

---

## ESSAY

---

# CHILE'S ECONOMIC AND POLITICAL TRANSITION: 1970-1990\*

**Juan Andrés Fontaine**

The author examines the origins and the evolution of the economic and political transformations in Chile over the last twenty years, as relates to three central issues: i) the impact that the interventionist economic policies of the governments over the preceding decades could have had on the breakdown of democracy in Chile during the 70s; ii) the economic reforms brought about by the military government in light of the existing tension between its authoritarian nature and the liberal spirit of its policies; iii) the existing relationship between a market economy and the subsequent transition from a hard-line regime to a democratic government.

JUAN ANDRÉS FONTAINE. M. A. in Economics, University of Chicago; Former Dean of Studies at the Central Bank; Professor at Pontifical Catholic University of Chile's Institute of Economy. Among his articles published previously in *Estudios Públicos* the following can be mentioned: "The Economic Point of View" ("*El punto de vista económico*"), "The macroeconomic role of the State" ("*El rol macroeconómico del Estado*"), "Chile's debt conversion mechanism" ("*Los mecanismos de conversión de la deuda en Chile*") and "Thoughts on the Chilean macroeconomic experience between 1985 - 1989" ("*Observaciones sobre la experiencia macroeconómica chilena de 1985-1989*"), issues 2, 9, 30 and 40 respectively.

\* Translated English text of the paper was presented by the author at the "Economic, Society and Democracy" seminar held during May, 1992 in Washington D.C., sponsored by the Hoover Institute and AID.

*Estudios Públicos*, 50 (Autumn 1993).

## Introduction

**C**hile has been successful in developing a market economy. The transformation of the Chilean economy was brought about by a military and authoritarian government, which at the onset of 1990, handed over peacefully to the democratically elected authorities. Since then, the Chilean people have enjoyed a democratic regime and likewise a market economy.

I will attempt, in these pages, to render a brief description of the origins and the evolution of the Chilean economic and political transition. In some respects these statements may be influenced by my own experience in the economic policy formation process at the Central Bank of Chile (Banco Central de Chile) between 1984 and 1989, when the “Chilean Model” was rescued from virtual shipwreck, later to be consolidated. Even so, I hope that my particular analysis perspective of the developments that took place in Chile will not distort the objective facts.

This essay is presented as follows: the first part deals with the Chilean democratic breakdown. The issue here is: to what degree can the breakdown be substantiated, at least in part, by the interventionist economic policies of previous decades? The second part describes the Military Government’s economic reforms. The third section refers to the associations between the reforms introduced to open up and free the market and the Chilean re-democratization process: to what extent did the economic transformations enable the political transition towards a democratic regime?

Any of these issues could, of course, be the subject matter of an essay in itself. However, in order to save space, I will keep this to the presentation of the basic hypothesis rather than develop a complete analysis.

### 1. THE BREAKDOWN OF CHILEAN DEMOCRACY

Why the exemplary Chilean democratic tradition was suddenly interrupted in 1973? In fact, the issue has been analyzed in depth and it is not my purpose here to review the plentiful literature available on the subject. Analysts and political science experts tend to agree that during the 1940’s and 1950’s Chile had reached a significant degree of “social consensus”, which enabled its political and economic performance. During the 1970’s, however, the scenario started shifting as “political polarization” led to increased frustration with the prevailing political and economic order.<sup>1</sup>

---

<sup>1</sup> For a full analysis of the Chilean process, see Valenzuela (1978) and Falcoff (1989).

Political parties started to propose broad economic and political reforms; “global solutions” that addressed the most diverse aspects of social life.<sup>2</sup> It would appear that this political polarization reached its peak between 1971 and 1973, during President Allende’s government and his failed attempt to build a Marxist-socialist socioeconomic system.

### 1.1 The redistributive State

For purposes of discussion, it is important to specify the nature of the “social consensus” of the 1940’s and 1950’s. In my opinion this consensus was based on the pervasive use of a political process aimed at redistributing riches or incomes.<sup>3</sup> It was not, however, redistribution focused necessarily on the low-income sectors, but rather it was a pressure and influence play that prompted mass reassessments among the different social and economic sectors.<sup>4</sup>

As Valenzuela states (1978), “the need to accommodate exacting demands contributed to continuance of a policy of accommodation and compromise” (p. 19). These demands, basically, included claims from workers’ trade unions, from professional associations and trades union’s confederations for greater involvement in the national income. These groups were articulated by the political parties that operated as “key networks for processing claims” (p. 9) Thus, “representatives of the different political groups and fractions spent most of their lucid moments processing widows’ pensions, jobs for school teachers, salary adjustments for union associations, bridges for municipalities and a great number of other favors, acting either directly or as middle-men with a complex government bureaucracy” (p. 8). Chile, prior to 1973, is a classical case of the so-called *rent seeking society*.<sup>5</sup>

In essence, to fulfill these “exacting demands” implied reassigning incomes to benefit the more influential groups and this became the basis for sustained expansion of the state’s intervention in the economy. The increase intervention of the State in Chile, as is the case in the majority of under-

<sup>2</sup> The destabilizing nature of the “systemic” controversy was raised by Góngora (1981). Ffrench-Davis y Muñoz (1990) linking said debate to the distribution of property.

<sup>3</sup> The theory behind this viewpoint can be found in Downs (1957), Becker (1958), Stigler (1970, 1972), Peltzman (1976) and many other economists from the “Chicago School”

<sup>4</sup> Stigler (1970) argued that, under the rules of democracy, the income transfer model responds to what he calls the “Director’s Law”: the income redistribution of the higher and lower income levels towards the “middle classes”. This could be the case, for instance, when the transfer is costly and the political involvement of the low income groups (“disadvantaged groups”) is low.

<sup>5</sup> The phrase was coined by Krueger (1979).

developed countries, was particularly evident following the discredit of capitalism brought on by the Great Depression, but its historical and intellectual roots come from much further back.<sup>6</sup>

Some of these interventions were decreed by law resulting from political negotiations in Congress. Others were the responsibility of the Executive, such as tariff policies. Yet others were administered by a group of public-sector “semi-autonomous” organisms dominated by powerful bureaucracies. The Boards of these various organisms were formed by representatives from the private sector (that is, corporate lobbies), the Executive and Congress. This was the case, for instance, of the Banco Central (Central Bank) (that influenced the allocation of loans by sector, administered subsidized credit lines and controlled all currency transactions); the State Bank (Banco del Estado) (in charge of subsidized agricultural loans and, incredibly, monopolizing the distribution of fertilizers), and CORFO, the most important state-owned Holding company.

The economic thought at the time was strongly influenced by the “structuralist school” that claimed that the behavior of economic agents in emerging countries was relatively immune to price incentives.<sup>7</sup> Accordingly, from an efficient allocation of resources viewpoint it was presumed that these interventions were harmless. Thus the economic policies could focus freely on the capture of income originating from copper mining and agriculture and channel this to the privileged groups.

Thus, the main goal of the so-called “Chilean copper policy” of the forties and fifties was to increase the State’s involvement in the income derived from foreign owned copper mining operations.<sup>8</sup> And, in fact, the value fraction of the copper production withheld by the State grew from 5% in 1925 to 40% in 1970.<sup>9</sup>

This growth was achieved through numerous taxing mechanisms including a requirement to clear export profits through the Banco Central at a lower exchange rate than the prevailing market value.

The agricultural policy scenario was similar. Once again, the fundamental objective of government policy was to capture and re-distribute agrarian income. To this end, government-controlled food prices were kept low, transferring thus this income to urban consumers. Valdés et al. (1990) estimated that, in 1970, the relative price of basic foods (wheat, milk, meat) was 40%

---

<sup>6</sup> See Encina (1911) and Veliz (1980).

<sup>7</sup> For a structuralist school theoretical analysis, see Little (1982). Lal (1983) provides a theoretical demolition of the structuralist principles

<sup>8</sup> See Ffrench-Davis (1974) for an analysis of the multiple instruments used between 1950 and 1973 to tax earnings deriving from copper

<sup>9</sup> World Bank (1980).

lower than in 1975 when most of the price controls were lifted.<sup>10</sup> At the same time the Government implemented, to this effect, exchange rate controls, export restrictions, high import tariffs on fertilizers and other products.

The policy bias on copper and agriculture was introduced in the name of "industrialization". The local production of consumer and intermediate goods was strongly protected through a high and differential tariff structure, a differential exchange rate, import licenses and bans and a great number of other indirect rulings and allowances.<sup>11</sup> There were, quite clearly, economic interests behind this industrialization process as well as votes to be gained. The powerful industrial trade unions, the union associations and the corporate lobbies all benefitted from these industrial sector supporting policies.<sup>12</sup> These industrialization policies generally benefited the urban population in detriment of the rural agriculture and mining related populations.

Government intervention in the agent markets was also evident. Capital markets were under strict control: legal maximum limits on interest rates (frequently lower than the existing inflation rates), strict control on bank loan allocations, high statutory reserve demands on deposits, subsidized credit lines administered by the Banco Central, foreign trade controls, numerous other exchange rates fixed by the Banco Central, etc. Here again, the goal of this wide range of controls was to extract revenues, that in a free market system would normally have belonged to the depositors, and transfer them to loan users in certain sectors (for example, industry). Between 1940 and 1970 the interest rates on loans reached a negative average of 10.7% in real terms, and the financial middle-men were dominated by government entities.<sup>13</sup>

The labor market was also fertile ground for redistributive government intervention. The Government set the minimum wage, ruled on salary adjustment for non unionized private sector workers, engaged in wage

<sup>10</sup> For an exceptional analysis of the agricultural policies applied in Chile before 1973, see Valdés and others (1990).

<sup>11</sup> For a description of commercial policies applied in Chile before 1973, see Cauas y De La Cuadra (1981) and World Bank (1980)

<sup>12</sup> See Lavin (1980) for deeper analysis on foreign trade government interventions, that favored income capturing groups. In 1960, 57% of unionized workers belonged to the manufacturing sector (Petas, 1969). In 1970, 20% of the population, that represented the low income group, did not belong to the manufacturing sector (Méndez 1980)

<sup>13</sup> For a description of policies applied to the capital market in Chile before 1973, see World Bank (1980) Gregoire y Ovando (1974), and other articles published in *Estudios Monetarios III*, Banco Central

negotiating committees in some sectors (together with employers and employee representatives), allowed monopolist union practices and, frequently intervened in its favor in private labor disputes, managed a costly social security system, regulated working conditions, penalized those laid off and imposed entry barriers to a large number of occupations.<sup>14</sup>

Once again, the logic behind this involvement was to sway income distribution in favor of some (the workers) and away from others (equity owners). Naturally, the government control setting was more restricted than was intended; in fact, it only encompassed a sub-sector of the labor market, the urban unionized workers and the public sector employees.<sup>15</sup> For the rest - the rural workers, urban non-unionized workers, and informal workers - these government intercessions weakened their employment opportunities as well as their salaries. But, as we shall see further on, these did not belong to the more powerful political groups. Furthermore, they comprised the poorer strata of the population. Around 1970, half of the population that lived in extreme poverty was made up of independent workers. The other half consisted of under-qualified workers, often employed in small or informal companies, generally out of the reach of the Ministry of Labor.<sup>16</sup>

The social security system was amongst the more significant labor market government interventions. This included about thirty different social security "funds" operating under a distribution scheme. Each one of these served a given type or class of worker requiring differing contributions from employers and employees and offering different benefits. These were funded through payroll taxation, at different contribution rates depending on the fund. Rates increased progressively until they reached their peak between 1973 and 1974, at 60% on salaries.<sup>17</sup> But, as the independent employees and those working for small companies (informal sector) were not accountable to the system, the redistributive role was restricted to internal redistribution amongst the medium and high income level workers.

---

<sup>14</sup> See Alamos (1987).

<sup>15</sup> As stated by Foxley y Muñoz (1974) a new benefits source was created for certain social sectors, translating into differential access to rare products and services, due only to the fact that said sectors were well organized. This occurred, for instance, in certain labor groups that managed to bear influence on state administered instruments, such as the social security regimes, pricing and wages policies, tariff and tax exemptions for certain companies or regions – or, more recently, access to the area of corporate/social property – (p. 386)

<sup>16</sup> Méndez (1980).

<sup>17</sup> Cheyre (1991) and Pinera (1991).

### 1.2 The consensus crumbles

Why did this consensus around this political process crumble? Why did “growing polarization in Chilean society” unfold? Why did the political leaders believe that they should offer voters “global solutions”, a full overhaul of the socioeconomic structures?

During the sixties, the prevailing economic and political conditions that the redistributive game summarized above was subject to, endured significant change. On the one hand relative political power was impacted by the mass increase in electoral participation that took place in the 1960’s.

