain. O'Higgins named 'supreme leader'.

S. Allende becomes president; pushes nationalisations and radical social reform.

"Estallido Social" due to high levels of inequality. Leads to constitution referendum & Boric's election as president.

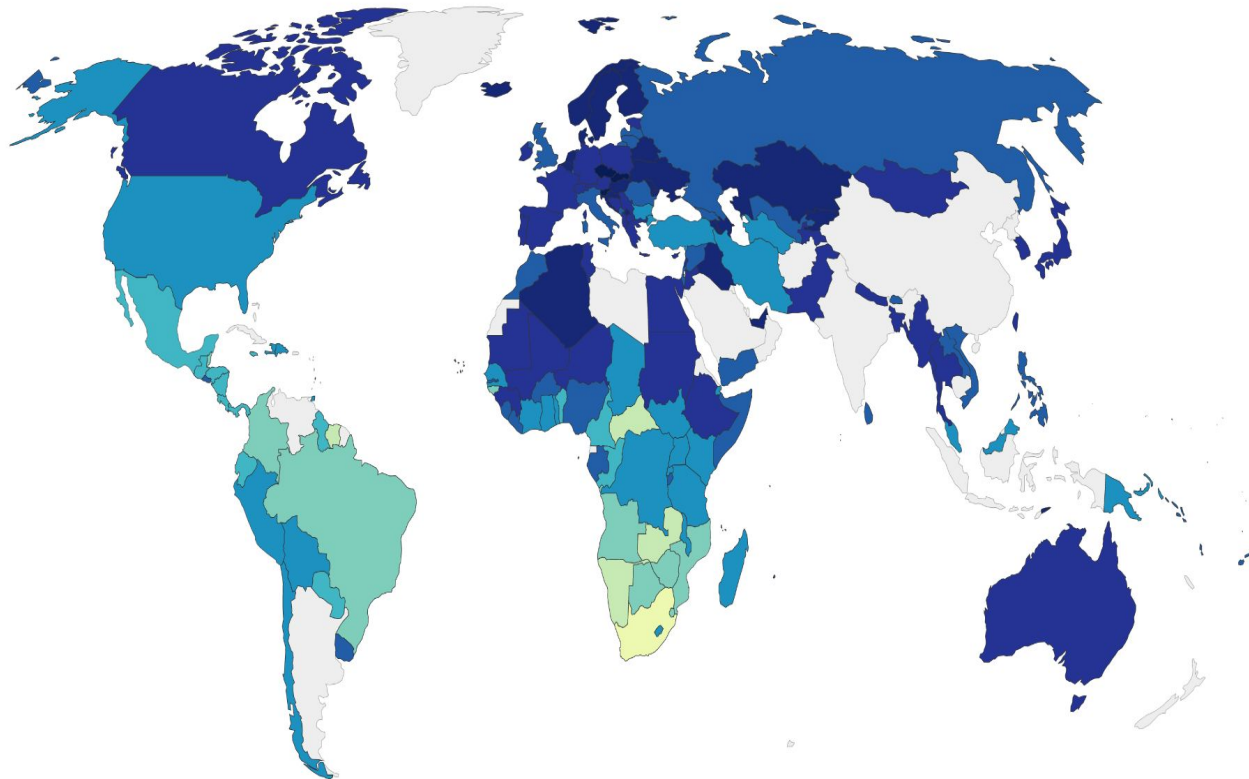


Period of political turmoil, civil wars and consolidation of the country. European immigration. Large-scale mining.

Pinochet ousts Allende in CIA-sponsored coup; establishes a brutal dictatorship lasting almost 20 years.

Some initial questions...

