

Human Development Report in Chile

Year 1996

United Nations Development Program

Synopsis

1.- Purpose and context

The principal purpose of this report is to highlight the different challenges facing Chile in its decentralization process, using a series of regional prognoses that emphasize Human Development.

In 1995, Chile ranked 33rd in the world classification of countries with a high level of Human Development, according to the United Nations Development Programme, UNDP. This same year, Chile also rose 8 spots in the ranking of its per capita GDP, evidencing that the country's economic growth has slowly translated into benefits for its population over the past few decades. As a matter of fact, Chile is one of only 24 countries whose level of human development rose from the category medium in 1960 (when its Human Development Index (HDI) was 0.584 to the category superior in 1990 (with an HDI of 0.880).

Chilean society achieved this progress by taking advantage of its historical and cultural potential. This process has been marked by a strengthening of the country's institutional, economic, social organizations and collective action capacities. It has also been driven by the struggles and work of people who take an active role in development.

However, in this same international context, Chile is vulnerable to several factors that could hinder its continue move toward development.

Unequal distribution of income is still an issue of concern, and has reached levels seen in the sixties. In **Chile**, the wealthiest 10% of the population makes three times more than the poorest 40%. This is well behind progress other Latin American countries have made, such as **Argentina** and **Mexico**, where the ratio is 2.1:1, **Costa Rica** (1.6:1) or **Uruguay** (1.2:1). (ECLAC:1995)

Society has also failed to advance sufficiently in the Human Development of women. Chile fell 15 spots in this international ranking, as research demonstrated the disparities between the sexes (Venezuela and Panama lead the region in this category). In areas such as political and economic decision making, gender inequalities are most acute, and Chile ranks 40th on the world scale and 13th in Latin America.

To overcome these obstacles, Chile's economy needs to transform its productive processes. Although still evolving, these processes provide a foundation for renewed competitiveness generated by and within the population and can be facilitated by technology, qualified jobs, the sustainable use of natural resources and a new export dynamic.

In light of these considerations, the question becomes: how equitable has this development been in terms of regional and local distribution? In fact, problems with regional distribution of development have been cited as some of the major obstacles to sustainable Human Development in Chile.

The purpose of this report is, precisely, to analyze these potential pitfalls. We must keep in mind, however, that sustainable Human Development will only be possible if systematic dynamism is made a fundamental part of both the means of attaining and the final goals of HD.

2.- Human Development

For the purposes of this paper, the concept of "Human Development" means increasing access to the options and opportunities necessary for basic human survival. These can be infinite and can change over time, but in all countries on this planet, the three most essential options are: to have a long and healthy life; to acquire the knowledge that gives every human being the necessary skills and potential to meet his or her basic necessities; and to have access to the income and resources necessary to enjoy a decent life, with liberty and respect for human rights. This is a comprehensive perception, and refers not only to material opportunities but also to those that elevate the spirit and dignity of human beings.

When talking about human development, we must stress that income is only one of the options to which people aspires, and while it may be the most important, it does not occupy an individual's entire life. **Thus, the purpose of Human Development is to expand all human options, well beyond material well-being or the mere satisfaction of basic needs. The best way to ensure sustainable Human Development in a given country is to make the people both the means and the final goal of development.**

In general, the principal components of Human Development are: **equity** that leads to equal opportunities; **productivity**, meaning a person's participation in the process of income generation and paid employment, using their own creativity and initiative; **sustainability**, which not only ensures access to opportunities for current generations, but also for future generations; and **human potential**, which reveals the double dimension of people as protagonists and beneficiaries of development and emphasizes their participation in the decisions and processes that affect their lives.

3.- Methodology:

Four different but related topics and their relationship to development were used to analyze the Chilean case, based on an interdependent perspective. These topics are: **social equality, competitiveness, social spending and regional social participation**. It is assumed that the positive interaction of these four factors will lead to sustainable Human Development.

The core idea is that the development dynamic of equity and participation requires efficient social spending and increased competitiveness. It follows that competitiveness will only occur under favorable social conditions and strengthened equity and participation. Thus, while this report presents these four components of Human Development separately, it is important to stress their interdependence.

The purpose of the analysis of **social equity** is to determine whether the country's burgeoning economic growth over the last decade has caused a higher level of human development not only nationwide (as demonstrated by UNDP annual reports) but also in each of the country's regions. This section of the report thus contains a regional dimension of Human Development, and all its components and conditions.