On the other, and contrary to structuralist thought, government intervention was not unobjectionable. As the modifications introduced by the redistributive policies weakened economic growth and stimulated inflation, political proposals became more radical. Consensus crumbled.

I will not spend too much time on the first factor. An undeniable characteristic of the Chilean political system in 1973 was that, despite being open to a high degree of political competition, it reflected low involvement. Dahl, for example, in his well-known two-dimensional portrayal of democratic systems, categorized the Chilean system as one of the more competitive, even though there were another 56 systems (from a total of 114) that reflected greater involvement.<sup>18</sup>

Until the onset of the fifties, the electorate represented only 10% of the population, given that the female vote was only endorsed in 1950 and the illiterate population was not considered fit to vote. But even amongst those formally competent to vote, political participation was low: the registered population only amounted to 40% of total voters. This was probably due to relatively low standards of education, inefficient communication and restricted political organizational development. Political involvement was lower in rural areas as compared to the urban sectors.

The electoral participation variance of the different population segments influenced the pattern of income redistribution generated by the political process. Given that political involvement in the rural areas was inferior to participation in the urban sectors, it is not surprising that the redistributive policies were biased, disfavoring the former. As we have seen, the agricultural, industrial and labor related policies had a pro-urban bias. The government’s social expenditure was also tipped in favor of the mid-income urban groups.<sup>19</sup>

---

<sup>18</sup> Dahl (1971), appendix A.; see also Valenzuela (1978) and Petras (1969).

<sup>19</sup> See Méndez (1980), Kast (1984) and Castañeda (1990).

This would explain why the income distribution indicators did not grow during the sixties and that the infant mortality rate in 1965 – a reasonable indicator of absolute poverty levels – was above the average indices of Latin American countries.<sup>20</sup>

Nonetheless, that situation needed to change. On improving the level of education and the quality of communications, political awareness regarding the less fortunate should have grown and the income distribution model needed to be affected. Furthermore, political agents – leaders and political parties – perceived a clear incentive in reaching out to these less fortunate groups and in trying to gain their trust. The political parties adjusted their strategies and endorsed the legislative changes aimed at increasing political involvement.

And this is, in fact, what happened. Political involvement increased substantially through the 1958 and 1962 electoral reforms that eliminated compulsory regular enrolment in the electoral registry together with voter abstention being punishable by law. In 1970 another reform granted the illiterate segment the right to vote. This reform had drastic effects.<sup>21</sup> The enrolled population amounted to 70% of eligible voters in a period of 5 years, and 40% of the total population. In absolute terms, the electorate grew from 1.28 million in 1957 to 3.24 million in 1969; an increase of 350% in only 12 years.

The 1958 and 1961 reforms incorporated thousands of new voters into the system. Most of these came from rural zones where electoral participation had been low. The political parties had to amend their strategies and make expansive efforts to gain the preference of these new voters. Accordingly, they directed their strategies to increasing the unionization of the labor force as well as other forms of social mobilization.<sup>22</sup> During Frei's Government, in particular, rural unionization and other methods of promoting political awareness (such as, for example, the "Popular Promotion" program) were to a great extent the result of conscious government policy.<sup>23</sup> In my opinion, this basically reflects the efforts of the Christian Democrats and the left wing parties to gain the support of the new voters incorporated to the system through the above mentioned reforms.

<sup>20</sup> The Gini coefficient of income inequality remained constant or weakened during the 60's, according to whether the family income or the individual income is taken into account (Heskia, 1980). Infant mortality continued at 107 per each one thousand children born in 1965, whilst the Latin American average was 96 (Castañeda, 1990)

<sup>21</sup> These reforms are described by Valenzuela (1978); see also Bitar (1979) and Petras (1969).

<sup>22</sup> During the 1960's an increase both in urban worker unionization and the number of strikes was recorded. However, as Valenzuela (1978) says, these events set up the recovery, to a certain degree, of the levels reached at the beginning of the fifties.

<sup>23</sup> Valenzuela (1978), p. 30.

As has already been mentioned, the political consequences of greater participation were not obvious in the sense that “increased political participation did not favor any particular party in detriment of another”.<sup>24</sup> However, the opening up of the system to new groups must have destabilized the prior sense of balance. Previously neglected groups all of a sudden had gained the power to demand a piece of the pie. Political parties were forced into adjusting their strategies and offering their services to these groups also. The electoral reforms were most probably endogenous, resulting from the competition between political parties to capture more voters. If this hypothesis is valid, then the already mentioned political neutrality of the new voters (the fact that their party preferences were no different to those of the older voters) is endogenous: that is, the outcome of optimization strategies adopted by competitive political parties.

The second reason for the crumbling of the social consensus is purely economic. Despite the assumptions of the structuralist approach, the economic behavior of Chilean producers and consumers was quite consistent with the principles of an orthodox economic theory. Economic growth was impacted by the distortions arising from government interventions in the pricing system. Between 1950 and 1970 the GDP per capita increased at a real average rate of 1.4% annually, compared to the 3.1% in emerging countries with comparable income levels, and 3.3% in industrialized countries.<sup>25</sup> Those most affected were the sectors that bore the brunt of the redistribution policies: copper mining (no new ore deposits had been discovered since the beginning of the century, and Chile's participation in global production dropped from 21 to 13%)<sup>26</sup> and agriculture. The growing gap between the Chilean per capita income level and that of the richer countries must have been very frustrating.

Slow growth in the areas of production and employment compared to estimates intensified the political struggle. The problem was further strained by the expansion of political participation: more people wanting to share the same pie. The political discourse started to stress the “fatigue” of the prevailing system and to highlight the fact that “everything” needed to “change”.<sup>27</sup> Proposals and needs for radical and global solutions started to emerge.

---

<sup>24</sup> Valenzuela y Valenzuela (1986), p. 196. Also see Falcoff (1989).

<sup>25</sup> World Bank (1980).

<sup>26</sup> World Bank (1980).

<sup>27</sup> Thus, Pinto (1959) could claim that Chile represents a case of “frustrated” development, and during Frei’s 1964 presidential campaign he would use the slogan “everything must change”.

Paradoxically, but pursuing nonetheless the ideological trends of the period, dissatisfaction with the economic performance triggered even greater government intervention. Low production growth was attributed to a reluctance to invest in the private sector and, as a result, many state companies were formed or existing ones were expanded. In order to overcome the deficiencies of an over-regulated private sector, the steering of the economy needed to be in government hands. Furthermore, consistent with Keynesian teachings, fiscal policies took care of promoting employment. It is estimated that during the second half of the sixties employment in the private sector only grew 1% annually, whilst in the public sector it rose 4.9% per year. Given that the political parties felt committed to offer increasingly more income diversion to their constituents, they leaned towards excessively expansive and “populist” fiscal and monetary policies.<sup>28</sup> “Magical Realism” has played an important role in contemporary Latin-American literature, but it can also be found in its economic policies.

The immediate cause of Chile’s inflationary history (the average annual rate between 1940 and 1970 was 30%) was excessive monetary expansion in order to fund fiscal budgets.<sup>29</sup> But the basic cause can be found further back: the redistributive struggle.<sup>30</sup>

Inflation and the balance of payment crisis became the central issue in Chilean politics. The four governments in power prior de 1973 attempted to apply some kind of stabilization plan. None achieved it: they were not able to break the inflationary dynamics of the redistributive struggle. In fact, frequently these plans were based on pricing and salary controls, on the over valuation of the peso and on massive increases in public foreign debt. But hardly had some kind of temporary stability been achieved that it became necessary to return to the expansionist policies.<sup>31</sup> Restrictions on prices and imports ensured a political breather prior to the inflationary pressures getting out of control, but all expansion processes always ended in balance of payment crises, in renegotiations of the foreign debt, increased imports controls, devaluation and inflation. The numerous dissatisfied electoral promises and failed stabilization plans ended in discrediting not only the democratic process but also private enterprise.

<sup>28</sup> The term “populist” is used here in the context given by Dornbusch and Edwards (1989). See also Larraín and Meller (1990)

<sup>29</sup> Chile’s inflationary history has drawn a great deal of attention. See Harberger (1959), Lüders y Arbildua (1969) and Sierra (1970).

<sup>30</sup> See Hirshman (1963)

<sup>31</sup> The political instability of the stabilization plans has been analyzed by Sjaastad (1974) in an exceptional paper. Recently the issue has re-emerged in economic literature as a “problem of temporary inconsistency”.

### 1. 3 Nationalizations and the political crisis

The main objective of these government interventions went gradually from the mere appropriation of part of the income generated by the different economic activities to the actual expropriation of the assets that produced these revenues. Throughout the second half of the sixties and the beginning of the seventies the central issue was property distribution. The fundamental economic proposition of the Allende Government was the mass expropriation of productive resources.<sup>32</sup>

When it became evident that the prevailing agricultural and copper policies had failed, political consensus leaned towards the need to nationalize copper deposits and farmlands. The expropriation of the copper fields was started during the Frei Presidency. In 1971, President Allende completed the process by nationalizing all the foreign owned copper fields without due compensation, in keeping with the constitutional reform unanimously approved by Congress.<sup>33</sup> In fact, such was the lack of economic incentives that it was probably more effectual to keep the lands crop-free and use them as collateral for subsidized bank loans. But the opposing stance gained momentum and at the beginning of the sixties, under President Alessandri's conservative government, the Agrarian Reform Law was approved. The consolidation of this process was one of the main goals of the Frei government (Congress approved a constitutional reform to this effect) and it was completed by President Allende. In summarizing, in 1973 the expropriated lands accounted for 49% of total agricultural lands (and 61% of irrigated lands).<sup>34</sup>

In the meantime, the industrial sector businesses that had thrived thanks to very high tariff barriers also became a political target.<sup>35</sup> They were accused, rightly so, of monopolist practices (the small local market was protected from foreign competition) and their profits became tempting prey to political competitors. Firstly, there was a tax increase, regulations and salary increases.

<sup>32</sup> The Allende campaign program proposed the expropriation of all those activities that conditioned the country's overall economic and social development, such as the production and distribution of electric power; air, water and rail transportation; communications, the production, refining and distribution of petroleum, including liquid gas; the iron and steel industry, the petrochemical industry, the heavy chemicals, cellulose and paper industries (Unidad Popular, December 1969). See Arturo Fontaine Talavera, Harald Beyer y Eduardo Novoa (1990).

<sup>33</sup> Falcoff (1989).

<sup>34</sup> See World Bank (1980).

<sup>35</sup> Lagos (1961) drew up an influential analysis of the oligarchic structure of industry and banking during the 1950's.

Eventually, however, private industry fell the way of the mining and agriculture sectors: one of the Allende government's main goals was the expropriation of the principal industries, the creation of "an area of corporate ownership".

Due to government intercessions in the capital market, the private banks (as well as the Banco Central) were responsible for apportioning the scant and inexpensive loans. It is not surprising, then, that strong economic groups cropped up around the banks and exploited their preferential access to loans. The banks also became a political target. Not without reason, they were accused of holding too much power.<sup>36</sup> The original problem resided not in the fact that they were private, but rather in the artificial credit crunch funded by the fixing of interest rates and other regulations. President Allende thought otherwise, and in his 1971 New Year speech (just 60 days after taking office) he announced his intention of nationalizing all private banks. In less than one year, and with insignificant opposition, the Government had accomplished its goal.

In summarizing throughout three of the four decades prior to the Allende Government, Chile had developed a mixed economy system with broad and increasing state intervention. The goal was to capture certain revenues for the State and channel them to certain favored groups. These policies were deemed harmless from an efficient resource allocation viewpoint because it was felt that the people were relatively indifferent to economic incentives. However, from a political point of view, this income diversion was instrumental in political parties gaining the support of a fast growing electorate.

When the economic cost of redistributive intervention became evident, the emphasis of public policies went from income redistribution to property expropriation. This trend started with President Frei's "revolution with freedom"; continuing with the endorsement of the more leftist wing of his own party (whose leader, Radomiro Tomic, was the Christian Democrats' candidate for the 1970 presidential elections), who sought a "non capitalist form of development" and arrived at a logical conclusion with "the Chilean path to socialism" sponsored by President Allende, which was hardly compatible with a normal democratic regime. And Allende made no effort to hide this fact when he said to Regis Debray: "I have come to this office to implement the economic and social transformation of Chile, to open up the path to socialism. Our objective is total, scientific Marxist socialism". (Debray, 1971, p.118).<sup>37</sup> Likewise, in this veiled statement he made to the same author: "With respect to the bourgeois State we have at present, we are attempting to overcome it; to overthrow it". (p.82)

---

<sup>36</sup> See Lagos (1961).

<sup>37</sup> Debray (1971) p.118.

