

A comment to "Military government and  
real wages in Chile", by Joseph Ramos.

A reply, by Ricardo Lagos y Oscar Rufatt

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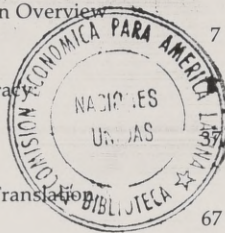
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*Contributions from Ernesto Aldo Isuani, IAEAL, CRESO,  
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## COMMUNICATIONS

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### EDITORS' NOTE

*This is the first such exchange of views to appear in LARR under our editorship. We welcome the opportunity to facilitate intellectual debate and exchange of views; surely the interplay of scholarly dialogue lies at the heart of the quest for knowledge. Further such communications are heartily encouraged, including criticisms of the Editors where deemed appropriate. In this instance, there seems little need to intrude our own thoughts, except to note that the Lagos-Rufatt manuscript was subject to the usual process of editorial evaluation and review, as detailed in our Editorial Comment (LARR 11, no. 2, pp. 3-6).*

### A COMMENT TO "MILITARY GOVERNMENT AND REAL WAGES IN CHILE"\*

*Joseph R. Ramos*

Real wages have undoubtedly declined, and sharply, since the military junta's takeover in Chile. But this article overdoes it. How can anyone, much less a supposedly cool and dispassionate Board of Editors, take seriously a conservative estimate yet (!) that 86.4 percent of Chilean households have suffered a 75 percent loss in real income in just one year? And all of this on top of increased unemployment.

I don't doubt that some Chileans may have lost 75 percent of their income after the military government's first year. I don't doubt that 86 percent of the population has lost a good deal. But I certainly doubt that,

\*LARR 10, no. 2 (Summer 1975):139-46.

even in the worst moments of drought and civil war in Biafra or Bangladesh, 86 percent of those people saw their incomes decline to  $\frac{1}{4}$  of their precrisis levels. Indeed, by the authors' own say so, 29.8 percent of these Chilean families were already below the local poverty line before the junta. Is it really possible then that such families could have seen their already miserably low incomes compressed by 75 percent without our witnessing a demographic collapse unheard of since the days of the plague and the Black Death? One can only wonder if LARR's Board of Editors has any notion of what a 75 percent fall in income really means, especially for those already living at subsistence levels.

Aside from such common sense skepticism, and with only the scantiest knowledge of Chile, one might begin to suspect that the data were fishy by noting that expenditures by the poorest 30 percent of the population in the base year periods (1968-69 and Jan.-Aug. 1973) averaged, according to the authors (see table 5) the equivalent of 364 dollars *per month!* Not 364 escudos, but 364 *US dollars* per month. Not bad for the poorest 30 percent of the population of a country with a per capita income of US\$ 700 per year! Small wonder that current incomes have fallen so much, given such inflated base year earnings.

More concretely, the authors' estimates exaggerate income declines for the following reasons:

1. They compare *family* incomes in the base period with *one* worker's earnings in October 1974. However, the typical family in the income groups of interest (0-4 sueldos vitales) averages about 1.4 workers per family.

2. Base period family incomes include capital earnings (generally imputed rent for the house they live in if it is theirs) as well as transfer payments. These account for 17 percent of family incomes, even of the lowest income groups, during the base period. Yet comparisons were made to October 1974 earnings from work alone.

3. The authors compare effective earnings (and consumption) of poor workers in the base period with the earnings of workers paid the legal minimum wage in 1974. More appropriately, one should compare minimum wages with minimum wages, or effective earnings with effective earnings, but not one with the other.<sup>1</sup>

4. The repressed inflation of 1971-73 makes comparisons between the Allende period and the junta period very difficult, for the official price index obviously underestimated the real inflation of that period. The authors recognize the problem and try to get around it using a price index based on selected food items, comparing prices effectively paid before the coup with real prices after. This is not a bad idea. Yet as it

turns out, food price increases overstate the real rate of inflation even for the poor, for industrial prices have risen considerably less.<sup>2</sup>

Though undoubtedly not the last word on the subject, my own studies over the last two years have disclosed the following:

1. The official price index underestimates the variation in prices between 1969 and the present by 46.7 percent, most of it occurring during the repressed inflation of 1971-73.

