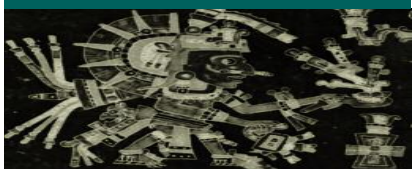
THE AMERICAS



The Rating Game and the Chilean Model Revisited

Myron Frankman

OUR PREOCCUPATION WITH MEASUREMENT is exceeded only by our fascination with rankings. The most frequently employed tool for arraying the countries of the world by their economic achievements is per-capita income, despite the many shortcomings of this tool. Among them are the difficulties associated with valuing non-market transactions, the omission of the underground economy, the difficulties in choosing an appropriate exchange rate for conversion to a common currency, and the measure's total silence on the extent of income inequality in a country. These and other relatively insurmountable weaknesses of per-capita income data have led to a seemingly endless search for alternative measures to compare the average well-being of the inhabitants of each nation.

Three Indices

For a time, the Overseas Development Council in Washington promoted the Physical Quality of Life Index (PQLI), which was based on a composite ranking of three social indicators: the infant-mortality rate, life expectancy at age one, and the literacy rate. The PQLI avoided a number of the difficulties that bedevil the use of per-capita income, in that it contained no monetary component. It was nonetheless unsuccessful in dethroning per-capita income as the comparison instrument of choice.

The Human Development Index (HDI), which has offered a more serious challenge to per-capita income, was introduced in 1990 by the United Nations Development Programme in its annual *Human Development Report (HDR)*. The HDI is a common reference point (particularly in Canada which has ranked first on the HDI among the over 160 countries of the world in 4 of the last 5 years), although the statistic's exact meaning is understood by only a scarce few. The Canadian press and governing-party politicians have characterised the country's top position as meaning that Canada is the best country in which to live. Self-congratulatory breastbeating is far easier than explaining what this peculiar composite index really means.

HDI scores, which range from 0 to 1, are based on a country's relative rank in 4 categories: adjusted per-capita income, literacy, years of schooling, and life expectancy. The Achilles' heel of the HDI may well be the "adjusted" income component. The problems with per-capita income measures are compounded when one begins making pseudo-scientific adjustments to a number already fraught with serious conceptual and measurement difficulties. The first adjustment is to take account of the fact that prices of goods (especially non-traded goods such as restaurant meals and domestic services) differ radically across countries, making straight dollar-income comparisons faulty. Using instead the purchasing-power-parity (PPP) exchange rates, per-capita incomes in rich countries are more readily compared with those in poor countries.

But the most controversial element in this measure which attempts to capture average human deprivation is the virtual capping of the per-capita income component. The underlying rationale is that incomes above the average world income (measured in PPP dollars) contribute little to deprivation reduction. In the 1996 *HDR*, the 1993 US per-capita income of $24,690 (US) was adjusted to $5,973 (US). Panama's adjusted income was $5,738 (US), a mere 3.9% below that of the United States, although Panama's unadjusted per-capita income was 76.1% lower.

This past year a new ranking appeared, buried in an appendix midway through the 1996 *HDR*. It is based on the work of the Indian economist Amartya Sen. His lifelong concern for the ethical indifference of market processes arose from witnessing first-hand the Bengal Famine of 1943. For Sen, the intense human suffering of that period did not spring from a failure of crops, but rather a failure of entitlements. Food was available for those who could pay for it. Sen's work draws attention to both ethics (the centrality of entitlements for meeting basic human needs) and physiological requirements (individual capability). Sen's Capability Poverty Measure (CPM) contains three elements, which he regards as equally important: births unattended by trained health personnel (where "training" is broadly defined), the illiteracy rate for women 15 and above, and the share of children under age 5 who are underweight. Like the PQLI, the CPM is a measure that has no monetary component. In a ranking of 101 underdeveloped countries, Chile not only had the best (lowest) score, but had fewer close contenders for top spot than Canada had as leader of the HDI pack.

Explaining Chile's Top Ranking

How can we explain the apparent anomaly of Chile being first among the developing countries in a ranking composed solely of social indicators? Singapore and Cuba, which rank ninth and tenth, are separated from Chile by 4.9 and 5 percentage points respectively. By comparison, when one expresses the HDI as a percentage, 24 countries are within 5 percentage points of Canada's top position in 1996. Chile's top position seems to be inconsistent with the common perception of the growth of poverty and the associated downsizing of the state during the Pinochet years. Could this be the result of the market doing its fabled magic? Is it the workings of Chilean social democracy of the 1990s in attending to the needs of the Chilean population? Or is the reality actually more complex? Whatever the rebirth of social democracy may be achieving, it may not even be an element in Chile's CPM ranking, given that only one of the

Associate Professor of Economics at McGill University in Montreal, Canada, and Visiting Academic (1995-96) at Universidad de Chile in Santiago.

three components (female illiteracy) is explicitly identified as being from the 1990s. The other CPM values for all countries listed are either from 1983-94 or from 1985-95, as non-standard social indicators tend to be estimated at irregular intervals, which is the case as well for statistics on income distribution.