The Allende government easily took hold of the copper mines, the greater part of the agricultural lands and most of the banks. The political battle in favor of nationalization of the industrial sector was arduous.

These expropriations not only alienated foreign investors and the large corporations, but also the small and medium sized businessmen. The trucker, bus owners and retail associations led the social mobilization initiative against the government of Allende. They were joined by some middle class labor unions such as the mine workers. The Allende government attempted to recoup some political support from these groups by means of high expansive and populist monetary and fiscal policies. The affluence originating from populist policies did not last long (they never do). The subsequent inflationary outbreak and balance of payments emergency took its natural course. The World Bank has summarized the economic outcomes of Allende's path to socialism in the following cutting paragraph:<sup>38</sup>

Throughout 1971-1973 more than 500 companies were "taken over" and more than one fourth of total farmlands were expropriated. The period was epitomized by a strong economic and political crisis. Before it was over, the per capital GDP and salaries in real terms had dropped to below 1970 levels; agricultural production was consistent with the levels of the beginning of the sixties; the central government's deficit exceeded 20% of the GDP; the black market exchange rate was ten times higher than the official rate and the international net reserves were negative (World Bank, 1980, p.iv).

## **2. BUILDING THE CHILEAN ECONOMIC MODEL**

The military regime that followed the 1973 coup set in motion a strong social and economic reform that eventually led the way to a market economy. As has been said, the Chilean free market was born from "original sin".<sup>39</sup>

The armed forces, led by General Pinochet, ruled the country with a hard hand for sixteen and a half years. Congress was dissolved and the legislative powers were transferred to a Government Junta; a committee formed by the four Armed Forces' Commanders in Chief (Army, Navy, Air Force, and Police

<sup>38</sup> President Allende's economic policies have been widely analyzed and debated. See, for instance Bitar (1979), Larraín y Meller (1990), Dornbusch y Edwards (1989).

<sup>39</sup> Arturo Fontaine Talavera (1991).

Force). Political parties were banned and all opposition activity was forbidden. Civil liberties were restricted and there were numerous cases of human rights violations. On the same note, the Government drastically changed the Chilean economic geography by reducing state intervention in economic activities and broadening similarly the sphere of individual liberties.

The contradiction between the two facets of the Pinochet regime has disturbed numerous observers and analysts. I will not address here many of the issues that stir up this tension between economic freedom and political authoritarianism. I simply propose to discuss how in fact, this association worked in the implementation of the Chilean model.

This discussion is presented as follows: a first sub-section that portrays how the free market economists came to power. A second one describes Chile's macroeconomic performance during the time of the reforms. The third deals with the political economy of these reforms: the political compromises needed to carry it out.

## **2.1 The emergence of free market economists**

Whilst the landslide of Chilean democracy took place in September, 1973, the collapse of the state controlled economic approach that had prevailed up until then would take quite a lot longer. In fact, although the new military government quickly started to lift price controls, dismantle regulations, to reform taxation and return the nationalized companies to private hands, these decisions did not add up, as yet, to a coherent vision of Chile's economic future. If the Chilean transition towards a free market economy needs to be given a precise date, this would be April, 1975, when Jorge Cauas, the then Minister of Finance, announced his Draconian "Economic Reconstruction Plan".<sup>40</sup>

The idea of applying a free market model in Chile was not new, and the economists that took on this responsibility were linked to the previous attempts. In the mid sixties, a young generation of economists, graduates of Chilean universities and the University of Chicago (whose Economics' Department sponsored an important program in the School of Economics of the Universidad Católica de Chile) exercised strong intellectual influence.<sup>41</sup> They swiftly

---

<sup>40</sup> Reprinted in Méndez (1979)

<sup>41</sup> The Chilean model represents, in fact, a courageous and visionary venture at an intellectual level. An exercise in persuasion through which intellectual elite was trained with a view to remodeling the country. Pinera (1992) describes this process under the title "the power of an idea". Unfortunately, there is still no full description of said initiative. In Valdés (1989) there is a detailed but very biased vision of the relationship between the University of Chicago and the Chilean universities. Valdés sees this association rather like an imperialist conspiracy

established ties with the more up-dated Chilean business men and together they founded the first center for free market studies in Chile. They earned the influence of the press, particularly in the *El Mercurio* daily newspaper that frequently published their “revolutionary” opinions in favor of a free market. Some of these economists were recruited as technocrats by President Frei’s economic team; others became economic advisors to President Alessandri during his 1970 presidential campaign. These two economist groups, who worked for different political parties, shared a frustrating experience in terms of the political *establishment* and the economy of the period. The redistributive policy described in the first section was well rooted, and the left and right wing politicians, as well as the businessmen, were hesitant to abandon traditional practices.

The economists who favored a free market scenario steadfastly opposed President Allende’s economic policies and, in fact, anticipated, quite precisely, their disastrous outcomes.<sup>42</sup> Perhaps it was for this reason that they were recruited to prepare an alternative economic plan.

Shortly after the coup, the authors of this paper were called upon by the Government as advisors to the economic team recently appointed by General Pinochet.<sup>43</sup>

The fact that a group of free market supporting economists, later to be known as the “Chicago boys”, were holding important advisory positions in the Chilean government did not mean that the military regime had accepted their free market economy program. They were summoned mainly in acknowledgement of their high level of professionalism. The magnitude of the economic crisis demanded highly trained professionals and these could not be found, for sure, within the armed forces. Furthermore the Chicago economists, deemed to be apolitical technocrats, could have a “refreshing view” in their analysis of Chilean economic problems. In this they were similar to the military who were also a “fringe” group in terms of the political and economic establishment of the period.<sup>44</sup> They intended to bring down the prevailing economic system and build a totally new one. And they were in no fear of any reform-opposing stakeholders. This brave attempt at initiating a new phase in the country’s history won the sympathy of some military men, especially General Pinochet.

---

<sup>42</sup> Bardón and others (1972).

<sup>43</sup> For a vivid account of these facts, see Arturo Fontaine Talavera (1988)

<sup>44</sup> Pinera (1990).

But sympathies stopped there. As a result of their professional training, the armed forces had a nationalist view of the economy. They believed that protectionist policies were more favorable to national security than free trade proposals. Likewise, the strict government control of “strategic” economic activities was perceived as a natural extension, in the economic setting, of their nationalist inclination. The neoliberal rhetoric of the Chicago economists led to much mistrust. And this attitude was not only present amongst the military men but also amongst the majority of the civilian government supporters. The coup had been endorsed by the Christian Democrats and the Conservatives. Although formally dissolved, at the onset their leaders had considerable influence within the armed forces. By tradition and doctrine they favored state control. They wanted to recreate the pre-1973 redistributive State.

In the end, the Chicago economists won out thanks to their overshadowing technical capability – based on the overwhelming logic of their economic theory – and also due, to a large extent, to exogenous factors. A severe balance of payments crisis at the beginning of 1975 – resulting from a rise in international oil prices in 1973 and a drop in the price of goods in 1974 – changed the course of events. At an historic meeting held in Viña del Mar, General Pinochet and his closest advisors addressed two alternative plans for stabilization.<sup>45</sup> The first, prudently gradual and based on growing international financial aid; the second, a monetary and fiscal shock intended to rapidly restore the feasibility of the balance of payments and to stop the inflationary spiral. The General – no friend to bland options – chose the shock treatment. He sensed that it was an extremely delicate situation and trusted in the professional competence of the technocrats who supported the shock treatment.

In April, 1975, Jorge Cauas, Minister of Finance, and Sergio de Castro, Minister of the Economy, with the help of a large team of young economists, started building the Chilean economic model.

## **2. 2 The macroeconomic setting**

Taken as a whole, the period between 1975 and 1989 was rather poor in terms of macroeconomic outcomes. In 1990 the real per capita GDP exceeded the 1970 level by a mere 20% and real per capita consumption was 10% below (see Table N° 1).

Nonetheless, the macroeconomic results should be judged in terms of whether the alternative economic policies would have had, or not, better results under the same circumstances. In fact, the circumstances were extremely adverse for the Chilean economy during the period under discussion, due to i)

---

<sup>45</sup> Arturo Fontaine Aldunate (1988).

the need to recover the macroeconomic balance following President Allende's populist adventure; ii) the strong decline in trading terms that, with some minor variations, prevailed throughout the entire period, and iii) the inevitable costs of setting a new model in motion. These explain the high unpredictability of the main economic indicators during the period (see Table N° 1) and the resulting (low) accumulated average.

Table N° 1 CHILE 1979-1990 - MACROECONOMIC INDICATORS  
(Rates and percentages)

	1970	1975	1980	1985	1990
1 Real GDP (per capita)	100	81	108	95	120
2 Inflation* (%)	35	341	31	26	21
3 Real Consumption (per capita)	100	71	89	75	90
4 Investment Rate** (%)	20	15	18	15	20
5 Total Exports** (%)	11	17	24	27	31
6 Terms of trade	100	55	52	34	50
7 Employment Index (%)	3,5	14,9	10,4	12,2	5,3
8 Real wages Index	100	66	122	113	128
9 Foreign debt/exports Ratio***	2,2	2,4	1,6	4,0	1,5

\* CPI, December to December.

\*\* As a percentage of the GDP.

\*\*\* Medium and long term debt in relation to total exports. Source: Banco Central de Chile

TABLE N° 2 CHILE 1970-1980 - ADJUSTMENTS AND RECOVERIES  
(REAL AVERAGE INDICES AS PERCENTAGE, UNLESS OTHERWISE  
EXPRESSED)

	1974-75	1976-81	1982-83	1984-89
1 Real GDP	-5,8	6,6	-8,3	6,4
2 Inflation *	358	26,5	21,9	20,3
3 Real Consumption	12,7	6,8	-9,2	4,5
4 Real Investment	-4,0	14,5	-27,6	14,3
5 Real Exports	22,2	10,7	2,4	9,0
6 Real Imports	-20,4	18,7	-26,5	11,3
7 Employment Index**	14,9	11,3	14,6	5,3
8 Real wages index	-4,3	12,4	-5,0	0,6
9 Foreign debt	3,1	3,1	3,8	1,7
10 Terms of Trade	-33,1	0,5	-3,4	1,7

\* Average annual inflation (CPI)

\*\* Measured as a percentage of the work force at the end of each period.

\*\*\* As a proportion of exports at the end of each period.

One of the most dramatic (and often overlooked) characteristics of Chile's recent economic history is the severe weakening of its terms of trade. From an index of 100 in 1970, this dropped to 55 in 1975 resulting from the already mentioned copper and petroleum crises. The index recovered briefly in the second semester of the seventies, but dropped again to 52 in 1980 and further declined to 34 in 1985. During the second half of the 1980's, the terms of trade experienced partial recovery, but in 1990 they were still below the 1970 levels (see Table N° 1).

The 1975 crisis was dealt with by way of a severe stabilization program that, though not officially endorsed by the International Monetary Fund, had all the typical ingredients of an FMI recipe. Government spending was strongly reduced (by 15% in local currency and 25% in the corresponding foreign currency) and tax rates were increased. The result was dramatic: the government's regular budget declined to 31% of the GDP in 1975 compared to the 41% level it had amounted to two years earlier, and public revenue increased 7 GDP points reaching 27% over those two years. As a result, the general deficit of the public sector was reduced from a record 30% in 1973 to a 2% of the GDP in 1975. In 1976 the employment rate in the public sector was 30% under the 1973 figure. Other measures included a strong peso devaluation (26% in real terms on previous devaluations in years ending 1973 and 1974), and a contractive monetary policy that froze some private high liquidity deposits in the savings and loan system.<sup>46</sup>

Naturally, in social and political terms the cost of this adjustment was very high. In 1975 the real GDP dropped by 12.9% and unemployment amounted to 14.9% of the work force. Our businessmen and the civilian opinion leaders close to the Military Government strongly resisted this severe stabilization program. Former President Frei, up till then a supporter of the Military Government, publicly declared his opposition to these economic policies. Most of his followers in official places started withdrawing their government support.

The question here is whether this harsh stabilization program would have been possible under a democratic regime. The adjustments were inevitable, world recession had reduced Chilean terms of trade by half, and Chile no longer had international reserves or loans at its disposal. Alternative economic policies could probably have delayed to some extent these harsh measures, but sooner or later, the bitter pill would have had to be swallowed. The 1980's showed, in Argentina, Bolivia, Brazil, Mexico and Peru, that the social cost of not submitting to adjustment programs could be enormous. The 1990's finally demonstrate that Latin American democratic governments can, after all, implement successful adjustment policies.

