

MILITARY GOVERNMENT AND REAL WAGES IN CHILE: A NOTE

(Draft)

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I.- The purpose of these notes is to evaluate the impact of the economic and social policies of the Military Junta on the well being of the large majority of the Chilean people, especially that of the lowest income levels of the population.

The exercise consists of a simple comparison of income and expenditure levels between those of the last months of the government of the Unidad Popular and those of October 1974. To do this we have chosen the average 1968/1969 as a basis of comparison, ^{and} this basically for two reasons. First, a practical one, in that period the Dirección de Estadística y Censos (DEC) conducted a survey on consumption expenditures for different income groups and it is the most recent one that is available. Secondly, in the days prior to the coup there was agreement of opinion among economists 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% of what they were in January 1970.¹⁾ (See, Comentarios sobre la Situación Económica, 2do. Semestre 1973. Publicación No. 11. Departamento de Economía, Universidad de Chile). Since this index of real wages is based on January 1970, and our basis of comparison is 1968/69, we can assert

1.- See Taller de Coyuntura, Comentarios sobre la Situación Económica 2do Semestre 1973 (Santiago: Departamento de Economía, Universidad de Chile, Publicación N° 11) p. 71, table N° 4.

that in the last months of the government of the Unidad Popular (January-August 1973) real wages were at least equal to, if not better than, those of 1968/69. We should emphasize that the Taller de Coyuntura was a vocal stronghold of the forces that opposed the ~~constitutional~~ government of Salvador Allende. In addition, a comparison of the Consumers' Price Index and the Money Wages Index published by the Banco Central de Chile indicates that real wages ^{increased between October 1970 and July 1973 2/} would have ~~dropped to the level they had in~~ December 1969 ~~sometime between July and August of 1973.~~ (See, Boletín Mensual, No 550, Diciembre 1973). A somewhat more favourable picture would have come out of studies being done at the today disappeared Instituto de Economía y Planificación (Facultad de Economía Política - Universidad de Chile) and which indicated that real wages were back to the September 1970 level sometime between July and August of 1973. The gains of the first two years of the Unidad Popular and in particular those of the lower income groups had been lost due to the mistakes of the government and as a result of the sabotage and destabilization campaigns that took place since September 5, 1970 and that culminated in the bloody coup of September 11, 1973.

2// Banco Central de Chile, Boletín Mensual No. 553 (March 1974) p. 316 and 317; also Boletín No. 515 (January 1971) p. 139. From October 1970 to July 1973 Consumer's Price Index increased from 134.07 to 929.07 (6.9 times) while Money Wages Index increased from 2450.7 to 18151.4 (7.4 times). The comparison cannot be made up 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, that real wages by August 1973 were similar to those of 1970. ^{See Banco...}

Hence, even though we are using 1968/69 as a proxy, what we are actually comparing is real income in October 1974 with that of the last months of the government of the Unidad Popular.

When making this comparison two things should be kept in mind, first, that the rate of unemployment with the UP was 3% to 4% of the labour force. According to the Instituto de Economía y Planificación the rate of unemployment for June 1973 was 3.1%. In ^{September-} October 1974 the rate of unemployment is ^{three} ~~five~~ times larger. ³ Secondly, that the income policies of the UP redistributed income in favor of those people in the lowest income brackets which is exactly the opposite of what has happened under the military rule. These two qualifications mean that we are underestimating the percentage of the population in the lowest income brackets in October 1974, and that we are underestimating the losses suffered by those income groups after one year of military rule.

II.- Table I describes the distribution of income in

Chile in 1968/69. The income brackets are defined in terms of sueldos vitales. The SV is set by ^{a commission appointed by} ~~the~~ the government, usually during the first quarter of each year, to indicate the legal minimum salary level of white collar workers.

^{3/} See Exp. sobre la Hacienda Pública made by the Minister of Finance Mr. Jorge Larraín, especially Table 2 in El Mercurio October 23, 1974, p. 23-26.

Table I. Distribution of Income per Household in Chile, 1968/1969.

Income Brackets.	As a percentage of total households.	Cumulative.
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 Económico Chileno 1960-1970. (Santiago, Chile. 1971) p. 16, table 17

The table above indicates that in 1969/1970, 86.4% of the households in Chile had a total income equal to or less than four SVs. In fact, 61.4% made between 0 and 2 and 25% made between 2 and 4 SVs. Contrary to what the name might suggest one sueldo vital is below the poverty line. ^{4/} *as can be seen from the basket of goods that* In effect, the typical basket of goods for the household in the 0 - 2 ^{4/} *among other things* income bracket consists of 119 lbs. of bread per month (this is the most important food item of lower income groups), 23.2 eggs per month, 3.5 gallons of milk, 15.4 pounds of low quality meat and only 3.5 pounds of first grade meat. These amounts should be distributed among 4.8 persons which is the average size of the households in these income groups.