2. Deflating by such a price index, and not the official price index (which, of course, would overstate income), real wages for *all urban* workers declined 29 percent between 1969 and October 1974 (the authors' reference period). To date they have declined 32 percent with respect to 1969 and 20 percent with respect to January-August 1973, the last months of the Allende period.

3. The earnings of the 20 percent of the *poorest urban* workers declined 31 percent between 1968-69 and January-March 1975, when the last general urban income survey was conducted.

4. The real earnings of agricultural workers seem to have declined less than urban workers, but there is no hard data.

These "facts," briefly summarized above, have been presented, argued, and interpreted in a recent article of mine,<sup>3</sup> which concludes that the "social cost of the economic policy of this government (the Junta) has not only been high, but has been distributed quite unequally, falling in highly disproportionate fashion, government intentions notwithstanding, upon the working classes and the poorer strata of the society." While the LARR article would no doubt concur with the above conclusion, there is a world of a difference between a 30 percent decline—which is staggering enough—and a 75 percent decline in income. In the face of such magnitudes, the numbers do matter.

Yet I repeat, I am not so much concerned with the oversights and inadequate data base of this article as with its lack of critical judgment. It is easily understandable that Professors Lagos and Rufatt let their emotions color their otherwise keen sense of judgment. This is all the more so, given that they were largely limited to the use of secondary sources. But I am far more concerned with the intellectual atmosphere which led to LARR's uncritical acceptance of results orders of magnitude removed from reality. In the name of academic objectivity, I protest LARR's suspension of *its* critical judgment, apparently the result of trying to show that it has its heart in the right place. This exercise in black humor tarnishes the journal's image of academic seriousness, and what is more important, it is a form of misplaced altruism which serves to discredit, in Chile at any rate, all critical analyses of the junta's policies—whether academic, objective, or otherwise—as politically inspired sensationalism.

NOTES

1. As for minimums, the problem is that in the base period, there were two legal minimum wages—one for white collar workers (sueldo vital), the other for manual wage earners (salario mínimo obrero). The latter was less than 60 percent of the former in the base period 1968–69. The military junta established one minimum for all. Though the new minimum is lower, in real terms, than the sueldo vital, it is slightly higher than the salario mínimo obrero. A more appropriate comparison would, therefore, be of poor workers' earnings in the base period and in 1974. Unfortunately no such data were available till the January-March 1975 survey. As I report in the text, these fell 31 percent.
2. Nor will it do to say that a price index composed solely of food products is more representative of the inflation experienced by the poor since food makes up a larger percentage of the poor's consumption. For, though reasonable as a hypothesis, it turns out that services, which the poor consume less, have risen as much as food. A study comparing the effective variation in prices between 1969 and 1974 concluded that the difference between weighting price increases in accordance with the poor's distribution of consumption and weighting them in accordance with the consumption basket of the average worker was less than 5 percent for the entire five year period of interest.
3. "El costo social: Hechos e interpretaciones," *Estudios de Economía*, Número 6, segundo semestre 1975 (Departamento de Economía de la Universidad de Chile).



## "MILITARY GOVERNMENT AND REAL WAGES IN CHILE," A REPLY

Oscar A. Rufatt and Ricardo Lagos

Mr. Ramos's response to our article in LARR consists of two parts: First, astonishment is expressed at the beginning and the end because we were allowed by the editors to publish our "sensationalist" and "politically motivated" article. In this first part of the criticism (I guess we should add, *objective criticism*), no testable propositions are offered to oppose our "fishy data." The references to Biafra and Bangladesh are completely out of place. Please, Mr. Ramos, are we speaking the same language? A twelve-fold increase in public transportation fares (see table 1) will have a completely different impact for a Chilean worker than the impact that, say, a 40 percent, 50 percent, or 60 percent drop in the supply of some crop will have in Bangladesh or Biafra. In this latter case, there is no possibility of "substitution." In the former, the way out has been to cut down and eliminate almost entirely the amounts spent on nonfood items in general and on consumer durables in particular (the IMF estimates a 34 percent drop in industrial production between 1972 and 1975).<sup>1</sup>

Before we go to the more substantive part of Mr. Ramos's criticism, the readers might be interested in the data offered in table 1, where additional "fishy data" illustrate the magnitude of the phenomenon we are talking about.