---

<sup>46</sup> See Cauas y De la Cuadra (1981), Harberger (1982), Edwards y Edwards (1987) and Larraín (1991)

The macroeconomic emergency also presented political opportunities for implementing significant structural reforms. For instance, in 1975 most of the price controls were lifted, the peso was devalued, public spending was restricted, subsidies were eliminated, interest rates were freed, etc. The economic team was quick to take advantage of the crisis so as to get all these measures approved by the political authorities. The implementation of these structural measures during the macroeconomic crisis was later to be criticized for its destabilizing impact potential, but this action responded to political tactics.<sup>47</sup>

The program started to show favorable results towards the end of 1975. The balance of payment status improved and inflation started to decline. In mid 1976, the Banco Central proudly announced a 10% peso revaluation, a decision that clearly showed that the crisis had been overcome. Although a severe banking crisis was still to come (towards the end of 1976), the peso revaluation signaled an upturn in the expectations of the private sector: the influential daily *El Mercurio* referred to this action as the onset of the economic “takeoff”, and future events would prove them right.

Between 1976 and 1979 the Chilean economy experienced healthy expansion driven by exports that resulted in an investment and consumption boom throughout 1980-1981. The real GDP between 1976 and 1981 increased to an annual rate of 6.6% and exports reached 10.7% yearly in terms of volume. Inflation, which in 1975 had amounted to 370% annually, declined gradually to 33% in 1979 and 9% in 1981 as a result of persistent fiscal and monetary control (see Table N° 2). Real wages increased by an average annual rate of 12.4%. The net foreign debt also dropped from a level equivalent to three times the exports figure in 1975, to 1.6% in 1979 and subsequently grew in quantum leaps due to private sector borrowing.<sup>48</sup>

Towards the end of this period, economic growth was stimulated by macroeconomic policies that, perhaps inadvertently, acquired an expansionist nature. Even as restrictions on foreign credits were relaxed, the exchange rate remained fixed. This resulted in a sharp real appreciation of the peso, strong monetary expansion, accelerated increase in real wages and an equity market boom. Even the fiscal policy, cornerstone of the 1975 adjustment, became expansive in 1980-1981. The change was probably due to a combination of factors: the perception that trading terms would improve, that there would

---

<sup>47</sup> Foxley (1983a) argues that price controls under strong inflationary pressures fueled inflationary expectations and increased stabilization costs

<sup>48</sup> An analysis of this period can be found in Edwards v Edwards (1987). See also Balassa (1984), Mamalakis and others (1984) and Juan Andrés Fontaine (1983).

always be an abundance of foreign financing and a certain excessive optimism in terms of the self-tuning capabilities of an open economy.

But it was also due to a certain degree of political fatigue in terms of the adjustment hardships that still reflected a high level of unemployment and high interest rates, especially as the crucial 1980 constitutional plebiscite approached.

In any event, what is significant is that most of the more important structural reforms that shaped the Chilean market economy were planned and implemented within a fast-growing economy framework. One of the political effects of this economic progress was the strengthening of the free market economist's position within the Military Government in light of public opinion. The reforms were bearing their first fruits. In addition, the increased fiscal revenues afforded the possibility of administering selected subsidies – as we shall see further on – mitigating, as a result, the opposition to the reforms.

These free market ideas were widely circulated and discussed.<sup>49</sup> The consequent reforms were publicly supported by economists of worldwide repute who visited the country, by bankers and officials from international organisms, becoming known as the “modernization” of Chilean society. The optimistic outburst resulting from the economic bonanza and the wide circulation of free market ideas caught the opposition with their guard down. For the first time, intellectuals and left wing politicians found themselves in a conservative position: they had to defend the former order.<sup>50</sup> They apparently started to read liberal authors and revise their previous positions.

Optimism was cut short suddenly when the “debt crisis” unraveled. The overheated Chilean economy in 1981, hit by high international interest rates and a new decline in terms of trade, once again slumped into a depression similar in magnitude to that of 1975.<sup>51</sup>

---

<sup>49</sup> Strong influence from *El Mercurio* (see the “Semana Económica” and “Semana Política” supplements, published on Saturdays and Sundays, respectively) and *Economía y Sociedad* (and its predecessor, *Informe Económico CNV*) edited by José Pinera during the 1976-1979 and 1982-1988 periods. In addition, liberal thinkers such as Friedrich A. von Hayek and Milton Friedman were wide read and acknowledged

<sup>50</sup> Vergara y Moulian (1980).

<sup>51</sup> The debate as to what failed in the Chilean economy during the eighties has been long and heated. An example of this can be found in the round table entitled “What happened in the Chilean economy?” the results of which were published in *Estudios Públicos 11* (1983). Ffrench-Davis claimed that the excessive economic openness and freedom was accountable for the crisis. Ffrench-Davis himself played a principal opposing role to the Chilean model and is at present a close advisor to the Treasury Department. Juan Andrés Fontaine argues that the macroeconomic policies mix was inadequate, but that this mistake does not nullify the implementation of the free market reforms. For other points of view, see also Garcia and Wisecarber.

Given the political significance of this new crisis and its outcomes, we will refer back to it in the following section. However, it should be mentioned here that the Chilean model was on the verge of shipwreck. The opposing economists never foresaw that the economy would recover so swiftly from the 1982-1983 slump and sustained that the root of the problem lay in the excessively free economy. They wrote papers and books explaining “the reasons for the failure” under titles such as: *Rise and fall of Neoliberalism in Chile (Auge y caída del neoliberalismo en Chile)* (Vergara, 1985) or *After monetarism (Después del monetarismo)* (Foxley, 1983b), meaning in fact, “after capitalism”. I even remember that one of them once said, during a debate on the subject, that the discussion was in fact the “highway” of the Chilean model.

The amazing thing is that the free trade model eventually survived. After being pronounced dead during the 1982-1984 turbulent years, it was reborn, stronger and healthier, between 1984-1989. During this period not only did production and employment grow, but also the reforms for a free market economy were consolidated and strengthened.

### **2. 3 The reform process**

The free market reforms embraced all areas of economic importance. The objective was to dismantle the interventionist regime enforced during the three or four decades of redistributive policies as has been described in the first section of this paper. These reforms marked a radical break with the previous economic policies, and in this sense were truly revolutionary. They were implemented, however, gradually and in two phases: 1975 to 1981 and 1985 to 1989.

Essentially these reforms covered five areas:<sup>52</sup> i) the redefinition of the role of the State that eliminated chronic fiscal deficits, reduced government spending and taxes, lifted price controls, freed the markets and privatized most of the state companies, the social welfare system and (partially) education and health; ii) the opening up of the economy to foreign trade through the removal of all tariff barriers on imports, the replacement of a high and differentiated tariff structure by a low and quasi uniform tariff rate, the implementation of a realistic exchange rate policy, a cut-back in exchange rate controls, and the abolition of all import restrictions; iii) the creation of a free equity market through the lifting of the maximum limit on interest rates and credit controls, the freeing of foreign

---

<sup>52</sup> A full description of the reforms introduced in Chile between 1973 and 1989 has as yet not been published. The first period (1973-1981) can be studied in Edwards y Edwards (1987), Méndez (1980) and World Bank (1980).

investment and the setting up of an independent Banco Central; iv) flexibility of labor markets through the reduction of the labor unions' monopolist power and the elimination of most of the occupational entry barriers, a cut back in layoff restrictions and the virtual elimination of government intervention in private wage negotiations, and v) the strengthening of a "social network" aimed at improving the living conditions of the lower-income segments (and protect them from the hardships of the economic adjustments) through various efficiently designed and carefully directed government programs.<sup>53</sup>

It would take too long, here, to describe all these reforms, their achievements and their weaknesses. Rather, I will concentrate this section on some central points of the reform *process*.

These reforms were implemented by an authoritarian regime. Many of them implied legislative modifications. The laws needed to be approved unanimously by the four members of the Government Junta, following opinions expressed by legislative committees comprising dignitaries appointed by the Junta. These included leaders of the conservative political parties, former ministers, university professors and businessmen. Given that political activity was banned, the discussions in these commissions and in the Junta became the political filter of all proposals submitted by government economists. As the economic policy field of argument is quite limited, this "closed" political process, in fact, replicated many of the traits of an open system.

Of course, this legislative process differed greatly from a normal democratic process. However, it was in no way closed to debate or to confrontation. Economic policy was the only field in which the Military Government tolerated open discussion. The newspapers and radios, (although not television, as it was controlled by the State) constantly published critiques on economic policies expressed by businessmen, union leaders, economists and political commentators.<sup>54</sup> The members of the Junta as well as the legislative committees were highly sensitive to the public discourse. During the legislative process these frequently represented the critical opinions published in the press.<sup>55</sup>

---

<sup>53</sup> Due to lack of space, in this paper we will not address the vital area of economic and social policies. Castañeda (1990) and others have already performed that task.

<sup>54</sup> See, for example, Arellano and others (1982). In 1978 and 1980, the Military Government called for an electoral consult and a plebiscite respectively. At that time, most of the pro-government groups felt that it was clear that they would vote in favor of the government, despite their strong rejection to its implemented economic policies

<sup>55</sup> For example, I attended all the legislative committee sessions on the law that granted autonomy to the Banco Central. The bill was harshly criticized by the opposition, and most of the arguments were meticulously analyzed during these sessions.

In fact, as often happens in authoritarian regimes, the most significant debate took place amongst the followers of the military rule. The “internal opposition” was made up of various prestigious generals, leading businessmen and conservative politicians.<sup>56</sup> In terms of the “outside opposition”, carried by the Government’s political adversaries, its influence was restricted by the high cost inherent in being a political opposition under authoritarian conditions. Nonetheless, in an economic policy setting they were active in their “study centers”, they had access to the press and the radio and had great influence over the highly respected bishops of the Catholic Church who were quite critical of some of the reforms. After 1983, when open political activity returned, the opposing political organizations led the reforms’ resistance.

Naturally, the reform process took into account the political restrictions imposed by the internal and external opposing forces. The reform sequence did not follow a “master plan” that would establish its best course. The economic leaders knew perfectly well which way they wanted the country to go, but progress in that direction was set, to a great degree, by the political and economic circumstances. The actual reforms were less drastic and radical than is generally thought. Compared to recent examples in Latin America and Eastern Europe these were quite gradual, taking, in some cases, as in the privatization process, around 15 years. As was mentioned in the previous section, some stabilizing measures acted as a sort of “shock therapy”, although these were not structural reforms but rather emergency monetary and fiscal decisions such as any government under fiscal or balance of payments emergencies must face. The structural reforms, on the other hand, were introduced gradually and in many instances included some unorthodox elements, carefully designed to enable the transition towards a market economy.

In order to analyze how those reform process characteristics actually worked, the following is a description of the trade reforms, the privatization of state companies and the labor market reforms.

### a) The opening up of the economy<sup>57</sup>

Towards the end of 1973, the Chilean economy was virtually closed to foreign trade. Import duties averaged 105%, varying between 0 and 105%. In addition, imports were restricted by broad non-tariff barriers (2,300 tariff codes required prior licenses, whilst another 3,000 were banned) as well as by ten different official exchange rates fixed by the Banco Central for differing

---

<sup>56</sup> For an interpretation of these debates, see Arturo Fontaine Aldunate (1988) and Piñera (1990, 1991).

<sup>57</sup> See Cauas y De la Cuadra (1981).

transactions. These barriers veiled a politically powerful, but economically weak, manufacturing foundation. Furthermore, the domestic orientation of the economy was detrimental to the growth of exports, concentrated on only a few products, especially copper (75% of total exports).

The task of the trade reform was to free imports and to diminish and unify tariffs with an aim to establishing a base for exports driven economic growth. The economic team was fully convinced of the vital importance of this reform: it was destined to become the cornerstone of the new development strategy. But the best possible rhythm for this reform was not clear. On the one hand it appeared prudent to gradually lift import restrictions in line with a pre-announced schedule: thus the substituting imports industries would have time to adapt to the foreign competition and the new export companies to absorb the manpower freed by those incapable of competing. After all, even Adam Smith favored a gradual approach in this matter.<sup>58</sup> On the other hand; this same timeline could be used by stakeholders related to the affected sectors to hold up the reforms. Overall, the course chosen in Chile was sporadic, but unexpected tariff reduction spread over a six year period.

The first steps were taken as early as 1973. In October of that year, strong peso devaluation was implemented and in a few months the exchange rate was virtually unified. Almost all the non-tariff barriers were suppressed between 1974 and 1975. But the tariff reduction process took much longer.

The purpose of trade liberation was announced early on by the Military Government, but specific goals and schedules were not established at that time, except that the maximum tariff would be set at less than 60%.<sup>59</sup> Later on, the authorities announced a differentiated system with tariffs fluctuating between 10 and 35%. At this time a detailed plan for gradual achievement of the objective was launched. But in 1977 a new goal was set together with another schedule aimed at a 10% unified tariff by 1979.

