

## MILITARY GOVERNMENT AND REAL WAGES IN CHILE: A NOTE

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Our purpose is to evaluate the impact of the economic and social policies of Chile's military junta on the well-being of the majority of *chilenos*, especially those of the lowest income level. The exercise consists of a simple comparison of income and expenditure levels between those of the last months of the Unidad Popular (UP) government and those of October 1974. We have chosen the 1968–69 average as a basis of comparison for two reasons. First, in practical terms, the Dirección de Estadística y Censos (DEC) conducted a survey on consumption expenditures for different income groups for that period, and it is the most recent one available. Second, in the days prior to the coup there was general agreement among economists, both in the government and in the opposition, that the average standards of living were equivalent to those of 1968–69. In effect, according to the Taller de Coyuntura, real wages during the first eight months of 1973 were 98.8 percent of their levels in January 1970.<sup>1</sup> Since this index of real wages is based on January 1970, and our basis of comparison is 1968–69, we can assert that in the last months of the Unidad Popular government (January–August 1973) real wages were at least equal to, if not higher than, those of 1968–69. We should emphasize that the Taller de Coyuntura was a vocal stronghold of forces opposed to the government of Salvador Allende. In addition, a comparison of the Consumers' Price Index, published by the Banco Central de Chile, indicates that real wages increased between 1970 and July 1973.<sup>2</sup> A somewhat more favorable picture would have come out of studies conducted at the now defunct Instituto de Economía Política y Planificación (Facultad de Economía Política, Universidad de Chile), which indicated that between July and August 1973, real wages were back to their September 1970 level. The gains of the first two years of the Unidad Popular—especially for the

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lowest income groups—had been lost due to government mistakes and as a result of the sabotage and destabilization campaigns that started 5 September 1970 and culminated with the bloody coup of 11 September 1973. Hence even though we are using 1968–69 as a proxy, *we are actually comparing real income in October 1974 with that of the final months of the government of the Unidad Popular.*

When making this comparison two things should be kept in mind. First, the rate of unemployment with the UP was 3 to 4 percent of the labor force. According to the Instituto de Economía y Planificación, the rate of unemployment for June 1973 was 3.1 percent. In September–October 1974, the rate of unemployment was three times larger.<sup>3</sup> Second, the income policies of the UP were aimed at redistributing income in favor of those in the lowest income brackets, precisely the reverse of the objectives of today's military rulers. These two considerations suggest that we may be underestimating the percentage of the population in the lowest income brackets in October 1974, as well as the losses suffered by these income groups after one year of military rule.

Income distribution in Chile for 1968–69 is shown in table 1. The income brackets are defined in terms of *sueldos vitales* (SV), which are set by a government-appointed commission during the first quarter of each year, to establish the legal minimum salary level of white collar workers.

TABLE 1. *Distribution of Income per Household in Chile, 1968–69*

<i>Income Brackets</i>	<i>As a Percentage of Total Households</i>	<i>Cumulative</i>
0 — 1	29.8	29.8
1 — 2	31.6	61.4
2 — 3	17.6	79.0
3 — 4	7.4	86.4
4 — 8	10.1	96.5
8 — 10	1.5	98.0
10 and more	2.0	100.0

Source: ODEPLAN, *Antecedentes sobre el Desarrollo Chileno, 1960–70*. (Santiago, Chile: 1971), p. 16, table 17.

This table shows that 86.4 percent of the households in Chile had a total income equal to or less than four SVs in 1968–69. Contrary to what the term might suggest, a sueldo vital of one is below the poverty line, as can

be seen from the basket of goods<sup>4</sup> that should be distributed among 4.8 persons (the average size of households in these income groups).

The DEC findings on consumption expenditures (table 2), therefore, provided a well-specified basket of goods to be consumed by each of these various groups in 1968–69. What we have done is estimate the total cost of such a basket of goods and income levels for the third week of October 1974, and compare them with the figures for 1968–69, which are used as a proxy for the last eight months of the UP government. (Bear in mind that these were the worst months for the UP, with open economic warfare at home and abroad, terrorism, and the like; if we were to include 1971 and 1972, the resulting deterioration would be significantly larger.)

TABLE 2 *Food and Total Consumption Expenditures per Month per Household by Income Bracket (in Escudos of October 1974), to Maintain Consumption at the 1968–69 Level*

(1) Income Bracket	(2) Food Expenditures	(3) Total Cons. Expend.
0–2	109.456	261.028
2–4	153.060	412.037

Sources: Dirección de Estadística y Censos, Chile: *Encuesta de Presupuestos Familiares—Distribución del Gasto en el Gran Santiago 1968–69*. Prices used in the estimate are those of the third week of October 1974 in Santiago, and were taken from *El Mercurio*, 27 October 1974, Santiago, Chile.