This section of the report **provides a general overview of the relative levels of Human Development in the country's different regions, through a comparison of the disparities observed inter- and intra-regionally.**

The fundamental methodological resource for this analysis was the **regionalized Human Development Index (HDI-r)**, which includes data on education, health and income. This figure is comparable to the annual index the UNDP generates for every country. Using the same variables and methodology, the UNDP carried out a regionalized comparison between the years 1982-1992.

Since the HDI is only an instrument for general comparison, it needs to be modified to distinguish the specific factors affecting Human Development within each category used in analyzing countries. Thus, given Chile's high level of development, we designed a "**densified index**" that incorporates new variables into each dimension of the original HDI to better reflect the specificities of the Chilean case.

To better estimate intra-regional disparities, wherever data was available we carried out **local HDIs**. Finally, the **regional HDIs were adjusted to account for gender disparities**.

After analyzing the four factors considered, we were able to observe a high degree of heterogeneity and social inequity on many different levels in many of Chile's regions.

The principal sources of data for this part of the report were the 1992 Population and Housing Census (Censo de Población y Vivienda de 1992, INE) and the 1994 CASEN survey (encuesta CASEN 1994, MIDEPLAN). In general, we used the most current data available.

The main purpose of the section of the report entitled **competitiveness** is to build an index to measure the level of competitiveness of Chile's different regions. It is the first attempt in Chile to **identify the strengths and weaknesses of each region in achieving endogenous sustainable economic development in the context of a globalized economy**. This section also assumes that competitiveness is a necessary –but possibly insufficient condition– to attain higher levels of Human Development.

Using methods developed by the Swiss think tank International Institute for Management Development (IMD) for reference and the expertise of Michael Porter, we designed an index to measure the competitiveness of Chile's regions. The index includes the factors that best define regional competitiveness: economy, business, people, administration, infrastructure, science and technology and natural resources. These factors are in turn defined by a given number of indicators.

In practice, the factors defining regional competitiveness comprise an **Index of Global Competitiveness. This index demonstrates the levels and types of competitiveness in each of Chile's regions, and how these levels affect the nation's development and Human Development in Chile.**

The primary research supporting this section was a survey of a sample of businessmen in each region of the country. Secondary data was added from other sources: the Central Bank, INE, MIDEPLAN, SUBDERE and other government agencies.

The chapter entitled **social spending outlines the principal tendencies in the allocation of public and social spending in each region**. This is a novel approach, in terms of the analysis and the statistics used, and is the first time a wide-spread effort has been made to collect data about this issue. We analyzed the spending figures using several indicators, including sectorial distribution, the region's GDP and levels of poverty. A final analysis attempts to pinpoint the level of decentralization in government spending.

The research for this chapter involved an exhaustive compilation of information from the government's many ministries and public offices. The principal data, however, were the reports from the Comptroller General's Office.

The final section is a **preliminary qualitative analysis of socio-political tendencies affecting Human Development in Chile's different regions**. This part of the report examines the current situation of three dimensions of Human Development affecting regional collective action: governance, competitiveness and level of community integration in the development process.

The analysis is structured around a series of "**extracted typologies**", and the objective is to construct a pattern of socio-political relationships around the three dimensions mentioned above.

In terms of methodology, the major sources of information for this section are 64 in-depth interviews, using qualified respondents, carried out in Chile's 13 regions. Complementary research included a study of regional development strategies and extra reading on the topic.

4.- Principal empirical tendencies found

a) Social equality

The Index of Human Development shows a significant improvement in this area between the years 1982-1992, both nationally and in each of the regions. This indicates that the geographic distribution of social equality is much greater in 1992 than in 1982, and the regions rank either medium or high on the Human Development scale. In this period, **the economic component of Human Development is one of the areas that has shown the most improvement.**

While the Human Development statistics did not vary significantly from one region to another, there are three clear tendencies worth noting.

First, while the majority of Chile's regions rank high on the Human Development scale, southern regions IX and X rank medium (with HDI values below 0.8, according to the UNDP World Report. See footnote 1).

Second, the statistics show that the entire south-central zone, from Region VI (O'Higgins) to Region XI (Aysén), have Human Development levels below the national index.