The second part of Mr. Ramos's criticism deals with our "fishy data." We will try to take his points one by one.

1. Mr. Ramos argues that in 1968-69, 29.8 percent of the Chilean families were already below the poverty line. We acknowledge this now and we acknowledged it in our article. In the opening part of our article we clearly indicated that we would have to ignore *changes in the distribution of income*. This means that, in terms of our study, we would come up with an estimate for the four lowest income groups as an average and that we would have to ignore comparative losses among the four groups. We also indicated that if anything could be expected it would be an increase in the percentage of the population in the lowest income bracket. (A "sensationalist" article by Michel Chossudovsky, which we quote in

TABLE 1 Prices Of The Most Essential Products

	Sept. 1973	Sept. 1974	Increase
Bread	E11	E250	22 fold
Sugar	17	500	29 fold
Oil	36	1,140	31 fold
Milk	6	120	22 fold
Rice	16	850	53 fold
Potatoes	20	140	7 fold
Beans	15	320	21 fold
Noodles	37	370	10 fold
Onions	3	45	15 fold
Eggs	132	600	4 fold
Lentils	20	500	25 fold
Poultry	33	1,450	44 fold
Fish	17	450	26 fold
Tea	44	2,200	50 fold
Electricity	1	34	42 fold
Gas	120	1,200	10 fold
Kerosene	2	70	35 fold
Transportation	5	60	12 fold
Detergents	75	525	7 fold
Soap	5	360	69 fold

Source: Jose Aldunate L., s.j., "Remuneración y costo de vida—Situación real de los trabajadores de ingresos mas bajos." *Menaje* 235 (December 1974). Figures rounded.

our paper, concludes that "85% of the population has been driven below the poverty line whereas 60% of the population is in a situation of extreme poverty and malnutrition.") Our expectations were based on the military rulers' income policies and on the distribution of unemployment among the population. When we wrote the article in 1975, the unemployment rate was 9 percent. In December 1975, after two years of economic miracles, the rate was 18 percent.<sup>2</sup>

2. Mr. Ramos argues that the typical family in the 0-4 Sueldo Vital (SV) income groups averages 1.4 workers per family. We have read this specific paragraph time and again trying to make sense out of this objection. After some careful consideration we have come to the conclusion that either Mr. Ramos did not read the paper or that Mr. Ramos's algebra is at fault. Indeed, he says: "They compare *family* incomes in the base period with *one* worker's earnings in October 1974" (emphasis in the original).

Mr. Ramos fails to understand that for 1969, for 1973, and for October 1974, exactly the same procedure was used. That is, income was

estimated using *sueldos vitales* (the careful reader will observe that for 1974 we did not really use a SV, but we chose instead a *sueldo minimo*—please see 4 below). The average income per family group was obtained by assuming 1.0 workers per group. Incomes were then compared with the cost of the given baskets of goods at current prices.

If we assume first that Mr. Ramos read the paper, then it is his algebra that is messed up. In effect, when it comes to estimating the relative loss, the number of workers per family group does not make any difference *as long as it is the same*. This is nothing more than the old trick of having the same factor on the numerator and on the denominator. It cancels out! That is, income levels for each of the periods that we are comparing would go up by the same proportion. In this specific case, and under the assumptions indicated, they would go up by 40 percent. The relative position would remain exactly the same. If we now assume that Mr. Ramos's algebra is all right, we find ourselves confronted with the possibility that he did not read our paper. There is evidence that this could be the case since in table 6 of our article it is clear that the Purchasing Power Index was not estimated comparing family incomes with one worker's income. Here we reproduce that table (see table 2).

TABLE 2 *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)

The figures in parentheses, which are the ones we indexed, come from our table 5. They represent the percent of consumption expenditures that could be financed by each group at each point in time.

A last word on this same point, to emphasize what we said earlier: the only way that this can be a valid objection is if the average has changed. In our article we mentioned this possibility and gave our reasons for expecting the average number of workers per family to have moved down. Our expectations were based on two related developments in the economy: one, a significantly higher rate of unemployment and two, the uneven distribution of that unemployment among the population. If Mr. Ramos thinks otherwise, he should indicate why. We did not take these expectations into consideration for our estimates and we indicated that, if anything, this would bias upwards our estimates for the 1974 income levels.