Column 2 indicates the cost in October 1974 of the basket of goods consumed in 1968–69 (similar to that of the final months of the UP). Column 3 indicates total consumption expenditures: The figure was obtained by multiplying food expenditures by 2.39 for the 0–2 and by 2.69 for the 2–4 income group. The coefficients come from the DEC survey which indicates 41.8 percent and 37.2 percent for household expenditures on these products as a percentage of total expenditures for each group.<sup>5</sup>

On the income side in October 1974, one SV was equal to 48,000 escudos (E).<sup>6</sup> However, income levels for that month were determined by money wages paid at the end of September, and during that month the SV was equal to E39,000. As a working assumption, we have chosen the former figure as our SV for October 1974. On this basis, a favorable one for the purposes of the military junta, while also assuming the pattern of income distribution to be the same as that of 1968–69, we arrive at the following figures in table 3.

TABLE 3 Income Levels and Household Income Distribution in Chile, October 1974

Income Bracket (1)	Average Income (2)	As a Percentage of Total Households (3)	Average Income (4)
0 – 1	24,000	29.8	
1 – 2	72,000	31.6	48,703
2 – 3	120,000	17.6	
3 – 4	168,000	7.4	134,208

Column 2 indicates the average income for each group which corresponds to the central point of the bracket. The first figure in column 4 is a weighted average income for the household in the 0–2 income bracket; the second is for the 2–4 bracket. Hence, under the assumption that the SV in Chile in October 1974 was E48,000, the figures demonstrate that 61.4 percent of the households had an average income of E48,703, with the next 25 percent reaching E134,208. When these figures are placed next to the expenditure levels and then compared with those of 1968–69, we reach dramatic conclusions about the lot of low income groups (roughly 80 percent of the households) under the military regime. In the next table we have added data for the month of September 1973. It is noteworthy that this was the month the coup took place: The economy had come to a complete stop, it was only weeks after nearly two continuous months of the truck drivers' strike,<sup>7</sup> and there had been massive sabotage of the transportation network. Last but not least, it was the month immediately before a wage increase was due, so that we are taking real income after five months of rapid inflation with fixed money wages. A wage increase equal to 100 percent the rate of inflation was supposed to be given on 1 October 1973, and would have meant increasing money wages by 200 percent.

The methodology used to estimate expenditure levels for September 1973 is exactly the same. Prices were taken from a recent article by José Aldunate L., S.J., published in *Mensaje* 235 (December 1974), entitled "Remuneraciones y Costo de Vida—Situación real de los trabajadores de ingresos más bajos" (pp. 634–36).

As presented in table 4, column 5 indicates that a household in the 0–2 income bracket, earning less than 2 SVs, could finance 72 percent of its consumption expenditures in 1968–69, 40 percent in September 1973, and 19 percent in October 1974. For those households in the 2–4 SVs, the picture is equally stark: They could finance everything in 1968–69, even saving some, but slightly less than one third in October 1974. Two impor-

TABLE 4 *Income Levels, Food Expenditures, Total Consumption Expenditures per Household per Month in Chile: 1968-69, September 1973, and October 1974*

<i>Average Income (1)</i>	<i>Percentage of Total Households (2)</i>	<i>Food Expend. (3)</i>	<i>Total Consump. Expend. (4)</i>	<i>(1) / (4) (5)</i>
<i>1968-1969</i>				
547.9	61.4	383.5	759.8	721
1,509.8	25.0	554.1	1,240.7	1.217
<i>September 1973</i>				
3,698.4	61.4	4,714.4	9,339.9	.396
10,191.4	25.0	6,841.0	15,317.6	.665
<i>October 1974</i>				
48,703.0	61.4	109,456.0	261,928.0	.186
134,208.0	25.0	153,060.0	412,037.0	.326

tant observations should be made. First, some might argue that part of the losses occurred under the UP. This is accurate, yet the decision to deny a wage increase in the same proportion as the increase in prices *was made by the military junta*, and should be viewed as part of its socioeconomic program. Second, if we examine the purchasing power of the lowest income group in 1968-69, we realize that the average income was less than total expenditure. Since the basket of goods represents what those households were really buying, we have to conclude that part of it was financed with negative savings. However, the most important mechanism is found in the performance of services such as house-cleaning, gardening, and the like, in the homes of well-to-do people. These are income sources which we can reasonably assume to have dried up under the present regime, if we consider that in a world of falling real income it is precisely these types of services which are sacrificed. If this is indeed true, we might suggest that on the income side we are also underestimating the real losses suffered by the low income groups after a year of military dictatorship.

In order to make these figures comparable with those of other countries, we have estimated the cost of the basket of goods in dollars using the prices of these commodities in the American market during the first week of January 1975. An implicit rate of exchange was identified through a comparison of the cost of the basket in dollars and in escudos, which in turn was used to transform average incomes from escudos into dollars. The results are summarized in table 5. In short, the average

income for those in the 0–2 SV income bracket was \$67.7; on the expenditures side, these family groups would have needed \$364.2 to keep the same level of expenditures that they had experienced in 1968–69. Their income could not even meet food expenditures (\$152.2).