The findings made by the Dirección de Estadística y Censos on consumption expenditures gave as a result a well specified basket of goods that each of these various groups consumed in 1968/69. What we have done

^{4/} The typical basket for the households in the 0 - 2 S.V. income bracket consists of the following goods per month: bread, 119 lbs; flour 9.5lbs; 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; poultry 2.9 lbs; fish 11.2 lbs; seafood 2.2 lbs; vegetable oil .7 gallon; lard .6 lbs; 23.8 eggs; fresh milk 3.1 gallons; powder milk 1.3 small cans; cheese .5 lbs; butter 1.5 lbs; oranges 5.3 lbs; seasonal fruits 3.3 lbs; tropical fruits (banana) 7.7 lbs; potatoes 73.7 pounds; onions 34.8 lbs; pulses (beans lent ls etc) 7.7 lbs; lettuces 46 units; sugar 18.3 lbs; coffe and tea 1.3 small cans; sausages 6.8 small cans; non-alcoholic beverages 10 bottles (small) ; wine 2 bottles; beer 1.1 cans.

is to estimate the total cost of such basket of goods and income levels in the third week of October of 1974 and compare them against those of 1968/69 which are being used as a proxy for the last eight months of the UP, (These were the worst months of the UP— with open economic warfare both inside and abroad, terrorism, etc.— and if we were to include 1971 and 1972 the resulting deterioration would be significantly larger.)

Table II. Consumption Expenditures and Food Expenditures per month per Household by Income Level.

(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	115,036	227,902
2 - 4	165,230	369,965

Dirección de Estadística y Censos, Chile; Encuesta de Presupuestos Familiares-Distribución del Gasto en el Gran Santiago 1968/1969. (The information used to construct this table and other background information has been taken from Michel Chossudovsky, Hacia el Nuevo Modelo Económico Chileno - Inflación y Redistribución del Ingreso (1973-1974) (mimeo). Prices used in the estimates are those of the third week of October 1974 in Santiago, and were taken from El Mercurio, October 27, 1974. Stgo. Chile.

An article written by a professor of the University of O'Higgins who was at times visiting professor at the Catholic University in Santiago,

Column (2) indicates the cost that the basket of goods consumed in 1968/69, one very similar to the one consumed in the last months of the UP, had in October 1974.

Column (3) indicates total consumption expenditures, the figure was obtained by multiplying food expenditures by 1.98 for the 0 - 2 and by 2.23 for the 2 - 4 income group;

the coefficients came out of the DEC survey which indicates a 50.47% and 44.66% for food expenditures as a percentage of total expenditures for each group.

On the income side in October 1974 a SV was equal to E^o 48.000.⁵ However income levels for that month were determined by money wages payed at the end of September, and during that month the SV was equal to E^o 39.000. Anyway as a working assumption we have chosen the former, that is E^o 48.000, as our SV for the month of October 1974. With this favourable assumption for the purposes of the junta, and assuming the pattern of income distribution to be the same as that in 1968/69 we arrive at the following figures,

Table III. Income Levels and Household Income Distribution in Chile in October 1974.

Income Bracket (1)	Average Income (2)	As a percentage of total hholds. (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. Column (4) is a weighted average where E^o 48,703 corresponds to the average income for the household in the 0 - 2 income bracket, and E^o 134,208 is that of the 2 - 4 bracket.

⁵ The sueldo vital as such was in October 1974 20.000 escudos. Nevertheless we are using the concept of salario minimo - introduced by the Military Government - as the minimum salary for anybody actually employed.

Hence, under the assumption that the SV in Chile in October 1974 was E° 48.000 the figures indicate that 61.4% of the households had an average income of E° 48,703 and the next 25% had one of E° 134,208. When these figures are confronted with the expenditure levels and then compared with those of 1968/69 we reach dramatic conclusions about the lot of low income groups (roughly 80% of the households) under the military regime. In the next table, we have added the situation for the month of September 1973. It is convenient to keep in mind that this was the month when the coup took place, the economy was in a complete stop, it is a month after almost two continued months of the truck drivers strike, after continued sabotage of transportation networks. Last but not least, it is the month immediately before a wage increase was due, so we are taking real income after five months of rapid inflation with fixed money wages. A wage increase equal to 100% the rate of inflation was supposed to be given in October 1, 1973, this would have meant on the income side increasing money wages by 200%.