In contrast, the north-central zone, from Region I (Tarapacá) to the Metropolitan Region, has development levels above the national index. The exception is Region IV (Coquimbo), the only region in this zone with an HDI lower than the national figure (0.851).

When using the "Densified HDI" (which modifies the international research techniques and imposes stricter standards for comparison. See footnote 2), only three regions (I, II and XII) register index values higher than 0.800. The rest of the regions fall below this mark, revealing additional vulnerabilities when different development patterns are studied. **The most significant trend shown by the Densified HDI is the drop seen in the Metropolitan Region (0.788), which comes in fifth in the country. Using the original HDI, the Metropolitan Region came in second, although it certainly holds first place in economic development. Thus we reaffirm the fact that there is no automatic link between economic development and improvements in Human Development.**

When making inter- and intra-regional comparisons, we observe that the regions have very **distinct HD profiles**. This is seen by examining the levels achieved in each of the index's components. **Some regions have noticeable deficiencies in education, others in income. These profiles are crucial for defining public policy, since policy must allow for differentiation depending on the specific profile or problem of a region.**

Gender disparities are least noticeable in regions VI, VII and VIII, all with low HDI values. **The strongest gender disparity in these regions is in income levels, while education and health levels are almost equal for both sexes. This strengthens the argument that socio-economic conditions have a significant effect on discrimination against women.**

Further analyzing the research, local HDI values show that **49.7%** of the population lives in areas classified between 0.500 and 0.799, that is, a **medium level of Human Development**. Another **36.5%** lives in areas with an HDI value above 0.800, or a **high level of Human Development** (and an additional 13.7% of the population is unclassified). **This means that while Chile as a nation is classified as having high Human Development, when examined on a regional basis, the level of Human Development is borderline medium.**

The distribution of boroughs by HDI levels is similar to the population breakdown mentioned above. One hundred and thirty boroughs are located in the 0.6 to 0.79 HDI range, while 35 fall below this value and 34 register values higher than 0.79. Region VIII shows the most intra-regional heterogeneity, but also houses 13 of the 20 boroughs with the lowest HDI. In contrast, of the 20 boroughs with the highest ranking, 15 are located in the Metropolitan Region.

This data confirms that social inequalities have a geographic dimension that is both intra- and inner-regional, and this is a feature of current Human Development in Chile. This means that social sustainability can be very fragile in Chile. Thus, it could be a fundamental move to extend and geographically distribute social integration policies, by focusing on social spending and competitiveness.

b) Competitiveness

Among 48 countries, Chile ranks 20th in this category, according to the 1995 survey carried out by the Swiss Institute for Management Development (IMD) that measures the competitiveness around the world.

The special competitiveness index designed by UNDP for the Chilean case study shows that **the Metropolitan Region is the economic center of the country. As such, it concentrates the largest population and GDP and the highest score in global competitiveness.**

The country's farthest-flung regions, both in the north and in the south, have medium levels of competitiveness but represent a relatively small percentage of the country's population and income (I, II, IX and XII). The urban-industrial regions in the center of the country (Valparaíso and Bío-Bío), show medium levels of competitiveness and represent a more significant percentage of population and income. Levels of competitiveness are lower in rural/agricultural regions in the north-central and south-central zones of the country (IV, VI, VII, IX and X).

When considering the development strategy based on free markets and opening to foreign markets, the Metropolitan Region emerges as the clear winner. This is due as much to a prior accumulation of capacities as it is to the utilization of opportunities made available by the new economic scenario. In terms of natural resources, residents of the Metropolitan Region or foreigners own the most complex means of production and a good part of the natural resources themselves. As follows, market trends and available means of production favor the upsurge of a modern service sector in the Metropolitan Region, known as "economic macrocephalia" or excessive resource "gobbling."

In the case of Chile, the competitiveness factors most often associated with global competitiveness are those related to companies, people and infrastructure. These are considered "hard" factors, or those essential to competitiveness.

Noteworthy is the geographic distribution of the people factor among different regions, since it is highly unequal. This feature contributes decisively to heterogeneity in competitiveness among regions and makes efforts to establish more homogenous regional development very difficult.

Chile's competitiveness profile also reveals a significant deficit in the "science and technology" category, as this is an area where Chile competes only negligibly internationally. Thus, the majority of Chile's regions score low for this factor.