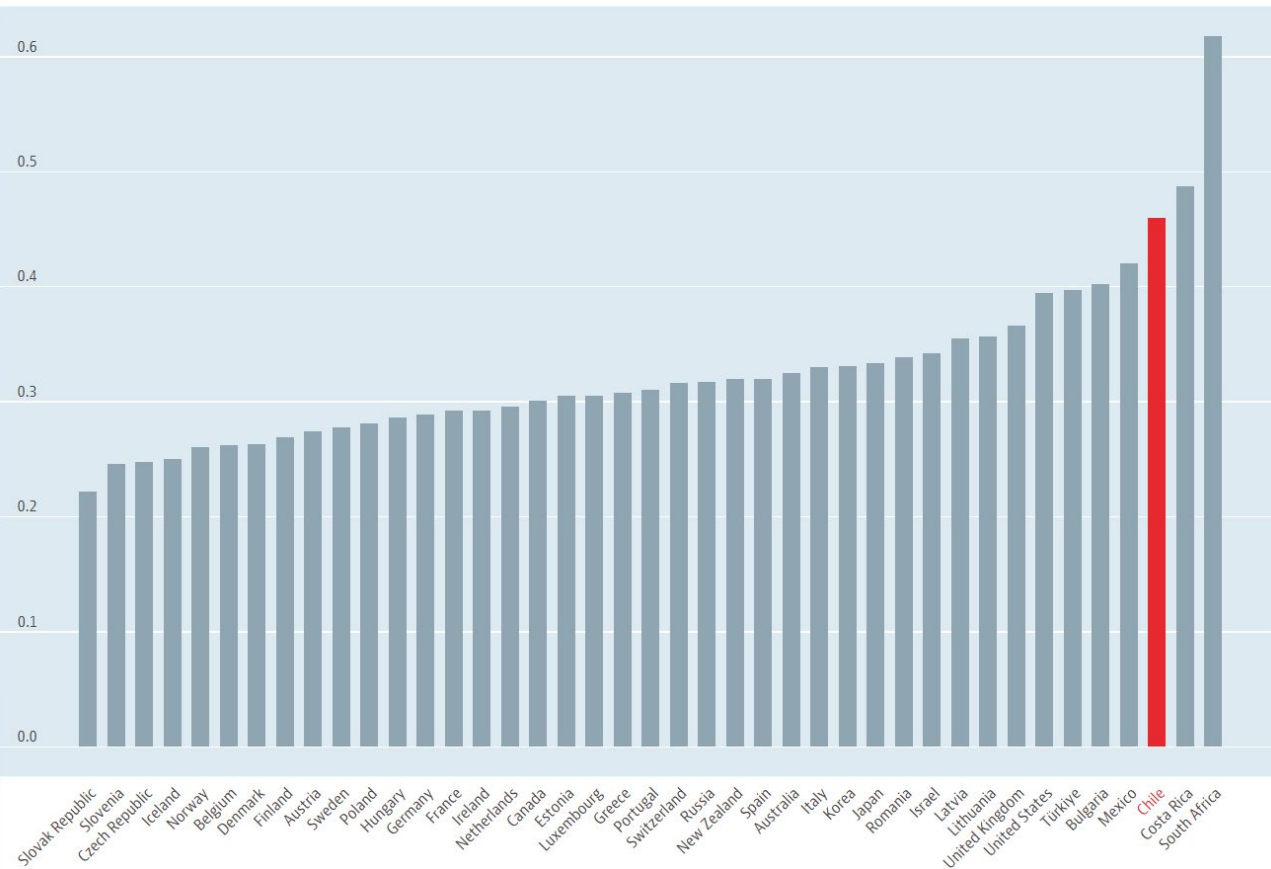
- What factors played a bigger role in shaping the current inequalities of Chile?
 - Was it colonial institutions? (extractive vs inclusive)
 - Was it its role in the global value chains?
 - Was it its geographical position (peripheric to the US)?
- How have the Chilean people responded to this situation?