The methodology used to estimate expenditure levels for September 1973 is exactly the same. Prices were taken from an article recently published in Mensaje, ^{Nº 235 (Diciembre)} November 1974, and written by Jose Aldunate L., s.j. called Remuneraciones y Costo de Vida - Situación real de los trabajadores de ingresos mas bajos. (p. 634 - 636)

Table IV. Income Levels, Food Expenditures, Total Consumption Expenditures per Household per month in Chile in 1968/69 - September 1973 and October 1974.

Average Income (1)	Percentage of Total Hholds. (cumulative) (2)	Food Expendit. (3)	Total Consump. Expendit. (4)	(1)/(4) (5)
<u>(1968/1969)</u>				
449.28	61.4	383.5	759.8	.591
1237.91	25.0	554.1	1240.7	.997
<u>(September 1973)</u>				
3698.4	61.4	4714.4	9339.9	.396
10191.4	25.0	6841.0	15317.6	.665
<u>(October 1974)</u>				
48703.0	61.4	115036.0	227906.0	.214
134208.0	25.0	165230.0	369965.0	.363

Column (5) indicates that a household in the 0 - 2 income bracket, making less than 2 SVs, could finance roughly 60% of its consumption expenditures in 1968/69, 40% in September 1973 and 21% in October 1974. For those households in the 2 - 4 SVs. the picture is equally dramatic, they could finance all of it in 1968/69 and slightly more than one third in October 1974. A couple of very important observations should be made; first, the argument that part of the losses occurred during the UP could be made, this is exactly right, however the decision to deny a wage increase *in the same proportion as the increase in prices,* was made by the Military Junta, and it should be understood

as part of their socio-economic program. Secondly, if we look at the purchasing power of the lowest income group in 1968/69 we realize that average income is less than total expenditures. 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 like house-cleaning, gardening, etc. in the homes of well to do people, income sources that we can reasonably assume have dried up under the present regime if we consider that in a world of falling real incomes it is these type of services which are sacrificed. If this is true we can suggest that on the income side we are also underestimating the real losses suffered by the low income groups after one year of military dictatorship.

In order to make these figures comparable with those of other countries we estimated the cost of the basket of goods in dollars. For this purpose we used the prices that these commodities had in the American market during the first week of January 1975. An implicit rate of exchange came out as a result of the comparison of the cost of the basket in dollars and in escudos which was used to transform average incomes from escudos into dollars. The results are summarised in table V. In short, the average income for those in the Oto2 S.V. income bracket was \$ 79.9; on the expenditures side that person would have need \$ 301.5 to keep the same level of expenditures that he or she had in 1968-69. His income could not even meet his food expenditures (\$ 152.2)

Table V. Income distribution, Food Expenditures and Total Expenditures per Household per month in Chile in October 1974.
(in American dollars of January 1975)

Income Bracket (1)	Ave. Income (2)	Percentage of total households (3)		Ave. Income (4)	Food Expend. (5)	Total Expend. (6)	(5)/(6) (7)
		n	N				
0 - 1	64	29.8	29.8				
1 - 2	95	31.6	61.4	79.9	152.2	301.5	.265
2 - 3	167	17.6	79.0	187.2	230.3	515.8	.363
3 - 4	234	7.4	86.4				

For the basket of goods of the lower income groups, that is between 0 and 2 SVs the implicit rate of exchange is equal to E^o 755 per dollar. For the 2 - 4 the rate was E^o 717 per dollar.

III.- Concluding remarks. Our estimates, which have been made on the basis of very conservative assumptions and mostly by using secondary evidence openly sympathetic to the militarys (Taller de Coyuntura, El Mercurio), we have come to the dramatic conclusion that after one year of iron fist military dictatorship the families in the lowest income levels have lost 65% of their purchasing power as compared with that of the last eight months of the constitutional government of Salvador Allende. Even if the comparison is made with the worst month of the UP (see text above) the loss in one year amounts to 48%.

When we were almost done with these estimates we ran into a couple of studies that deal with this same type of question. The first one is the one made by Jose Aldunate L., s.j. which we used in our work to obtain prices for September 1973. He concludes that during the first year of the MJ these income groups have lost 42% of the real income, a figure very similar to the one we got. The second study is known to us only through a reference made in Ercilla of December 18/24, 1974, No 2055 which describes a survey made in October 1974 by the Confederación de Empleados Particulares. That survey would conclude that " ... a Chilean, in October 30, 1974, could not subsist with less than E° 255,650 (\$ 331.9)", 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 E⁰ 77,320 (roughly \$ 102.4)". Again the figures are strikingly similar to those that we obtained.

As that famous Brazilian General said, "THE ECONOMY IS DOING FINE, IT IS THE PEOPLE WHO ARE DOING BAD".

~~Philadelphia~~, January 15, 1975.

(105)

THE FOLLOWING FIGURES WERE OBTAINED FROM THE BUREAU OF LABOR STATISTICS ON JANUARY 15, 1975.