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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).