Empirical Patterns of Inequality in Chile

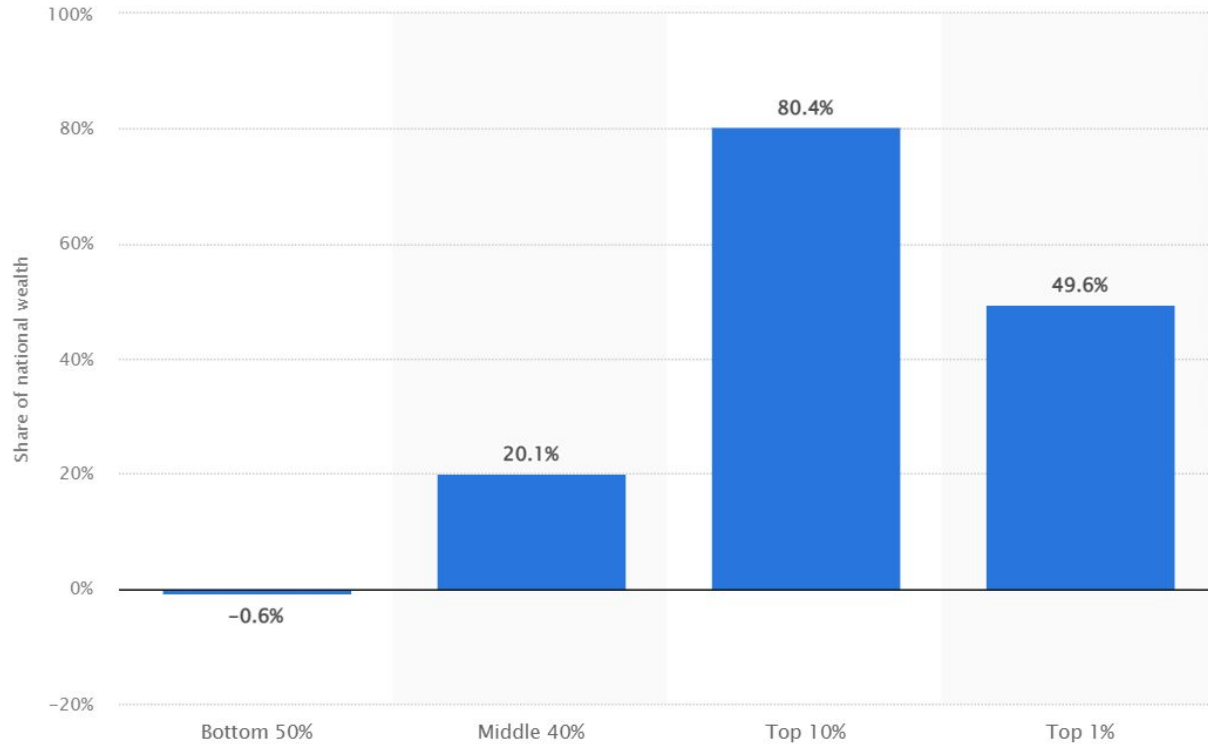
Income inequality

Gini coefficient, 0 = complete equality; 1 = complete inequality, 2021 or latest available



Gini Coefficient

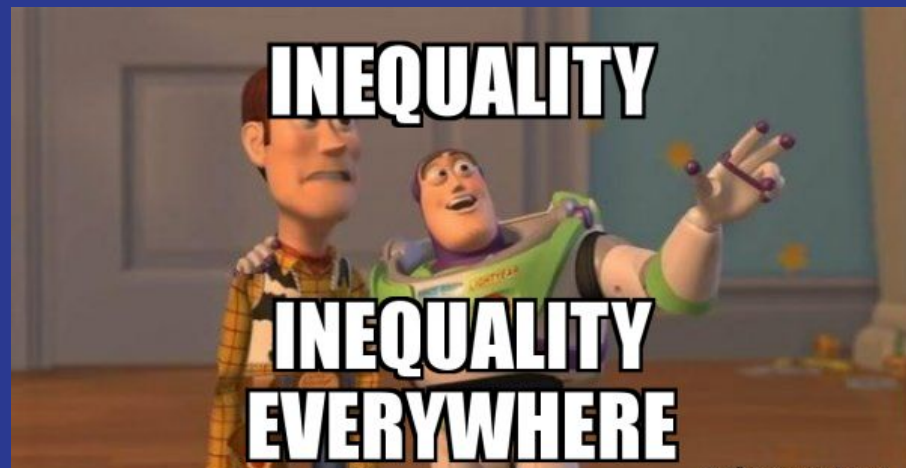
Source: OECD (2022)



Wealth Distribution in Chile
Source: Statista (2022)

- ❖ Water: fully privatized
 - 47% population is deprived of access to clean water
- ❖ Second most expensive private university system of any OECD country, after the United States
- ❖ More women get tertiary education than boys, but
 - the gap in earnings between male and female employees is higher in Chile than elsewhere,
 - they work more part time than full time, and
 - mothers are less likely to be employed.

Other Evidences of Inequality in Chile



A large crowd of people at a protest in Chile, holding flags and signs. The image is filled with a dense crowd of people, many holding Chilean flags and various protest signs. The scene is set outdoors, likely on a street or in a public square. The text is overlaid on the image, with a blue geometric shape in the top right corner.