In conclusion, given **the disparate ratings for the people and infrastructure factors among regions, the deficiencies in science and technology and the preponderant role of the Santiago Metropolitan Region, it seems unlikely that Chile's current competitiveness profile and its development potential will remain steady over time. To ensure further progress in these areas, government action is sorely needed.**

c) Social spending

The UNDP made a series of recommendations in 1991 that were meant to help social spending in Chile become an effective instrument in reaching higher levels of Human Development. The principal recommendation was to use "spending quotas" to keep expenditures as rational as possible. One of the most efficient ways to do this, according to the UNDP, is to maintain the public spending index at a moderate level (around 25% of GDP- in Chile it is 19%), allocate a sizable part of total spending to social sectors (more than 40%- Chile allocates 70%) and concentrate on "areas of social priority" (only 30% of Chile's total social public spending goes to these areas, while the UNDP recommends 50%). The UNDP has established certain universal areas of priority, but this list is expanded to take into account the specific priorities in keeping with a country's level of development.

Based on these parameters, Chile receives good marks for spending quotas and expenditure in general. However, it is possible that the country may need to improve its how it prioritizes social spending.

Overall, 76% of total social spending goes to Chile's regions, with an accent on those farthest from the capital: Tarapacá, Antofagasta, Atacama, Aysén and Magallanes. Social spending in the south-central regions and the Metropolitan Region is below the national average.

The regions in general have shown they have more control in terms of receiving the public spending they request, and this increases government efficiency, but there are still challenges ahead.

In terms of public investment controlled directly by the regions themselves, the so-called Decentralized Social Subsidies and Demand-Side Subsidies, it is clear that regional discretionality for the allocation of social spending reached 25% of total public expenditures and varies widely from one region to another.

The distribution of regionalized social spending contrasts with other social indicators, like the "Regional Human Development Index," poverty levels and per capita income. **The evidence suggests, therefore, that Regionalized Social Spending does not necessarily focus on regions with the lowest indicators and sometimes even favors regions in the best comparative conditions.**

To resolve this issue, further studies are needed to assess the implicit and explicit mechanisms the State uses to allocate funding inter-regionally. This would involve a study of the funding level each

region has received over time, the coordination mechanisms uses, lobbying efforts and allocation bargaining methods, etc.

In conclusion, it appears that a majority of the regions have experienced real improvements in per capita regionalized spending. However, there has been no change in the composition of spending among the regions. **Those regions that received the highest level of spending nine years ago are virtually the same regions that receive the largest piece of the spending pie today.**

This issue also requires further research, not only to identify patterns of spending, the method used so far to date, but also to determine the changes in the processes that led to a given spending distributions.

d) Socio-political considerations

HD should be generated by the direct action of protagonists, people and institutions from different regions in the country, not just by the government or a centralized agency. Human Development can only be improved if society's myriad players participate in the processes that shape their lives. In this sense, democratic decentralization is the best way to promote regional participation and efficiency. In effect, participation empowers people with dignity and self-respect.

Decentralization also implies a change in the structure and logic of the current concept of power that is ingrained in the minds and everyday lives of our society. The trends mentioned below clearly point out the different challenges and demands of the decentralization process.

The concerns mentioned are only an initial approximation, but can serve as guidelines for future studies that delve into the specific issues.

The key limitations that curtail the expansion of the current decentralization process pose a threat to the legitimacy of institutional structures and political decision making processes and thus to democratic governance.

One of the clearest examples of this is the criticism of the current institutional structure and the centralization in decision-making. This criticism rings loudest among members of civil society, but it is also detectable in the regions themselves.

These critiques appear most often in regions where social and institutional actors better consolidated and it follows that demands and questions are weaker where the players are frail. This information should help researchers identify the issues that can be most easily and thoroughly investigated in the future.

Nonetheless, certain specific situations merit specific mention here. First, **strong criticism is heard of the roles played by political parties, especially when referring to appointment of regional authorities and the capacities leaders have to promote regional or local development.**

The interviewees also criticized the maintenance of old bureaucratic clientelistic mechanisms in the local political structure. They question the vertical system the central government uses to appoint regional authorities.

One interesting aspect of the interviews is that **almost all respondents recognized the need to create new regional and local leadership, more closely linked to life, actions, the capacity for social articulation and the way teams work in the regions. They clamor for regional leadership that is highly ethical. It seems there is gap between the "traditional" performance**

of political parties, including their parliamentary representation, and the need for modern and renewed leadership, as perceived by the majority of those interviewed.