The process did not end there. The 1982-1983 crisis triggered a regression and tariffs were increased to 20% in 1983 and 35% in 1984; then they would once again drop sporadically and unannounced down to 15% in 1988. The final chapter of this story was the decision by the new democratic government, in June 1991, and approved in Congress by all political parties, to reduce tariffs uniformly to 11%.

The cutback of import tariffs would have been politically much more difficult to implement if it had not gone hand in hand with certain peso

---

<sup>58</sup> Smith (1789), pp. 435-36

<sup>59</sup> Cauas y De la Cuadra (1981).

devaluations. This had a double purpose: on the one hand, the peso devaluations increased the prices in pesos of imported goods, which partially neutralized the negative impact of the tariff relief on import substituting companies. On the other hand, devaluation increased the profits of the export companies that ensured their support and signaled the areas destined for investment.

The public sector little by little became a powerful tariff reductions ally. For instance, it opposed the tariff increase decreed by the government in 1983-1984 to compensate for the loss of fiscal revenue brought on by the drop in the international price of copper. In 1984 the main business associations were controlled by the exporters, including the manufacturing sector's representative, SOFOFA that ironically had been formed at the end of the previous century to advocate in favor of protection.<sup>60</sup> This provided the necessary political backing in 1985 for continuance of the tariff reductions (once again tied in with peso devaluations). The final tariff reduction in June 1991, was, in general, endorsed by the business associations.

A gradual tariff reduction strategy, hand-in-hand with peso devaluations, is less popular at a consumer level than one without offsetting devaluations. This is because, in the first instance, imports decline more than in the second. A drop in tariffs can be more popular when it is not accompanied by devaluation given that this method contributes to decreased inflation and a rise in real wages. In the Chilean case, and despite the fact that the prices of some strongly protected consumer goods dropped substantially (cars and electronic goods), the majority of importable and exportable foods increased in price due to devaluation of the peso.<sup>61</sup> The Chilean strategy was efficient in terms of gaining the support of the business groups, but not of the population at large. This could explain why recent tariff reduction policies in Argentina, Bolivia, Mexico and Peru – implemented perhaps with eye on future elections – have been comparatively quicker and without a compensatory devaluation.

---

<sup>60</sup> In SOFOFA, in 1983 a historical confrontation took place between the protectionists and those who supported free trade, a controversy that was won, apparently, by the latter. Other key groups that endorsed free trade were the National Agricultural Association (*Sociedad Nacional de Agricultura*) (in which the traditional grain producers were replaced by the new fruit growers focused on foreign markets), the National Mining Association (*Sociedad Nacional de Minera* - this category constitutes a export industry in Chile) and the National Chamber of Commerce (*Cámara Nacional de Comercio* - the importing companies took over its leadership and hence supported free trade). Opposition to free trade was restricted to some segments of SOFOFA (substitute importer sectors of industries such as textiles and machinery) and the not so influential representatives of the small business sector.

<sup>61</sup> Valdés and others (1990).

### **b) The privatization of state companies**

In 1973 not only government spending and the tax burden were very high in relation to the GDP (40 and 25%, respectively in 1973)<sup>62</sup> but also the Government owned companies in all key areas. Some of these had been formed by the State in previous decades aimed at promoting certain activities. Others had fallen into State hands through the expropriation of national and foreign entities at the beginning of the seventies. And yet a third group of companies had been directly confiscated by the Socialist Government. It is estimated that in 1973 the State furnished 85% of the added value from the mining sector, 40% from the manufacturing area, 70% from the transports and communications sectors and 85% from the financial services area.<sup>63</sup>

The privatization of companies in the hands of the Government was a slow and complex process. The first step was the restoration of companies and lands to their rightful owners where these had been illegally expropriated by the Socialist Government. The re-privatization of agricultural lands, banks and most of the nationalized industrial and commercial companies took place between 1974 and 1980, but in 1981 the GDP portion controlled by State companies continued to be higher than in 1965, the first year of President Frei's administration.<sup>64</sup> The 1982-1983 crisis triggered a serious regression in the privatization process when the financially compromised banks and their associate companies were intervened by the State. The privatization process continued in 1985 and only then did it start to impact on the more significant State operations: mining, electricity, telecommunications, steel, airlines, etc. However, towards the conclusion of the Military Government, in 1989, the State still controlled key companies, such as CODELCO and ENAMI (accountable for 80% of all copper exports) ENAP (the only oil refinery), Banco del Estado (the main commercial bank), EMPORCHI (that administered almost all ports), the railways and thirty-odd more companies.

The privatization process had to face serious political and economic difficulties. The problem in political terms was that the state companies acted as benefits providers to consumers, suppliers or workers. Powerful stakeholders were opposed to the privatization implemented by the Government. Arguments such as national security, nationalists' concerns regarding possible excessive control of foreign investors, and a certain mistrust in private entrepreneurs all carried considerable weight amongst the military and the civilian conservatives.

---

<sup>62</sup> Larraín (1991).

<sup>63</sup> Larroulet (1984).

<sup>64</sup> Larroulet (1984).

These political considerations, as a result greatly influenced the course taken by the privatization process. There were no announcements regarding privatization plans that listed companies up for sale. Rather, an individual, case by case, approach was preferred.<sup>65</sup> An example of this is the sale of the traditional State companies between 1984 and 1989. A law was passed that enabled the sale of up 30% of shares in each company. When the process had concluded satisfactorily, the following steps for the privatization of the remaining shares were approved and implemented. Apparently no clear priorities were set regarding which companies should be sold first. Thus, in 1989 complex cases of natural monopolist rating, with a view to privatizing telecommunications and power, were settled whilst the more obvious areas of privatization, such as the copper fields, the state commercial bank and the state lottery were still in government hands. An explanation to this apparent paradox is simply that the pressure groups opposed to privatizations were more influential in the latter cases than in the former.

The privatization drive had to face economic issues of no lesser significance. On the one hand the government companies incurred losses and the decision was whether to sell them as is or after they had been turned around. The upside of the first option was speed, but the disadvantage was leaving difficult decisions, in terms of price increases and cutbacks in wages and staff, to the new owners. The risk here was that the inability to implement such measures could lead to the insolvency of the newly privatized companies and hence require a rescue operation through new government subsidies. The alternative option was to first place the companies to be privatized under competent executive management and make them profitable. Later, appropriate provisions were designed and implemented, such as price setting in keeping with the marginal cost of natural monopolies; then the shares would be put up for sale. Obviously, under this option, the risk was that once the companies had become a government source of income, the always powerful budget argument in favor of privatization would lose momentum. In any case, overall, Chile chose this second course and this also explains why the privatization process took so long.<sup>66</sup>

The other fundamental decision in a privatization process is who to sell to. This depends largely on whether the purpose of the privatization is to maximize Government revenue or whether there is another reason, such as for example, spreading equity interests. In this context there were two very different phases in the Chilean privatization process. In the first phase, between 1974 and 1980,

---

<sup>65</sup> The privatization process in Chile is similar to the case of Britain. See Walters (1987).

<sup>66</sup> Some of these issues are addressed in Alé (1889) and Larroulet (1991)

fiscal budget considerations prevailed.<sup>67</sup> The privatizations implemented during this period were highly criticized, later, for having concentrated too much power in the hands of a few holding companies.<sup>68</sup> In the second, during the privatization program of 1985-1989, it was decided to distribute ownership as much as possible. It enabled workers in the companies to be privatized (and later, all the Public Administration employees) to demand prior payment of their compensation from their employers so it could be used to purchase company shares. Subsidized credit facilities were set up with a view to assisting small investors to purchase shares in companies being privatized, and the investment groups formed by some of these had access to additional loans from the state bank so they could acquire additional shares.<sup>69</sup> In some cases income tax exemptions were granted. The new pension funds were also important buyers of the shares traded on the stock market and they were granted certain legal privileges, such as the right, in some exceptional cases, to sell the shares back to the Government.

The decision to privatize through the sale of shares to workers and small investors had significant political consequences. The “popular capitalism” program, as it was called, hugely increased the number of shares and created thereby an influential electorate in favor of the process. Privatized company workers decided to massively and voluntarily buy shares in spite of objections from their respective trade union leaders. The reforms crowded out the union leaders and appealed directly to the individuals. The present Government, in spite of announcing a “review” of those privatizations due to an alleged lack of “transparency”, has not been able to or has not wanted to take steps in this direction.<sup>70</sup>

### c) Labor Market Reforms

The reforms to the labor market were introduced quite some time after the process was launched, once again as a matter of principles (should the survival of the workers be left to the vicissitudes of supply and demand?) and the

<sup>67</sup> Hachette and Lüders (1992) have explained the distinction between these two phases of the privatization program.

<sup>68</sup> Dahse (1979). These privatizations have also been criticized for having been negotiated at very low prices, See Marcel 1989).

<sup>69</sup> For a discussion on the mechanisms in the case of the power companies’ privatization, see Beyer (1988).

<sup>70</sup> Aylwin, in his campaign, used the ambiguous concept of “reviewing” the privatizations, but the general view was that some of these would be overturned. Once in Government, President Aylwin formed a commission in charge of investigating the prior privatizations, but this commission has not addressed any specific claim. Furthermore, the Government has withheld the pressure applied by the opposition to resume the privatizations program

political realities (fear of a strike wave). Under severe political control conditions – strikes were banned, union leaders were appointed by the Government, the United Federation of Workers (*La Central Unitaria de Trabajadores* – CUT) was proscribed - no labor market liberation measures were implemented until 1979. On the other hand, probably in an effort to satisfy an “electorate” of politically loyal union leaders, a semi-automatic indexation mechanism on the public and private sector worker’s wages and pensions was introduced. The minimum wage was increased significantly in real terms. The subsequent increase in real wages during the second half of the seventies was probably the reason for the persistently high unemployment rates.<sup>71</sup> Thus, the traditional government intervention policy for the labor market was up-kept by the Military Government during those first six years of government.

Only in 1979-1980, when the economy had reached its peak and influence from the free market economists had grown considerably, were the labor market distortions addressed. Under Jose Piñera, the then Minister of Labor, a full revision of the labor laws and the social security system was undertaken. External pressures (a boycott threat on Chilean exports in North American ports) convinced the Government to free the labor market and lift the strike ban. Government intervention on wage fixing was severely restricted, enrolment in workers unions became voluntary and collective bargaining was kept to a company level.<sup>72</sup> In addition, the majority of the legal entry barriers to the different unions were eliminated.<sup>73</sup>

Nonetheless, in order to overcome the strong internal opposition to the reforms, carefully designed compensations were included. The apparently omnipotent Military Government felt compelled to seek a compromising solution. The elimination of labor market restrictions did not include the suppression of the mandatory readjustments on all private sector wages due to cost of living variances. On the contrary, the new law governing collective bargaining set forth an automatic readjustment on salaries as a minimum benefit to workers, this being a similar practice as that used for public and private

---

<sup>71</sup> For an analysis on this subject, see Edwards and Edwards (1987)

<sup>72</sup> See Alamos 1987) and Piñera (1990). On occasions, these reforms have been misinterpreted, as they would restrict the right to strike. For example, it is said that they would limit strike length to 60 days. Aylwin’s government approved a law to eliminate said “limit”. However, what the reform actually did was to simply set a 60 day end period in which the strikers could be laid off. In the United States strikers do not have that privilege.

<sup>73</sup> Alamos (1987) mentions 23 legal provisions that constrained the performance of trades such as musicians, actors, bus drivers, electricians, hairdressers, etc., which were overturned between 1979 and 1980.

sector workers who were not subject to collective bargaining.<sup>74</sup> The market could raise salaries in real terms, never reduce them. Predictably, when the 1981-1982 world recession triggered a drop in real wages in Chile, unemployment grew to more than 20% of the work force. Only then did the Military Government feel that it could free real private sector wages by eliminating all the compulsory adjustments, due to cost of living variances. Since then the Chilean labor market has performed noticeably well, with little government involvement.

The labor reforms also eliminated the entry barriers to certain occupations. Amongst the many constraints lifted it is worth mentioning the one related to the stevedores, who as a rule held specially controlled permits from the port authorities. Those who held permits had access to an unnaturally rare resource, the right to work in the ports, and to collect a correspondingly monopolist wage. They generally rented out their permits to third parties, so in fact they did not even have to do the physical work. This curious state of affairs was only possible because of its high political influence: the possibility of closing down all Chilean ports during a strike. This distortion artificially raised the freight costs of Chilean exports. In order to end these misrepresentations the Military Government decided to previously compensate the port workers in cash for their loss of monopolist income. Thus the Government purchased the permits before withdrawing them.<sup>75</sup> It is interesting to note that similar measures were adopted by the governments (democratic) of Argentina and Peru, although in those instances the port workers received no compensation whatsoever.