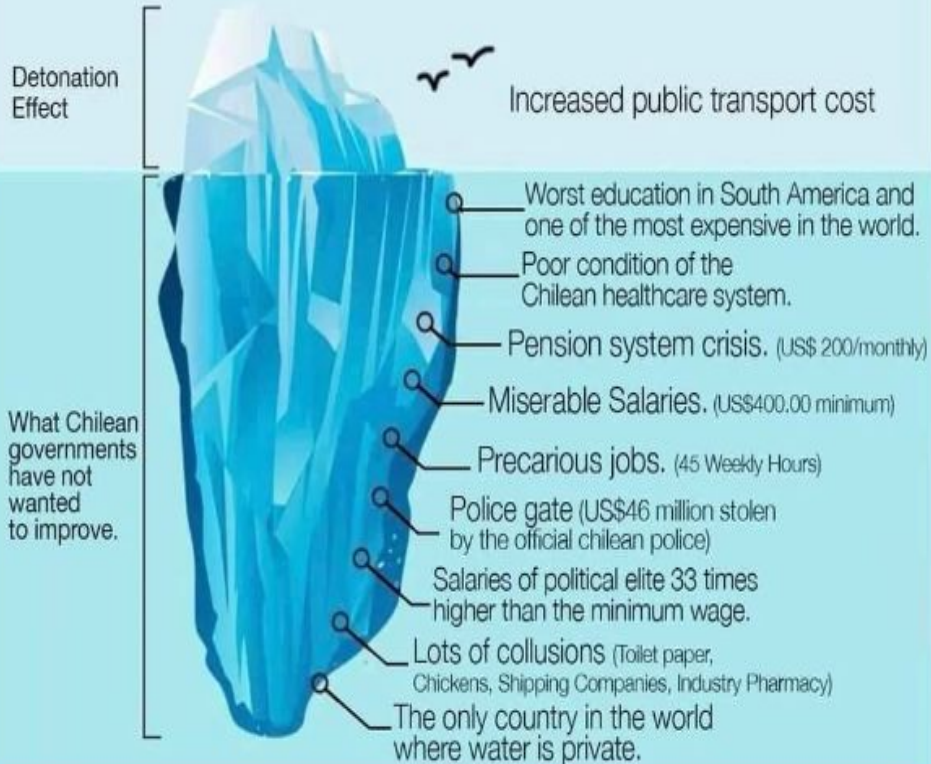
What went wrong in Chile?

“No son 30 pesos, son 30 años”

(“it is not 30 pesos, it is 30 years”)

THE CHILEAN ICEBERG

NEOLIBERALISM CRISIS



Globalisation +

Market liberalisation +

Privatisation of public services +

Financial deregulation +

= Inequalities

Chile's captured democracy

- Reduction of state size
- State as a subsidiary role through cash transfers
- Lack of market regulations
- Downplaying of aspirations for equality of opportunity
- Institutional incentives to retain corporate profit
- Rollback of the welfare state
- Shrinkage of social protection

Fiscal Policy

Redistribution:

- Taxes even increase (!) inequality
 - High reliance on consumer taxes
 - High tax evasion and avoidance
 - Low taxes on corporations
 - No tax on capital gains
 - Low tax revenues

Pre-distribution:

Low Public spending

- Spending for Health, Social security, Education
 - Also social transfers against poverty

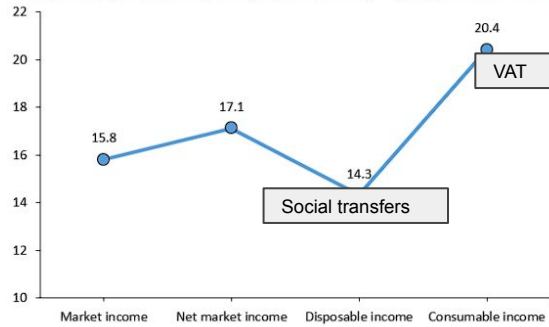
Regulation:

- Shock therapy
 - Privatization and deregulation
 - Rising living cost and low wages

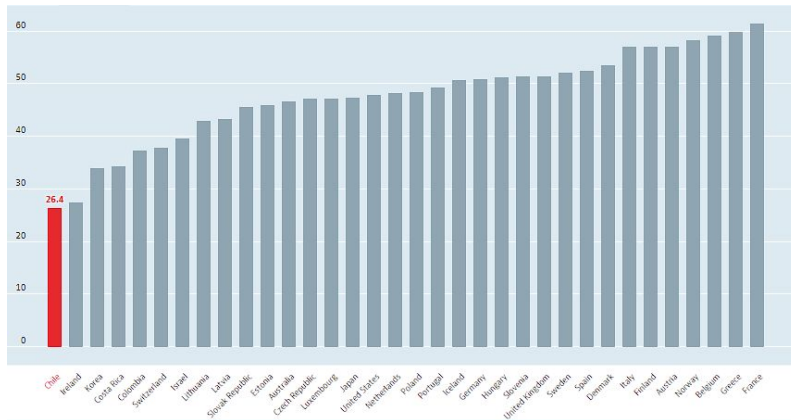
→Fiscal policy isn't enough (!)

