

## Progress towards parity



Student mobilization for educational improvements has echoed a general discontent with social inequity. Led by Chile's first woman president, the new Government has announced measures to improve the privately funded pension system, with a particular emphasis on achieving parity for women.

Equipo de ACTIVA<sup>1</sup>

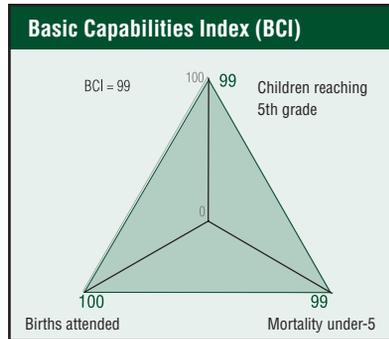
"Copper sky high, education rock bottom" was the most representative slogan of Chile's largest social protest movement since the return to democracy in 1990 after 17 years of military dictatorship. Between April and June 2006 there was a countrywide mobilization of some 600,000 secondary students demanding government action to improve the quality of education.

The slogan clearly alludes to the extra USD 11 billion that the State will collect this year due to an increase in the price of copper, the country's main export product. "The March of the Penguins" (a name arising from the students' blue and white uniforms) not only highlighted the poor quality of education but also echoed the discontent felt by hundreds of thousands of Chilean men and women with an increasing awareness of the unequal opportunities generated by acute social inequity.

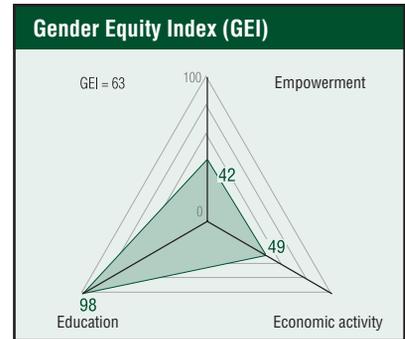
### Disaffected children of democracy

The outbreak of student unrest came as an unexpected shock to the Government. Particularly so because of undoubted efforts made by the governing coalition in education matters since they assumed power after the dictatorship. In fact the education budget increased from CLP 619.9 million (approx. USD 1.66 million) in 1990 to CLP 2.28 billion (USD 3.94 million) in 2005; the Constitution was amended to extend from 8 to 12 the number of years of compulsory free schooling provided by the State; at primary level full-day schooling is being introduced as a result of which more than 2 million pupils in 7,000 schools have access to better infrastructure and more class-hours. Between 1990 and the present day the number of young people enrolled in higher education has risen from 245,000 to over 600,000. In 1990, 72,000 of them were receiving financial assistance towards their studies amounting to a total of CLP 28 billion (approx. USD 75.03 million) and by the end of 2005 160,000 were receiving such assistance that then totalled over CLP 28 billion (USD 48.35 million). The overall fiscal contribution to higher education has risen from CLP 123 billion (approx. USD 329.58 million) in 1990 to approximately CLP 290 billion (USD 500.69 million) in 2005.

<sup>1</sup> The report was prepared in consultation with members of Coalición Chile.



Why then has student discontent arisen? Largely because upon graduating from municipal schools it is very unlikely that students will be able to enter technical or higher education or acquire a trade enabling them to get a qualified job. These fourteen- to seventeen-year-olds are demanding that the authorities make radical changes to the education system, the inequalities of which are evident. There are around three million secondary students of which only 8.5% attend non-subsidized private schools. In these schools there is an average monthly investment of CLP 140,000 (USD 267) in the education of each pupil. For the 91% of young people attending municipal and subsidized private schools this figure is only CLP 30,000 (USD 57). The strength and persistence of the secondary students' movement and the echo and sympathy that it has found in the rest of the population are therefore not surprising.



### The other side of the coin: an avalanche of dollars

The student mobilization interrupted a debate provoked by a new situation unprecedented in the history of a country characterized by decades of indebtedness and balance of payments deficit. With the price of copper close to USD 4 a pound, the dominant debate in the public domain – and in media headlines – focused on how to manage, and where to invest profitably, the avalanche of dollars produced by a period of steadily rising copper prices, instead of on discussing the best way of easing and managing the public debt.

Chile is increasingly different from the rest of the region's countries in becoming for the first time in its history a net creditor country, i.e. it is contributing to the financing of other economies' deficits.

The country's net consolidated public debt will have a positive balance of 2.5% of Gross Domestic

TABLE 1

Chile's macroeconomic performance						
	2000	2001	2002	2003	2004	2005
Growth rate	4.5	3.4	2.2	3.9	6.2	6.3
Internal demand (real annual variation as %)	6.0	2.4	2.4	4.9	8.1	11.4
National income (real annual variation as %)	4.4	2.4	2.8	3.9	8.6	9.1
National savings (% GDP)	20.6	20.6	20.7	20.7	23.0	23.6
Inflation (to December each year)	4.5	2.6	2.8	1.1	2.4	3.7
Unemployment rate (%)	9.2	9.1	8.9	8.5	8.8	8.0
Exports (USD millions)	19,210	18,272	18,180	21,664	32,215	40,574
Imports (USD millions)	17,091	16,428	15,794	17,979	23,020	30,394
Current account balance (USD millions)	-897	-1,100	-580	-964	1,586	702

Source: Chilean Central Bank, National Statistics Institute.