A different light is shed on the Chilean model if one invokes the UNICEF approach to ranking countries. UNICEF, whose domain is children, ranks countries by one measure only: the mortality rate for those under 5 years of age. Consider, instead, the data in the accompanying table on infant mortality in the countries of South America. These numbers show another side of the Chilean experience of the past 30 years. In 1967, Chile's infant mortality was sixth among the 10 countries. By 1982, Chile already had the lowest rate in South America. Over the quarter century covered by the table, Chile's infant-mortality rate fell by 82%, with the largest percentage decline (65%) occurring remarkably between 1972 and 1982. Chile's decline in infant-mortality rates over the 1967-92 period exceeded by 20 percentage points that of any other country in South America.

Infant Mortality in South America
(deaths per thousand births, ranked by 1992 value)

	1967	1972	1982	1992
Chile	89	69	24	16
Uruguay	47	46	33	20
Venezuela	60	49	34	23
Argentina	57	48	32	24
Colombia	82	73	41	37
Paraguay	59	55	46	38
Ecuador	107	95	68	50
Brazil	100	91	71	58
Peru	126	110	82	64
Bolivia	157	151	109	75

Behind the Standard Data

Economists speak of path dependence: today's possibilities are conditioned by yesterday's circumstances and institutions. This notion is useful in illuminating the decline in infant mortality. Chile recorded sharp declines in infant mortality beginning in the 1920s, reflecting the development of its public health infrastructure. The percentage decline in infant mortality between 1967 and 1972 was also the highest in South America. The decline in the following decade reflects not the triumph of market principles, but rather the harnessing of the public health system and some existing nutritional programmes to the cause of infant survival, nutrition, and recuperation from severe malnutrition. The ideas of Dr Fernando Monckeberg, founder and director of the Corporation for Infant Nutrition (CONIN), about the limiting effects of malnutrition and stimuli deprivation on infants and pre-school children strongly informed some of the new programmes established in the mid-1970s. Through CONIN, for example, rehabilitation centres were established at which undernourished children up to 2 years of age remained interned until their condition improved significantly. In the context of declining financial resources for public health care, a singular priority assigned to the very young, while otherwise commendable, meant limitations on the quality and availability of care for others, including older children.

Our conventional economic and social indicators implicitly suggest that a positive change in one key element will be associated with other favourable developments, but this is more likely to be the case in a growing economy where structural change is relatively gradual. In the 1973-82 period, not only were the roles of state and market being altered in Chile, but income growth was highly erratic. The Chilean experience represents an early application of targeting a particular segment of the population for receipt of state services. The performance of indicators such as Sen's CPM or infant mortality seems to suggest the wisdom of targeting, but targeting presupposes that those who are not the focus population will be doing well. As public health facilities deteriorated in quality and economic marginality expanded in Chile, this ceased to be true. The standard data tell us nothing directly about the survival strategies of individual Chileans, or the role played by the organisations they formed during the 1970s and 1980s to provide for the needs of the newly poor. These organisations were created to fill the breach left by a state whose role was being reduced and redefined and, eventually, helped to restore democracy to Chile in 1990.

Popular organisations mushroomed in Chile in response to unmet needs. Non-governmental organisations (NGOs) became and are now an extremely visible Chilean presence. The Chileans have shown a remarkable social inventiveness born of dire necessity in the years when they could not count on government to handle their problems. A solidarity emerged that found its expression in flourishing self-help-oriented NGOs devoted to social needs, which either arose or redoubled their efforts during the 17 years of military rule following 1973. These organisations were able to count on a measure of external funding from foreign governments and NGOs. And one should not neglect the eventual tempering effect of the intense external spotlight that was turned on human-rights violations and poverty in Chile throughout the years of military rule.

There has been a Chilean miracle and an associated Chilean model, but it is a far more intricate model than that of marketplace magic which is said to turn private vice into public virtue. Moreover, the experiences of others are not to be mimicked, but rather studied in depth, taking full account of the successes and failings. One should be wary about concluding that the attainment of desirable outcomes requires that deliberative processes be swept aside by repressive means. The Chilean reality has been shaped by a society that by 1970 was already highly literate, political, and urban—Chile was then and is still more highly urbanised than France. Reaching those in need is made easier because they are spatially concentrated. The Chilean model, however imperfect, is that of a shifting relation between state activism, market freedom and citizen involvement through a myriad of forms of expression and organisation. Mutual aid through spontaneous organisation motivated by values of common humanity was a central factor in Chile's response to adversity at the community level. As homelessness and poverty become palpable in the industrial countries, we may find it appropriate to take inspiration from this key element of the Chilean model. ◆