The social welfare reform also faced strong opposition from labor leaders. This reform was crucial, because, as has been addressed in the first section of this paper, the former system represented a major income redistribution mechanism. The social welfare reform implemented in 1980 created a totally financed, privately administered pensions system and it transferred all other plans previously administered by the private funds, such as family benefits, to the Government. Consequently the reform drastically modified the balance of power between the State and the markets. Previously, social security funds were drawn from taxes on payrolls set by law and allocated according to the wishes of state-owned organisms. The reform set a minimum 10% contribution rate on wages and granted each worker the freedom to choose in which private fund this contribution would be deposited.

---

<sup>74</sup> According to Piñera (1990), this restriction was added during his bill's legislative discussions

<sup>75</sup> Wisecarver (1986).

The fund administrators were empowered to invest these funds in the national equity market under a set of strict regulations.<sup>76</sup>

The social security reform strategy left the traditional leaders on a side and appealed directly to the workers. The workers had the option of continuing under the former system or changing to the new privately administered pension funds. To this effect, the State promised them a certificate (a “retirement fund bond”) that represented that updated value of their fund contributions, so that they could have accumulated capital when they joined the new system. The Public Treasury took on the corresponding debt. Furthermore, they were offered a financial incentive: as the mandatory contribution under the new system was lower than the prevailing one under the former system, the liquid salary of the workers who joined the new system was increased, by law, by the same amount. As a result, the liquid salary of the individuals who joined the new system increased by 7% at one time.<sup>77</sup> Hence, to the consternation of the labor leaders, the workers opted en masse for the new system. This worked rather like a plebiscite between the private and the public sector, and it was won overbearingly by the first. And the workers who participated in that plebiscite acted wisely: not only did they receive the aforementioned economic incentive, but in addition, their funds, administered by private entrepreneurs, have incurred a real return rate of 14% annually since 1981.

In summarizing, despite the authoritarian nature of the regime, the market reforms were carefully designed to overcome political opposition. These were implemented gradually and were further complemented with compensatory measures, political transactions and some subsidies. All of this required leadership, creativity and pragmatism. These attributes are none other than those required when setting policies in a democratic administration.

There was, however, a crucial difference: the absence of regular elections. The political talent of the Chilean reformists was destined to neutralize the opposition within the political forces that supported the Government and diminish the opposition of the business and labor pressure groups that could jeopardize the reforms. As has been said, this was achieved through a “hard hand”, combined with persuasion and financial compensations. But this strategy was not destined to win votes.

---

<sup>76</sup> The reform process of the social security system is detailed in Pinera (1991). A full analysis of the new system can be found in Cheyre (1991). The reform was strongly attacked by some economists who are now in the Government (Arellano, 1985, chap. 3), but to date no significant change has been introduced

<sup>77</sup> Cheyre (1991).

In fact, the absence of regular elections had two consequences. On the one hand, it enabled the Government comparatively longer term planning. On the other, it reduced the need to convince the population at large of the advantages of these reforms.

A distinctive trait of the Chilean reform process was the apparent weak support from the population, judging, for instance, from the 1988-89 surveys.<sup>78</sup> According to a study carried out in Santiago in 1987, 55.5% felt that prices should be set by the Government (28% disagreed) and 52% stated having more confidence in the former pensions system than in the new one (27% thought differently).<sup>79</sup>

Similarly, in 1988, 54.8% of the population in Santiago favored the income redistribution policies as the best way to fight poverty, compared to only 37.6% that favored economic growth; 39.1% supported state ownership of large corporations (38.5% were opposed). 49.4% preferred the former pensions system (only 22.2%, the new one) and only 15.1% expressed preference in maintaining the Pinochet Government's political, economic and social policies for the next period (against 35.5% who preferred Frei's ideas, 22.5% Alessandri's and 14% favored Allende's).<sup>80</sup>

To a certain degree, the above is understandable in view of the social costs of the 1975-1976 and 1982-1983 macroeconomic adjustments.<sup>81</sup> In any case, the Chilean free market reforms have been less popular than are now the Argentine reforms, for example.<sup>82</sup> The free market model only appears to start being acceptable to the Chilean population under a new Government that has committed followers.

### **3. MARKET ECONOMY AND POLITICAL TRANSITION**

In March, 1990, after 16 years and a half, the Military Government handed over to a democratically elected civilian government backed by a coalition of

<sup>78</sup> Véase nota 76

<sup>79</sup> Centro de Estudios Públicos (1987).

<sup>80</sup> Centro de Estudios Públicos (1988).

<sup>81</sup> A lot has been written about the "social costs" of the Chilean model. Given the poor average results of the 1970-1990 period (see Table N° 1) it is not surprising that, in fact, that living conditions of the poor people have been difficult. However, there is evidence that the lower income segment of the population was relatively protected by carefully designed social programs (Castañeda, 1990). On the other hand, some critics have highlighted the weakening of some of the income distribution indicators

<sup>82</sup> For the Argentine case see Mora y Araujo (1991).

opposing political parties. This was implemented pursuant to a transition schedule that had been approved 10 years earlier in a constitutional referendum. Although right from the beginning the Military Government had stated its intent to restore the democratic institutions, few believed that this commitment would be fulfilled in such an upright and peaceful manner.

The 1980 Constitution contemplated a long transition period, with a double rationale: in the first place, to proffer the time needed to put into practice the economic and social reforms described in the preceding section, and secondly, to allow that these reforms gradually improve the standard of living of the population and, thereby contribute to the stability of the political system.<sup>83</sup>

The social and economic reforms were not only a means to increasing the efficiency of the economy, but also to building a new balance of power between the State and the citizenry. The idea was that by constraining the State's radius of action to some basic functions, the new democratic order would be less vulnerable. The purpose of all the economic and social reforms was to restrict the government involvement setting, and in so doing, the feasibility of redistributive policies such as those implemented in the democratic period prior to 1973. For this reason, the return to democracy had to wait until such reforms had been fully set in place during the authoritarian regime.

An extended transition period afforded the time needed by the reforms to generate palpable positive results. In fact, it was believed that the reforms would translate into a substantially better standard of living for the population. As was stated in section 2, the 1975 macroeconomic adjustment and the inevitable initial costs of the reforms had a strong negative impact, in terms of production and unemployment. It was hoped that over time these initial difficulties would be overcome and Chile would initiate a period of strong and sustained growth. Thus, the decision to extend the authoritarian regime until the end of the 1980's was influenced by the argument taken from political science that a general improvement in living conditions – and the subsequent decline in levels of poverty – would afford more stability to the new democracy.

During 1980 and 1981 the plan worked well. As mentioned in the section above, over the previous five years the economy had, in fact, experienced rapid expansion. Expectations on the future of the Chilean economy were encouraging; both in Chile and abroad.<sup>84</sup> The optimistic climate reached its peak towards the end of 1980, after the constitutional referendum called by General

<sup>83</sup> The fundamentals of the transition as well as the 1980 Constitution were better explained by its principal architect, Senator Jaime Guzmán, assassinated in 1991. See Guzmán (1982) and many of his articles

<sup>84</sup> See for example, World Bank (1980)

Pinochet was approved by 67% of voters. This was construed, overall, as a huge vote of confidence in the Military Government. That same night, in his victory speech, General Pinochet made a detailed forecast of the oncoming boom (greater availability of cars, televisions, telephone lines, etc.), which would take place over the eight year period commencing with the new Constitution.<sup>85</sup>

All these expectations came to an abrupt halt at the end of 1982, when the economy slumped into a new and severe recession. As described in section 2, excessive growth of government spending and the 1982 world recession led to a 14% drop in the GDP, raised the unemployment index over 25% of the labor force and took the majority of debtors, large and small, to the brink of bankruptcy. The consequences of this deep recession could have been even more serious, given that the discredit of the free market model among experts, businessmen, politicians and public opinion reached huge proportions. The free market model was declared dead by most observers.<sup>86</sup> A return to the former interventionist practices seemed inevitable.

As always happens in these instances, the economic policies became somewhat populist in nature. At the onset of 1983, the outbreak of the banking crisis gave rise to government intervention of the main business groups, many of the bank holdings and the recently privatized companies. The fact that those companies returned to state hands and that those same businessmen who had been praised for their efficiency and commitment to the model were now accused of reckless practices and even fraud by government officials and the press, was a severe blow to the prestige of the Military Government and its economic model. Very quickly import tariffs, taxes and government spending started to be gradually increased. Likewise, a maximum limit on interest rates, subsidized loans, preferential exchange rates, exchange rate controls and official foreign debt rescheduling inconspicuously reappeared.

The general view was that the Government had failed and this setback did nothing more than confirm that impression. Government legitimacy was put to the test. The opposing groups, although formally banned from political activity, went into action. Monthly “days of protest” were organized in which these groups marched to the city center and confronted police forces. Violent

---

<sup>85</sup> Barandiarán (1983) describes this boost of optimism in Kindlebergerian terms.

<sup>86</sup> For example, Arellano y Cortázar (1982), Foxley (1983a, 1983b), Vergara (1985), Tironi (1990). According to these observers, the 1982-1983 crisis was conclusive evidence of the Chilean free market model. Following the economic recovery between 1985 and 1989, these redefined the model that, in their judgment, had failed, i.e. a singular macroeconomic approach, known as “the balance of payments monetary approach” (Tironi 1990). The confusion is understandable given that in Latin America the free market proposals were often labeled as “monetarism”, probably due to their link with the IMF. In any case, in my opinion, it is obvious that the free market model was the main issue between 1982 and 1983, and not simply a monetary principle.

disturbances broke out in low income neighborhoods, whilst in the mid and high class sectors housewives went out to beat their cooking pans till midnight (even a few blocks away from General Pinochet's residence).<sup>87</sup> In an effort to relieve the tension, the Government initiated negotiations with the leaders of the opposition, which eventually failed when the latter demanded General Pinochet's immediate resignation as a prior condition to continuing talks. At that point, not only did the downfall of the Chilean free market experiment seem imminent but also the fall of General Pinochet.

However, none of this took place. At the beginning of 1985 a new economic team took charge, headed by Hernán Büchi who had been an important member of the free market team. A coherent macroeconomic plan was set up and the liberal reforms were not only preserved, but they were consolidated and strengthened. The new plan included a new and rigid fiscal adjustment, mainly this time in matters of public spending; strong peso devaluation aimed at stimulating exports and re-balancing the balance of payments and a flexible and pragmatic monetary policy that combined stabilizing objectives with careful reactivation of aggregate demand.<sup>88</sup> The outcome of these measures was a strong and healthy product and employment recovery. On this occasion exports and investments took the lead, whilst consumption and real wages rose slowly. Inflation and the foreign debt indices gradually dropped. National and international trust was restored: the free market model had revived.

The success of the program was due mainly to its "pragmatic orthodoxy", a skillful combination of firmness in the achievement of its basic objectives and flexibility and creativity in the choice of means. The first attribute required a strong hand, and, in fact, one of the first measures included a 10% reduction in pension payments, the removal of an exchange allowance that favored the powerful business groups and the resumption of import tariffs. Despite being jeopardized by these measures, the business community reacted well. The creativity and flexibility of this plan is reflected by the measures taken to settle the foreign debt issue (re-scheduling, innovative ways of obtaining "fresh cash", conversions of the debt into capital), to recapitalize the local banks, to stimulate nontraditional exports and foreign investment, to modernize the taxation system and to protect the lower income sectors of the population from some of the more significant adjustment impacts.<sup>89</sup>

---

<sup>87</sup> See Tironi (1990)

<sup>88</sup> For an analysis of the policies implemented between 1985-1989 see J.A.Fontaine (1989-1990).

<sup>89</sup> The macroeconomic measures are addressed in J.A.Fontaine (1989, 1990). Their social impact is analyzed in Castañeda (1990), who argues that the lower income sectors were comparatively better off in Chile than in other Latin American countries during those first difficult years of the eighties.

In turn, political evolution took an entirely different course than could have been expected in 1983. Despite growing unity, organization and opposing political strength, the Military Government remained in power. There was a gradual political opening through which the Government allowed an increase in activity. The schedule of the 1980 Constitution was strictly followed and General Pinochet retired peacefully in March, 1990, after losing the plebiscite in 1988. In so doing, the course that Chile eventually followed was one of economic recovery and political openness, as was foreseen – or hoped for – by Fontaine, Guzmán, Piñera and others.<sup>90</sup>

The question raised by this account is what happened to make this so improbable plan work. How can the revival of the free market policies be explained? Why did General Pinochet, against all probabilities, keep to the prior economic agenda y political timeline? In my view, the answers to these questions lie in the traumatic experiences of 1982-1984.