TABLE 5. *Income Distribution, Food Expenditures, and Total Expenditures per Household per Month in Chile, October 1974 (in American Dollars of January 1975)*

Income Bracket	Average Income	Percentage of Total Households	Average Income	Food Expend.	Total Expend.	(4)/(6)	
(1)	(2)	n (3) N	(4)	(5)	(6)	(7)	
0–1	64	29.8	29.8				
1–2	95	31.6	61.4	67.7	152.2	364.2	.186
2–3	167	17.6	79.0				
3–4	234	7.4	86.4	201.9	230.3	619.9	.326

For the basket of goods of the lower income groups (that is, between 0 and 2 SVs), the implicit rate of exchange was equal to E719 per dollar. For the 2–4 group the rate was E665 per dollar.

Our estimates, which have been based on very conservative assumptions drawn from secondary evidence provided in sources openly sympathetic to the military (Taller de Coyuntura and *El Mercurio*), lead to unmistakable conclusions with regard to the purchasing power of Chilean families in the lower income groups (table 6).

TABLE 6. *Purchasing Power of Lower Income Groups in Chile in 1968–69 (Proxy for January–August 1973), September 1973, and October 1974.*

	0–2 SVs	2–4 SVs
1968–69 (Proxy for Jan–Aug 1973)	100 (.721)	100 (1.217)
September 1973	55 (.396)	55 (.665)
October 1974	26 (.186)	27 (.326)

Figures in parentheses have been taken from column 5 in table 4.

We conclude that after one year of military rule, the families in the lower income levels lost 75 percent of their purchasing power as compared with the last eight months of the constitutional government of Salvador Allende. Even if comparison is made with the worst month of the UP (see text above), the loss in one year amounts to 53 percent.

When we were almost done with these estimates we encountered two other studies that dealt with the same question. José Aldunate, S.J. concludes that during the first year of the junta these income groups lost 42 percent of real income, a figure similar to ours (53 percent). The second study, cited in a reference in *Ercilla* of 18–24 December 1974 (No. 2055), described a survey conducted in October 1974 by the Confederación de Empleados Particulares. The survey concluded that “a Chilean, in October 30, 1974 could not subsist with less than E225,650 (\$355)” ; note that this figure is remarkably similar to our estimates of E261,928. The survey adds that the daily diet consisted of “one quart of milk, 2.2 pounds of bread, 2.2 pounds of potatoes, one lettuce, and small amounts of rice, sugar, tea, and meat,” all these for a family of four. “In October, the salary of an employee with ten years of service was E77,320 (roughly \$107).” Again, the figures are strikingly similar to those which we obtained.

In the words of a famous Brazilian General, the economy is doing fine, it is the people who are doing badly.

#### NOTES

1. See Taller de Coyuntura, *Comentarios sobre la situación económica*, 2do Semestre 1973 (Santiago:Departamento de Economía, Universidad de Chile, Publicación No. 11), p. 71, table 4.
2. From October 1970 to July 1973 the Consumers' Price Index increased from 134.07 to 929.07 (6.9 times) while Money Wages Index increased from 2,450.7 to 18,151.4 (7.4 times). The comparison cannot be extended to September 1973 because the wage index is calculated only four times a year (January, April, July, and October). Nevertheless, these figures are consistent with those given by the Taller de Coyuntura, already mentioned, showing that real wages by August 1973 were similar to those of 1970. See Banco Central de Chile, *Boletín mensual* No. 553 (March 1974), pp. 316 and 317; also *Boletín* No. 515 (January 1971), p. 139.
3. See *V Exposición sobre la hacienda pública* made by the Minister of Finance, Jorge Cauas, especially table 2 in *El Mercurio*, 23 October 1974, pp. 23–26.
4. The typical basket for the household in the 0–2 SV income bracket consists of the following goods per month: Bread, 119 lbs.; flour, 9.5 lbs.; noodles, 9 lbs.; rice, 10 lbs.; first-grade meat, 3.5 lbs.; low-quality meat, 15.4 lbs.; lamb, 1.4 lbs.; pork, 1.1 lbs.; lard, .6 lb.; poultry, 2.9 lbs.; fish, 11.2 lbs.; seafood, 2.2 lbs.; vegetable oil, .7 gls.; 23.8 eggs; fresh milk, 3.1 gls.; powdered milk, 1.3 small cans; cheese, .5 lb.; butter, 1.5 lbs.; oranges, 5.3 lbs.; seasonal fruits, 3.3 lbs.; tropical fruits (bananas), 7.7 lbs.; potatoes, 73.7 lbs.; onions, 34.8 lbs.; pulses (beans, lentils, etc.), 7.7 lbs.; lettuce, 46 units; sugar, 18.3 lbs.; coffee and tea, 1.3 small cans; sausages, 6.8 small cans; nonalcoholic beverages, 10 bottles (small); wine, 2 bottles; beer, 1.1 cans.

5. Related information has been taken from an article written by Michel Chossudovsky, University of Ottawa, who was at the time Visiting Professor at the Catholic University in Santiago, "Hacia el Nuevo Modelo Económico Chileno—Inflación y Redistribución del Ingreso (1973–1974)," (mimeo).
6. The *sueldo vital* as such was E20,000 in October 1974. Nevertheless, we use the concept of *salario mínimo*—introduced by the military government—as the minimum salary for anybody actually employed.
7. The strike came to an end on 12 September 1973.