Product (GDP) this year, estimated by the Central Bank to be between USD 2.5 billion and USD 3 billion. This is due to the application of the structural fiscal surplus rule that allows for a more expansive public expenditure only in low phases of the economic cycle while emphasizing fiscal saving in high phases.<sup>2</sup>

### Pensioners expect change

One sector likely to gain from this fiscal boom are the hundreds of thousands of senior citizens who would benefit by the Social Security Reform promised by President Michelle Bachelet, of the Socialist Party, for her presidential term, which began in 2006 and was reduced to only four years of government by the most recent constitutional reform.

This reform is a high government priority because after 25 years there is now evidence that the Pension Fund Administration (PFA) system – based on individual capitalization capacity – will never by itself provide pensions to all Chileans.<sup>3</sup> In fact, only a fifth of PFA affiliates will receive pensions higher than the minimum guaranteed by the State, equivalent to some USD 85 per month, and more than half of them will receive no pension, only the possibility on retirement of withdrawing the limited funds that have accumulated in their individual accounts. In short, everything seems to indicate that the State will have to subsidize the millions of women and men who, based on the assumption that it would ensure an adequate income for life during old age, have since 1981 been paying part of their salaries into a system created during the military regime and administered by the private sector.

PFAs have become one of the most dynamic sectors in Chile's economy, yielding an annual return close to 25%.<sup>4</sup> In contrast with this thriving reality there are problems with the overall pension system of a seriousness that makes radical surgery unavoidable. Less than 60% of the labour force is contributing affiliates. Over 50% of the labour force has incomes of less than USD 370 per month. Half of the affiliates are wage-earners who pay contributions for less than 4.2 months a year in the case of men and 3.6 months a year in the case of women, resulting in only small accumulated sums in their accounts far less than the USD 26,415 required to obtain a minimum pension. Around 90% of self-

**TABLE 2**

Participation, unemployment and pay: men and women between 20 and 60 years old (2002)			
	PRIMARY EDUCATION	SECONDARY EDUCATION	MORE THAN SECONDARY
<b>Income from work (CLP)</b>			
Men	141,065	210,268	467,007
Women	95,126	144,321	293,909
<b>Possibility of being in work (%)</b>			
Men	77.6	84.5	88.6
Women	45.8	59.2	74.9
<b>Participation Rate (%)</b>			
Men	91.2	95.4	94.4
Women	59.8	71.4	83.7
<b>Unemployment Rate (%)</b>			
Men	14.9	11.4	6.6
Women	23.4	17.2	10.5

**Source:** PFA Superintendence

employed workers do not pay contributions; 78.2% of senior citizens and 90% of over-seventies receive pensions but only 4.3% of them are PFA financed from funds accumulated in individual accounts of which a significant part are provided by the State.

### Gender disadvantage

The situation of pensioners in general is not encouraging and even less so in the case of women. The figures are explicit. The overall average contribution "density" is low at 52.1%, i.e. approximately 21 years of contribution in a 40-year working life. For women, the situation is even more precarious with an average contribution density of 43.4% as compared with 59.6% for men.

A government that has made gender parity one of its key priorities cannot overlook the discrimination against women and the disadvantage inherent in the pension system. This is due, among other reasons, to the increasing relationship between self-generated pension income and income received during the working life of an individual. Here it is evident that women suffer in three ways: because of the characteristics of their integration and permanence in the work market which are affected by child rearing, through gender related lower pay and as a result of high rates of female unemployment.

In the state pension system neither gender nor marital status affects the size of a pension which is determined solely on the basis of the wage at retirement and the number of payments made. However this is not so in the PFA system where women are required to make larger contributions than men because they tend to live longer. In addition a married man has to pay more than a single man to cover the probable longer life of his wife.<sup>5</sup>

### Commitment to equity

The present administration's commitment to pensioners was demonstrated recently with the publication of proposals generated by the Social Security Reform Commission, a body of experts drawn from across the entire political spectrum and charged with making recommendations on this subject. The Commission's nine main proposals included the creation of a solidarity pillar with the aim of ensuring a basic universal pension of USD 142, suggestions for encouraging contribution payments by self-employed and young workers, tenders for portfolios of affiliates that have just entered the work market and the subsidizing of monthly contribution payments made by low income workers. Two of their proposals received immediate but differing responses from the Chilean President. On the one hand a categorical rejection of the proposal that the retirement age for women be made the same as for men at 65. On the other hand a positive reception for the recommendation to subsidize the pension payments of 60% of the poorest women in the population by providing one year's contribution per live birth. For feminist groups this is a clear indication that Chile is approaching the old aspiration of 'a pension for the housewife'. ■

2 The structural fiscal surplus regime, introduced in 2000, is an anti-cyclical rule that determines fiscal expenditure levels compatible with a 1% of GDP surplus if the economy grows in accordance with its potential and the average price of copper remains in line with 10 year estimates.

3 Decreed Law No. 3500, 1980, instigated an obligatory pension regime based on individual capitalization, no fixed benefits, private and competitive administration and the free choice of affiliates. This regime replaced the old system of shared funding that was based on generational solidarity, state administration and fixed benefits.

4 According to estimates by Economist Marcel Claude, "PFA administered funds amount to over 40 thousand million pesos, which in 2004 represented 64 % of Chile's GDP. That is, out of every 100 pesos generated in the country during that year, 64 were PFA managed". *Radio Universidad de Chile*, 22 March 2006.

5 Bernstein S. and Tokman, A. (2005). *Brechas de ingreso entre géneros: perpetuadas o exacerbadas en la vejez?* Working Papers Series N° 8. Pension Fund Administration Superintendence. Santiago, Chile.