In spite of its huge social and economic costs, the 1982-1984 crisis and the populist interlude had positive political outcomes: it revealed to the Military Government, as also to the future civilian government, the boundaries of the powers of the State in an open and competitive economy. Once this lesson was learned, the probability of an orderly and peaceful transition to democracy strengthened immeasurably.

In fact, as has already been said, the Military Government's initial reaction to the crisis was to encourage government intervention. For example, the acute banking crisis of 1983 was addressed through mass intervention of the banks and related companies. This decision was announced by the Minister of Finance in a televised speech that had clear political allusions. It was obvious that the Government's intent was to make some entrepreneurs politically accountable for the ongoing recession. Naturally, the markets reacted very adversely; the black market peso dropped alarmingly and the Government had no other alternative but to officially reprogram the private foreign debt. The political impact of all this was that the Military Government momentarily lost the trust of the business community, especially amongst the young industrialists who had gambled on the success of the free market model.

When the Government attempted to re-capture these businessmen, appointing a new, clearly anti-reformist oriented economic team, inclined towards Keynesian policies and exchange rates, financial and commercial constrictions, the markets once again reacted unfavorably, with vast speculation

<sup>90</sup> Arturo Fontaine Aldunate (1983) submitted various scenarios and chose one – “gradual economic recovery and political openness” – as the most probable and suitable. His description of that scenario is surprisingly close to the way the events finally developed.

See also Guzmán (1982) and various articles by José Pinera in *Economía y Sociedad*.

against the peso. The measures proposed by the new team were not radical, but the market perceived that it could be the beginning of a gradual dismantling of the free market model. Business leadership, initially supportive, eventually took a opposing attitude towards the plan, influenced by the pro-exports groups that had emerged in previous years. In conclusion, this new interventionist attempt (hopefully the last) was frustrated by what could be called “the rebellion of the money market desks”.<sup>91</sup>

Bankers' money making desks, pension fund executives and treasurers of large corporations are a fairly powerful group within a market economy. At the onset of the 1980's, most of these positions were held by young, competent professionals, qualified in economics and finance in the United States and from Chilean universities that had followed the Chicago tradition, quick to detect opportunities to benefit from and exploit any visible incoherence in government policies. When they realized that the government had adopted expansionist monetary and fiscal policies, they speculated against the peso. When they heard about the protectionist plans, they speeded up imports. Those involved in the imports and exports business quickly understood that their interests were at stake and initiated, as a result, their political counterattack.<sup>92</sup>

To conclude, the open, unrestricted markets left room for speculation against changes in economic policies. Thus, the populist swing led to significant political cost for the Military Government and these eventually compelled it to return to the free market course. The political cost associated to the divergence from this course acted as an efficient automatic safety valve on populism. The market defended itself.

Fear of economic instability affected the economic, as well as the political focus. As in the rest of Latin America, the economic performance in the second half of the eighties depended strongly on foreign financing.<sup>93</sup> A substantial flow of these resources was necessary to achieve macroeconomic stability. Initially, this financing came from the IMF, the World Bank and the Inter-American Development Bank, as well as from the official re-scheduling of debts with commercials banks. All these instances were influenced by the governments of the creditor countries, especially the United States. Whilst the availability of financial assistance was never formally linked to the progress achieved by the re-democratization program, it was clearly understood that, for example, if the

---

<sup>91</sup> At that time I was a official at the Banco Central and I vividly remember the Minister of Finance's exasperation regarding the "lack of cooperation" from financial speculators who constantly bet against his policies.

<sup>92</sup> *El Mercurio* and *Economía y Sociedad* led the opposition to any populist divergence.

<sup>93</sup> J. A. Fontaine (1989).

constitutional timeline was not met, this would generate severe financial costs.<sup>94</sup> Later on, strong private financing – foreign investment – became equally significant and these demanded, in addition, political and economic stability.

The above does not intend to claim that the local and foreign businessmen actively pressured for the hastening of political transition. Quite the contrary, business leadership was highly critical of the actions of the opposing groups. Most of them, for instance, supported General Pinochet in his 1988 plebiscite. However, the point is that their concern for economic stability led them to choose the continuation of the constitutional timeline. Any modification would have been construed as a stability risk and would have been extremely costly, in economic and political terms, to the Military Government.

Some authors have offered an alternative explanation regarding the transition process in Chile. According to suggested theories authoritarianism became, up to a certain point, illogical in a market economy.<sup>95</sup> Having already achieved economic freedom, the citizenry also demanded political freedom. Although this is a theoretically plausible explanation, I believe it lacks sufficient empiric sustainability. In the first place, the free market reforms were not popular in Chile: all the opinion polls taken before the 1988 and 1989 elections clearly showed that they were rejected by most of the population.<sup>96</sup> Secondly, the political support of the opposing sectors originated, in part, from their systematic and orchestrated opposition to all and each one of the Military Government's economic policies. As stated in section 2, the main opposing economists never foresaw that the economy would recover so swiftly from the 1982-1983 depression and claimed that the problem lay in excessive economic freedom. In 1983 the economists of the opposition proposed an alternative corporativistic economic model focus, some of whose components were also present in their respective campaign programs at the 1988 plebiscite and the 1989 elections.<sup>97</sup>

Finally, the role of the opposing sectors in the transition process was relatively ambiguous. As has been said, in 1983 it was felt that General Pinochet could be forced to step down. Further on, in 1985, the National Agreement (*Acuerdo Nacional*) was organized with an end to negotiating some

<sup>94</sup> The support from the World Bank was crucial. The U.S. representative on the Board of Governors abstained from approving vital loans to Chile between 1985 and 1986. If he had voted against, the loans would have been rejected. The U.S. Government adopted a less harmful path, probably because of the political openness of the time in Chile.

<sup>95</sup> See, for example, Tironi (1990).

<sup>96</sup> For an analysis of the 1988 and 1989 electoral results, see Roberto Méndez (1989, 1990).

<sup>97</sup> See, for example, Foxley and others (1983b) and Boeninger (1985). A critical commentary on the latter can be found in J.A.Fontaine (1983).

changes in the transition process, especially the replacement of the 1988 plebiscite by a competitive election. Whilst this was an important step, it failed in this specific intent. The more radical opposing sectors chose the way of violence.<sup>98</sup> The moderate political parties (the Christian Democrats and the Socialists) started to efficiently and calmly prepare for the upcoming elections. However, they appeared understandably skeptical regarding the transparency and the impartiality of the process. It was only in January, 1988, ten months before the plebiscite that they called on their supporters to enroll in the electoral registers.<sup>99</sup> Supporters responded by massively turning up at the electoral registers and the opposing groups carried a unified, efficient campaign in favor of a "No" vote (that is, rejection of General Pinochet) and later, in 1989, in support of the presidential candidate Patricio Aylwin. Even if their criticism of the economic reforms had appeared ideologically backward, as organizers of political campaigns their actions were both modern and pragmatic.

Hence, in my view, it was not the opposition to General Pinochet that led the transition to democracy. These were not the political representatives of an electorate desirous of adding political liberties to recently acquired economic liberties. They were, rather, opposition leaders who acted as competent politicians and took advantage of the discontent brought on by economic austerity measures.<sup>100</sup>

The Military Government's political plan worked, eventually, but ironically to the benefit of the opposing parties. The economic achievements were significantly tendered a climate of stable economic progress, crucial to an orderly and peaceful political transition. However, voters did not support General Pinochet in 1988 or the presidential candidate Hernán Büchi in 1989 who was one of the architects of the economic model. Nonetheless, the citizenry was sufficiently conservative in giving the two center-right parties significant representation in the 1989 parliamentary elections (33% of the votes).

In my opinion, this climate of stable economic progress has been a key factor in the first two years of the new Chilean democracy. The need to preserve an atmosphere of stability and economic growth has conditioned all the decisions of the present Government. The 1983-1984 Chilean experience and the unorthodox experiments of former Presidents Alan García of Peru and Raúl Alfonsín of Argentina have been useful examples of what should be avoided.

<sup>98</sup>

In 1986 there was assassination attempt against General Pinochet and it was discovered that certain terrorist groups had introduced massive amounts of arms to the country

<sup>99</sup> For a discussion on the strategy followed by the opposition to General Pinochet, see Tironi (1990).

<sup>100</sup> Arturo Fontaine Talavera, Harald Beyer y Eduardo Novoa (1990); R. Méndez (1989, 1990)

The risk of a trust crisis together with a rebellion from the money making desks has led the economic team to act cautiously, and has driven them to gradually leave their campaign promises aside. Positive learning has also been adapted from experiences in Spain and Mexico. Naturally, the current ideological trends have also had a positive impact.<sup>101</sup>

Thus, the new Government has implemented a basically conservative economic policy. It has held strictly to fiscal discipline and has supported the Banco Central (currently autonomous) in its efforts to keep inflation below a 20% although some potentially endangering measures have been introduced: corporate taxes have been increased with an end to financing additional public spending and some regulations have been tightened up, especially in the labor markets. However, these adjustments have been moderate. The debate now centers on whether these are tantamount to the first steps in a slow path towards potential model destruction, or if they are simply a number of concessions made to ensure their full force within a democratic system. Either way, in underwriting the basic components of the model, the Aylwin government has made a fundamental contribution to the future of Chile: it has afforded the model a non partisan spirit built on the singular circumstances described here.

Paradoxically, although led by its political adversaries, the emerging Chilean democracy does not appear to differ much from that foreseen by the architects of the Military Government's transition plan. In contemporary Chile, the sphere of individual liberties has broadened hugely thanks to the free market reforms implemented in prior years. State intervention has diminished significantly and the probabilities of returning to the redistribution policies prior to 1973 look every day more distant. The country, it appears, perceives the benefits of a stable, growing economy. The self-defending capabilities the market reflects leave no room for populist trends. The new democracy appears much more efficient and secure than the former. Of course, it is too soon to pass definitive judgment, but the current signs are undoubtedly very encouraging.

---

<sup>101</sup> The new international ideological climate has been studied and disseminated by many independent educational centers founded during the military regime. For an analysis of his role in the political transition, see Arturo Fontaine Talavera (1991).

## Bibliography

- Alamos, Rodrigo (1987). Labor modernización. "La modernización laboral". *Estudios Pùblicos* 26.
- Alé, Jorge *et al.* (1990). Corporate state and privatization in Chile, *Estado empresario y privatización en Chile*, Santiago de Chile: Universidad Andrés Bello.
- Arellano, José Pablo y Cortázar, René (1982). From crisis to miracle: some observations on the economic model. "Del milagro a la crisis: Algunas reflexiones sobre el modelo económico". *Apuntes Cieplan* 31.
- \_\_\_\_\_*et al.* (1982). Chilean Economic Model: The trajectory of a critique. *Modelo económico chileno: Trayectoria de una crítica*. Santiago de Chile: Aconcagua.
- \_\_\_\_\_*et al.* (1985). Social policies and development: Chile 1924-1984. *Políticas sociales y desarrollo: Chile 1924-1984*. Santiago de Chile. Cieplan.
- Balassa, Bela (1984). Economic Policy Experiments. "Experimentos de política económica 1973-1983." *Estudios Pùblicos* 14.
- World Bank (1980). Chile: An Economy in Transition. Washington D. C.: World Bank.
- Barandiarán, Edgardo (1983). Our financial crisis. "Nuestra crisis financiera". *Estudios Pùblicos* 12. Bardón, A; Cauas, J; Molina, S; Sanfuentes, A. and Zavala, J. L. (1972). The itinerary of a crisis. "Itinerario de una crisis". Santiago de Chile: Editorial del Pacífico.
- Becker, Garry (1958). "Competition and Democracy". *Journal of Law and Economics*. October.
- Beyer, Harald (1988). The Privatization of power distribution: the Chilectra Metropolitana case. "La privatización de la distribución eléctrica: El caso de Chilectra Metropolitana". *Estudios Pùblicos* 33.
- Bitar, Sergio (1979). Transition, socialism and democracy. *Transición, socialismo y democracia*. México: Siglo XX.
- Boeninger, Edgardo (1985). Economic challenges in the building of democracy. "Desafíos económicos por la construcción de la democracia". In Boeninger *et al.*, Economic order and democracy. Orden económico y democracia. Santiago de Chile: Centro de Estudios del Desarrollo.
- Castañeda, Tarsicio (1990). The fight on poverty: Social policy and decentralization in Chile during the 80s. Para combatir la pobreza: Política social y descentralización en Chile durante los '80. Santiago de Chile: Centro de Estudios Pùblicos.
- Cauas, Jorge y De la Cuadra, Sergio (1981). Economic Policy for foreign openness in Chile "La política económica de la apertura al exterior en Chile". *Cuadernos de Economía* 54-55.
- Centro de Estudios Pùblicos (1987). Social and public opinion study in the Santiago population. "Estudio social de opinión pública en el Gran Santiago. December 1986-January 1987".
- \_\_\_\_\_*et al.* (1988). Social and public opinion study in the Santiago population. "Estudio social y de opinión pública en la población de Santiago". *Working Document N° 102. Documento de Trabajo N° 102*.
- Cheyre, Hernán (1988, 1991). Forecasts in Chile: Yesterday and Today. *La previsión en Chile: Ayer y hoy*. Santiago de Chile: Centro de Estudios Pùblicos.
- Corbo, Vittorio (1985). "Reforms and Macroeconomic Adjustment in Chile during 1974-1983". *World Development* 13. August.
- Dahl, Robert (1971). Polyarchy: Participation and Opposition. New Haven London: Yale University Press.
- Dahse, Fernando (1979). Map of extreme riches. *Mapa de la extrema riqueza*. Santiago de Chile: Aconcagua.
- Debray, Regis (1971) *The Chilean Revolution: Conversations with Allende*. New York.
- Dornbusch, Rudiger y Edwards, Sebastián (1989). "Economic Crises and the Macroeconomics of Populism in Latin America: Lessons from Chile and Peru", *mimeo*, NBER.
- Downs, Anthony (1957). An Economic Theory of Democracy. Nueva York: Harper and Row.
- Edwards, Sebastián y Edwards C., Alejandra (1987). Monetarism and Liberalization: The Chilean Experiment. Cambridge: Ballinger.