Impact of Fiscal Policy on Poverty

Figure 5: Effect of fiscal interventions on poverty
(Percentage of vulnerable population, by concept of income)



Government spending total, % GDP 2020 or latest available

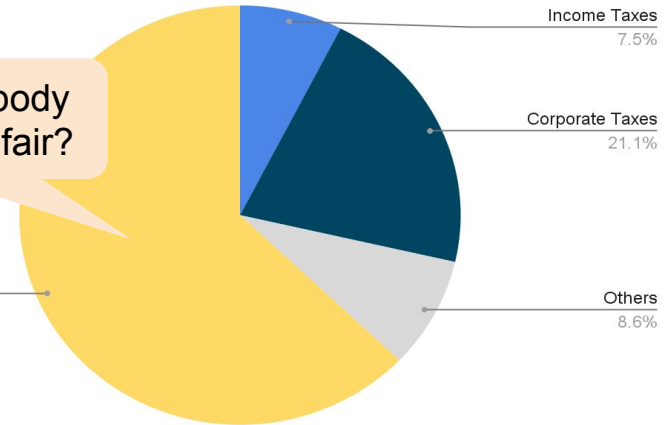


Source. OECD (2021). General government spending.

Tax Revenue (Chile)

So we let everybody pay ... isn't that fair?

Indirect Taxes
62.8%



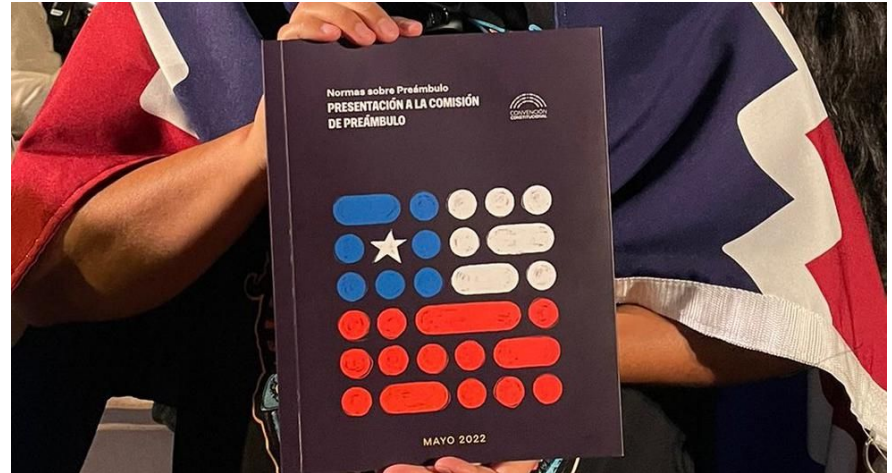
Source. Weltbank (2017). The Impact of Fiscal Policy on Inequality and Poverty in Chile.

The proposal for a new Constitution for Chile



Chile's new constitution represents
a change

- Chile's new constitution represents the population's discomfort in the face of decades of neoliberalism.
- It is a constitution whose principle is equality and to reduce inequalities.
- It also aims to reduce economic inequalities, opportunities, and the inequality of indigenous peoples.
- Art 25 numeral 5 establishes: The State shall adopt all necessary measures, including reasonable adjustments, to correct and overcome the disadvantage or submission of a person or group. The law will determine the measures of prevention, prohibition, sanction and repair of all forms of discrimination, in the public and private spheres, as well as the mechanisms to guarantee substantive equality. The State must especially take into consideration the cases in which more than one category, condition or reason converge, with respect to a person.



Q&A....

- Is the Chilean case an economic miracle or rather a (neoliberal) myth?
 - What is the right focus to address inequalities: income or wealth?
 - How much of the economic growth achieved through neoliberal policies benefits the Chilean society?
 - Can fiscal policy be progressive? How?
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