Comments on the work of Mario Matus, “El peso del gasto social en los ingresos de los trabajadores chilenos, 1886-2010”

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A significant contribution to the economic history of Chile

Studying the evolution of social expenditure (“E+S+V”) in parallel with the evolution of real wages for an extended period (1886-2010): very impressive work!

• This is a period that encompasses different economic development models. Thus, this represents a very valuable approximation to the standard of living of (non-qualified) Chilean workers under different economic / institutional environments (going beyond GDP and complementing anthropometric indicators)

• Moreover, this work engages with the literature on these topics, in Chile (Casanova, 2021; Lorca-Jaña et al., 2018, 2020), and internationally (Lindert, 2004/2011)
A clear / serious methodology (and limitations are acknowledged)

Methodological decisions are made explicit, and the results are replicable: constructing a series of average-daily social expenditure per year (from total to per-capita to per-worker to daily-per-worker)

Limitations:

• Only some dimensions of social expenditure are considered (vs. “P+S+O”)
• Worker / regional heterogeneity is not considered
• Taxes paid by workers are not considered
• Total expenditure in each item is considered; this includes the bureaucratic administration of the expenditure
1. The financing of social spending (“fiscal balance”?)

The composition of tax revenues (leaving non-tax revenues aside), during the 20th century includes: indirect taxes (including taxes on specific sectors); indirect taxes on foreign trade (including taxes on exports) and; direct taxes (income + property) (Jofré, Lüders, Wagner & 2000)

• During most of the period under study we find a prevalence of indirect taxes (which are regressive with respect to income). So, what about non-qualified workers in this context? They pay indirect taxes!

• More significantly, what about fiscal deficits financed via inflation? Not only is it important to recall the regressivity of the “inflation tax”, but this tells us about how sustainable over time government spending is

• And the Casanova (2021) hypothesis!
2. Comments on the (procyclical and countercyclical) evolution of social expenditure

The evolution of social expenditure is analyzed in terms of its behavior vis-à-vis real GDP per capita. But, what is the implicit assumption about economic-policy making, specifically regarding the cyclical behaviour of social expenditure?

The question is: How can we explain the evolution of public social expenditure in a democracy?

• Here we should consider democratization processes (Meltzer & Richard, 1981; Acemoglu and Robinson, 2000). How may the extension of the franchise have mattered in Chile? 1949? 1972?

• And what about electoral cycles? Or the role of ideas? (1960s?)

• Vs. public-sector employment (as a middle-class phenomena)? (Barría 2015)
3. Social spending and the standard of living...

One of the goals of this work: “[Estudiar] el efecto conjunto que ambos ingresos tuvieron en el ingreso agregado de las familias y el la evolución de de la desigualdad”. This is important...

But, what is the purpose / objective of social spending?

- Alleviating poverty or improving income distribution?
- Promoting equality of opportunity or equality of results?

In any case (and independently of these goals), one cannot but agree with the main result: “El gasto social así medido parece haber venido a cumplir un tardío rol complementario” (and it has become important as a % since 2005)

But what about Lindert’s (2021) question?: “How does social spending relate to economic growth and which countries have got this right and wrong?”
4. The evolution of living standards (under an inflationary context)

Regarding the long-run behavior of real wages for non-qualified workers it is argued that, “este desempeño en general es bastante magro ... [y] no permiten ser condescendiente con ningún modelo de crecimiento entre 1886 y 1990” (vs. post-1990!)

How do we explain such (overall) evolution?

- A cyclical behavior of real wages... But, how competitive was the labor market? And what is the role of nominal rigidities here?
- At the same time, persistent inflation is also important in explaining the evolution of real wages... especially, the role of unexpected inflation
- An important problem: smoothing the business cycle (macro stability) as an objective of economic policy (Matus & Reyes, 2021): why was this so hard for so long? Political economy issues or the “marketplace of ideas”?
25 AÑOS DE CONQUISTAS SOCIALES

1931-32  1933  1934  1935  1936  1937  1938  1939
1940  1941  1942  1943  1944  1945  1946  1947

Topaze, August 31, 1956
Declining real wages as a political and social problem

“I just want to indicate that the apparent tranquility of the Chilean masses in the face of an almost continual declining real income from 1953 on has always puzzled me and my colleagues. (...) In my own thinking I am quite convinced that the inflation spirit of the first half of the 1950s was a definite factor in putting up a smoke screen over the fact of a declining standard of life of the laboring classes. When this smoke screen was lifted with the anti-inflation attempts of Klein-Saks, we all expected the explosion to come very soon. There were some nasty incidences, as you recall... [B]ut somehow a basic blow-up could always be postponed.” (Joseph Grunwald to A. O. Hirshman [sic], March 27, 1962)
Thank you
(and congratulations to Mario Matus)