- Encina, Francisco (1911). Our Inferior economy: Its causes and outcomes. Nuestra inferioridad económica: Sus causas sus consecuencias. Santiago: Editorial Universitaria (fifth edition: 1981)
- Falcoff, Mark (1989). Modern Chile: A Critical history. New Jersey: New Brunswick.
- Ffrench-Davis, Ricardo (1974). The importance of copper in the Chilean economy. "La importancia del cobre en la economía chilena". En Ffrench-Davis y Tironi (eds.), Copper in national development. El cobre en el desarrollo nacional. Santiago de Chile: Cieplan.
- \_\_\_\_\_ y Muñoz, Oscar. Economic development, instability and political unbalance in Chile: 1950-1989. "Desarrollo económico, inestabilidad y desequilibrios políticos en Chile: 1950-1989". Estudios Cieplan 28.
- Fontaine Aldunate, Arturo (1980). Beyond Leviatán. "Más allá del Leviatán". Estudios Pùblicos 1.
- Fontaine Aldunate, Arturo (1983). Looking towards the political future of Chile. "Mirando hacia el próximo futuro político de Chile". Estudios Pùblicos 12.
- Fontaine Aldunate, Arturo (1988). The economists and President Pinochet. Los economistas y el Presidente Pinochet. Santiago: Zig-Zag.
- Fontaine, Juan Andrés (1980). "Democracy and Income Redistribution: The Case of LDCs". Mimeo.
- \_\_\_\_\_ (1983a). What happened to the Chilean economy? "¿Qué pasó con la economía chilena?". Estudios Pùblicos 11.
- \_\_\_\_\_ (1983b). Pacted Planning "La planificación concertada". Economía y Sociedad.
- \_\_\_\_\_ (1989) 'The Chilean Economy in the Eighties: Adjustment and Recovery'. In Edwards y Larraín (eds.), Debt, Adjustment and Recovery; Oxford: Basil Blackwell.
- \_\_\_\_\_ (1990). Observations on the Chilean macroeconomic experience of 1985-1989. "Observaciones sobre la experiencia macroeconómica chilena de 1985-1989". Estudios Pùblicos 40.
- Fontaine Talavera, Arturo (1992). On the original sin of the Chilean capitalist transformation. "Sobre el pecado original de la transformación capitalista chilena". Centro de Estudios Pùblicos. Mimeo. Santiago de Chile.
- \_\_\_\_\_ Beyer, Harald y Novoa, Eduardo. "Democracy and Dictatorship in Chile" In Goodman y Morotz-Baden (eds.), Fighting the War of Ideas: Latin America. Dallas: National Center for Policy Analysis.
- Foxley, Alejandro y Muñoz, Oscar (1974). Income redistribution, economic growth and social structure: the Chilean case. "Redistribución del ingreso, crecimiento económico y estructura social: El caso chileno". In Foxley (ed.), Income Distribution. Distribución del Ingreso. México: Fondo de Cultura Económica.
- Foxley, Alejandro (1983a). Latin Experiments in Neo-Conservative Economics; Berkely: University of California Press.
- \_\_\_\_\_ et al. (1983b). Economic reconstruction in favor of democracy. Reconstrucción económica para la democracia. Santiago: Cieplan y Ed. Aconcagua.
- Glade, William (1991). "Further Observations on Chile". In Glade (ed.), Privatization of Public Enterprises in Latin America. San Francisco: International Center for Economic Growth.
- Góngora, Mario (1981). Historical essay on the notion of the Chilean State. Ensayo histórico sobre la noción del Estado en Chile. Santiago de Chile: Editorial Universitaria.
- Gregoire, J. y Ovando, H. 1974. Capital markets in Chile. "El mercado de capitales en Chile". Estudios Monetarios III. Santiago de Chile: Banco Central de Chile.
- Guzmán, Jaime (1980). The constitutional definition.. "La definición constitucional". Realidad 2. [Included in Arturo Fontaine Talavera (1991), Thoughts by Jaime Guzmán. "El Pensamiento de Jaime Guzmán", Estudios Pùblicos 42.]
- \_\_\_\_\_ (1982). The meaning of the transition. "El sentido de la transición". Realidad, 38. [Included in Arturo Fontaine Talavera (1991), " Thoughts by Jaime Guzmán", Estudios Pùblicos 42.1]
- Hachette, Dominique y Lüders, Rolf (1992). "Privatizing the Economy: The Chilean Case". World Bank (still unpublished).
- Harberger, Arnold (1959). "The Dynamics of Inflation in Chile" Measurement in Economics: Studies in Mathematical Economics and Econometrics. California: Standford University Press.
- \_\_\_\_\_ (1982). "The Chilean Economy in the 1970's: Grises Stabilization, Liberalization, Reform". In Brunner y Mettzer (eds.), Economic Policy in a World of Change. Carnegie-Rochester Series on Public Policy, vol. 17. New York: North-Holland.

- Heskia, Isabel (1980). Income distribution in the Greater Santiago Area -1957-1979. "Distribución del ingreso en el Gran Santiago 1957-1979". Economics Department, Universidad de Chile.
- Hirschman, A. (1963), "Inflation in Chile". Journeys Towards Progress. The Twentieth Century Fund.
- Kast, Miguel (1984). Economic policy and social development in Chile. "Política económica y desarrollo social en Chile". Estudios Públicos 13.
- Kruegger, Arme (1974)."The Political Economy of a Rent-Seeking Society". American Economic Review, Vol. 64, Nº 3.
- Lagos Ricardo (1961). The concentration of economic power. La concentración del poder económico. Santiago: Editorial del Pacífico.
- Lal, Deepak (1983). The Poverty of Development Economics. Cambridge: Harvard University Press.
- Larraín, Felipe y Meller, Patricio (1990). The Chilean socialist-populist experience: The Unidad Popular, 1970-73. "La experiencia socialista-populista chilena: La Unidad Popular, 1970-73". Cuadernos de Economía 82.
- Larraín, Felipe (1991). "Public Sector Behavior in a Highly Indebted Country: The Contrasting Chilean Experience". In Larraín y Selowsky (eds.), The Public Sector and the Latin American Grises. San Francisco: International Center for Economic Growth.
- Larroulet, Cristian (1984). Reflection on the Chilean Corporate State. "Reflexiones en torno al Estado empresario en Chile". Estudios Públicos 14.
- \_\_\_\_\_. (1991). Private solutions to public problems. Soluciones privadas a problemas públicos (Ed.). Santiago: Libertad y Desarrollo Institute.
- Lavín, Joaquín (1980). The enrichment of people in Chile. El enriquecimiento de las personas en Chile. Concepción: Ciencia y Tecnología.
- Little, Ian (1982). Economic Development: Theory, Policy and International Relations. New York: Basic Books.
- Lüders, Rolf y Arbildua, Beatriz (1969). A comparative evaluation of three anti-inflation programs in Chile. "Una evaluación comparada de tres programas antiinflacionarios en Chile". Cuadernos de Economía 14. April.
- MAMALAKIS, M., MUÑOZ, O., FONTAINE, J. A. (1984). The last ten years of economic history. "Los últimos diez años de historia económica". Estudios Públicos 15.
- Marcel, María V. (1989), The privatization of public companies in Chile – 1985-1988. "La Privatización de las empresas públicas en Chile 1985-1988". Cieplan, Notas Técnicas, 125.
- Méndez, Juan Carlos (1979). Chilean Economic Policy. (Ed.). Santiago de Chile.
- \_\_\_\_\_. (1980). Socioeconomic overview of Chile. Panorama socio-económico de Chile. Santiago de Chile. Méndez, Roberto et al. (1989). Why did the 'No' vote win? "¿Por qué ganó el 'No?'". Estudios Públicos 33. Méndez, Roberto (1990). Public opinion and the 1989 presidential election. "La opinión pública y la elección presidencial de 1989". Estudios Públicos 38.
- Moulian, Tomás y Vergara, Pilar (1980). State, ideology and economic policies in Chile: 1973-1978. "Estado, ideología y políticas económicas en Chile: 1973-1978". Estudios Cieplan 3.
- Peltzman, Sam (1976). "Towards a More General Theory of Regulation"; Journal of Law and Economics; August.
- Petras, James (1969). Politics and Social Forces in Chilean Development. Los Angeles: UCLA Press.
- Pinto, Aníbal (1959). Chile: a case of frustrated development. *Chile: Un caso de desarrollo frustrado*. Santiago de Chile: Editorial Universitaria.
- Piñera, José (1990). The labor revolution. *La revolución laboral*. Santiago de Chile: Zig-Zag.
- \_\_\_\_\_. (1991). To bell the cat. El cascabel al gato. Santiago de Chile: Zig-Zag.
- \_\_\_\_\_. (1991). "The Path to Privatization in Chile". In Celade (ed.), *Privatization of Public Enterprises in Latin America*. San Francisco: International Center for Economic Growth.
- \_\_\_\_\_. (1992). Chile: the power of an idea. "Chile: el poder de una idea". In Levine (ed.), The Neoliberal Challenge. El Desafío Neoliberal. Barcelona: Editorial Norma S. A.
- Sierra, E, (1970). Three stabilizing attempts in Chile. *Tres ensayos de estabilización en Chile*. Santiago de Chile: Editorial Universitaria.
- Sjaastad, Larry (1974). "Why Stable Inflations Fail: An Essay in Political Economy". Mimeo

- Smith, Adam (1776). *The Wealth of Nations*. New York: Modern Library, the Cannon Edition.
- Stigler, George (1970). "Director's Law of Public Income Redistribution". *Journal of Law and Economics*; April.
- \_\_\_\_\_ (1972). "Economic Competition and Political Competition". *Public Choice*, August..
- Tironi, Eugenio (1990). Authoritarianism, modernization and exclusion; Autoritarismo, modernización y marginalidad. Santiago de Chile: Ediciones Sur.
- Valdés, A., Hurtado, H. y Mulnick, E. (1990). "Trade, Exchange Rate and Agricultural Pricing Policies in Chile". Vol. 1 y 2. World Bank *Comparative Studies*. [Reprinted in Krueger, Schiff y Valdés (eds.), Political economy of agricultural price internment in Latin America. Economía política de las internaciones de precios agrícolas en América Latina. (CINDE,1990).]
- Valdés, Juan Gabriel. (1989). The Chicago School: Operation Chile\_ La Escuela de Chicago: Operación Chile. Buenos Aires: Zeta S. A. Valenzuela, Arturo (1978). *The Breakdown of Democratic Regimes: Chile*. Baltimore: The John Hopkins University Press.
- \_\_\_\_\_ and Valenzuela, Samuel (1986). "Party Oppositions under the Chilean Authoritarian Regime". In Valenzuela (eds.), *Military Role in Chile*. Baltimore: The Johns Hopkins University Press.
- Veliz, Claudio(1980). *The Centralist Tradition of Latin America*. Princeton: Princeton University Press.
- Vergara, Pilar (1985). Rise and fall of neoliberalism in Chile. Auge y caída del neoliberalismo en Chile. Santiago de Chile: FLACSO.
- Walters, Alian (1987), "Privatization". *Estudios Pùblicos* 27.
- Wisecarver, Daniel (1986). Regulation and deregulation in Chile- September 1973 to September 1983. "Regulación y desregulación en Chile: Septiembre 1973 a septiembre 1983." *Estudios Pùblicos* 22.

\* \* \*