Second place, the majority of respondents noted that the regional public apparatus needs to be modernized. This modernization would involve human resources on the one hand and an adequate system for institutional incentives and management on the other. Higher salaries in the public sector is another recommendation mentioned.

The integration factor shows inconsistencies between the current regional administrative structure and provincial and local cultural identities. The people interviewed, especially those respondents from civil society, perceive their cultural identities not only as a memory of a common historic legacy, but also as an important variable for promoting regional development.

In this framework, the current mechanisms for participation like the CORES (Regional Councils) and CESCOS (Economic-Social Councils) are evaluated, perhaps prematurely, as super-structured entities that do not encourage participation and have little impact on the processes of regional or local development. It seems that currently in Chile, in order for an institutional and participatory process to be effective and legitimate, highly participatory instances are needed, where the results hoped for are as important as the methodologies utilized.

Finally in all regions there is also a fairly widespread perception that without significant changes, the current social and economic inequalities will continue and even become more acute. In this same vein, it is feared that the most economically dynamic areas in Chile will continue to incorporate the latest technologies into their productive processes, thereby making the work force in outlying areas more and more dispensable over time.

There seems to be a need to modernize, increase competitiveness and regional participation as the principal means for regional integration in the development process. There is, however, a certain fear or repudiation of being excluded from a modernization process that is generated outside the country. Any HD-r policy that hopes to be realistic and successful will have to take these concerns into account.

In general, the regions are **demanding more political democratization as a catalyst for more equity and participation in the productive processes.**

5.- Suggestions for basic policy guidelines aimed at promoting regional Human Development in Chile

With the hope of fostering greater dialogue among different social and political players in Chilean society, the authors present below several recommendations for intensifying the decentralization process. Throughout its history, Chile has rarely had the **socio-economic conditions and national opportunities found today nor conditions more favorable for a decisive change in the relationship between the central government and the regions.**

In order to visualize this change some general strategies need to be identified that will establish and consolidate Human Development processes in the short term. The suggestions mentioned below are meant to serve as guidelines to be more intensely researched and analyzed at a later date.

a.- The first suggestion is to identify the critical areas mentioned in this report and in other complementary studies, especially in terms of "Regional Development Strategies." A formal assessment would be a crucial step towards developing policies that could help the country tackle

some of the critical issues that continue to generate centralization and inequality. Once the policies are defined, the government could develop a specific timetable for Human Development goals in each region that would seek to combat the shortcomings outlined in this and other reports.

b.- The Human Development Index results for the poorest boroughs will need to be improved. MIDEPLAN has already begun to work in this vein by allocating greater portions of social spending to these areas. It is also essential to expand the Indexes of Competitiveness and Social Spending in the boroughs and regions that most need improvement, and to implement an agenda of socio-political participation in every region.

c.- The decentralization of local institutional decisions is one of the best ways to promote participation, efficiency and equity. This is a national consensus that needs to be perfected legally to define the resources and devices that each ministry or public office should hand over to regional administration and decision-making.

d.- Access to equal opportunities must be improved on both a personal and a regional basis. Equal opportunities means an end to centralism, which in many cases is a "fear" about regional capacities for management and decision-making.

e.- An important factor in the strategy to increase productivity and competitiveness and make them more sustainable is the strengthening of a growing participation in regions, boroughs, towns and neighborhoods.

f.- In order to generate development that is well distributed geographically, business capacities in regions and boroughs need to be disseminated and promoted. This is how competitiveness relates to human development.

g.- Effectively confronting the Metropolitan Region's tendency to gobble resources is an urgent task. Experts do not question the externalities of this situation, as they negatively affect the rest of the country's regions and the Metropolitan Region itself, especially in terms of quality of daily life.

h.- The government should refocus its public policy, putting more emphasis on regions and boroughs with lower levels of development according to the necessities and expectations of local human development. Regional diversity means that regional social spending on human capital should increase, but the government also needs to define concrete objectives that respond to the diverse problems facing Chile's regions and boroughs.

i.- The government should also develop a strategy to strengthen regional civil society. This would involve the creation of a series of material, political and symbolic incentives on a regional level and within the regions as well. This type of policy aims to foster an autonomous capacity for collective action associated with modernization and promotes greater efficiency in regional action.