3. Mr. Ramos indicates the existence of capital earnings that were ignored. Here again algebra seems to be the problem: 17 percent on the numerator and 17 percent on the denominator cancel out. If Mr. Ramos expects these capital earnings to be a significantly larger share (significant enough to be able to explain his outrage) in 1974 than in our base period, we are certainly anxious to hear the reasons.

4. Mr. Ramos argues that we compared effective earnings in the base period with the legal minimum earnings in 1974. This is not so. For our study we used, among other sources, a survey on consumption expenditures conducted by the Dirección de Estadísticas y Censos in 1968-69, and a publication by Odeplan with information on personal distribution of income in Chile in 1968-69 (for references and sources please see our article). Both well-known studies used *sueldos vitales* and not *salario mínimo obrero* to define income brackets. So for 1968-69 and September 1973, we did what we were supposed to do; that is, we used a sueldo vital as the unit of measurement. For 1974 we did not use a sueldo vital, which was less than E20,000, but used instead E48,000, the "sueldo mínimo" introduced by the junta. This figure of E48,000 not only compares very favorably against the E20,000 above, but also compares very favorably with the "sueldo mínimo" in existence in October 1974, which was equal to E39,000 and which is the one we should have used.

Since we know Mr. Ramos to be an able and intelligent person, we refuse to think that his algebra is wrong. Even further, we know that he has a better than scanty knowledge of our country. He is very well trained. The problem with Mr. Ramos's comment is that it was made (and by now we are almost sure) *without bothering to read our article*. His remarks about our estimates in dollars bear witness to this contention, and we quote: "One might begin to suspect that the data were fishy by noting that expenditures by the poorest 30 percent of the population in the base year periods (1968-69 and Jan.-Aug. 1973) averaged, according to the authors (see table 5) the equivalent of 364 dollars *per month!*" (emphasis in the original).

All we can do here is reproduce what we wrote in our article and hope that this time these few lines will be read: "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*" (emphasis added). All our estimates were made in escudos. When the time came to make the conversion into dollars we chose not to use the market rate of exchange but rather an implicit rate which came out of the comparison of the cost of the basket of goods in dollars and in escudos. Anyway,

when it comes to estimating the relative loss, it does not matter which one we used since both incomes and expenditures were transformed using the rate of exchange. *Maybe it is algebra after all!*

In our article, and here in our reply, we have quoted the article by José Aldunate L., s.j. published in *Mensaje* 235. His findings were that in the period under consideration, *the loss in real income for low income groups was about 50 percent*. Also in our article we quoted the results of a study published in *Ercilla* of 18–24 December 1974. This study (with a significantly smaller basket of goods) concludes that *a Chilean in October could not subsist with less than E225,650*—a magnitude very similar to our estimate of E261,928 (allowing for the smaller size of the basket of goods) and which would put roughly the same 60 percent of the population in a situation of extreme poverty and malnutrition. Mr. Ramos might be pleased to know that, because of their “politically inspired sensationalism,” both publications have repeatedly been censored, which is what he would have wanted LARR’s editors to do with our study.

We hope that our emotions have not colored our “keen sense of judgment,” as seems to be the case with Mr. Ramos, who completely forgot to read full paragraphs and sections of our article. Always, in each and every intellectual effort, our emotions and value judgments appear. Mr. Ramos likes to think of himself as objective and his analysis as value-free. We belong to a different group—we recognize our emotions and make them explicit at the outset. If this is not more objective, it is at least more honest than those who pretend the opposite. We are with Gunnar Myrdal when he says: “No social research can be neutral and in that sense simply *factual* and *objective*. Valuations determine not only our policy conclusions but all our endeavors to establish the facts, from the approaches chosen to the presentation of our results.”<sup>3</sup>

## NOTES

1. A preliminary estimate for the G.N.P. in 1975 shows a drop of 15 percent according to the United Nations Economic Commission for Latin America.
2. The data for March 1976 have not been published. Nevertheless, in Santiago, it is a well known secret that the reason for this is that, according to the survey, the rate of unemployment increased to more than 20 percent.
3. Gunnar Myrdal, *Against the Stream, Critical Essays in Economics* (New York: Vintage Books, 1975), pp. 53–54.