THE POLITICAL ECONOMY OF THE CHILEAN MIRACLE

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CHILE: THE POLITICAL ECONOMY OF DEVELOPMENT AND DEMOCRACY IN THE 1990s. By David E. Hojman. (Pittsburgh, Pa.: University of Pittsburgh Press, 1993. Pp. 242. $49.95 cloth.)

THE CHILEAN ECONOMY: POLICY LESSONS AND CHALLENGES. Edited by Barry P. Bosworth, Rudiger Dornbusch, and Raúl Labán. (Washington, D.C.: Brookings Institution, 1994. Pp. 441. $46.95 cloth, $22.95 paper.)

CHILE'S FREE-MARKET MIRACLE: A SECOND LOOK. By Joseph Collins and John Lear. (Oakland, Calif.: Food First, 1995. Pp. 320. $15.95 paper.)

POLITICS IN CHILE: DEMOCRACY, AUTHORITARIANISM, AND THE SEARCH FOR DEVELOPMENT. By Lois Hecht Oppenheim. (Boulder, Colo.: Westview, 1993. Pp. 260. $54.95 cloth, $16.95 paper.)

DEMOCRACY AND POVERTY IN CHILE. By James Petras, Fernando Ignacio Leiva, and Henry Veltmeyer. (Boulder, Colo.: Westview, 1994. Pp. 215. $54.95 cloth, $18.95 paper.)

PINOCHET'S ECONOMISTS: THE CHICAGO SCHOOL IN CHILE. By Juan Gabriel Valdés. (Cambridge: Cambridge University Press, 1995. Pp. 334. $49.95 cloth.)

Chile is often taken by admirers and critics alike to be the quintessential model of neoliberal modernization in Latin America in the late twentieth century. It was the first country in the region to embrace economic neoliberalism after the 1973 coup that brought down the socialist coalition government of Salvador Allende. Chile's embrace of neoliberalism was also the most thoroughgoing inasmuch as the country avoided the heterodox detours that characterized many other Latin American countries throughout the 1980s. Chile's adherence to the classical economic development doctrine based on liberalization and free trade has been so complete and so successful in generating high rates of export-led growth that the country's recent economic record has been favorably compared by some to the performance of the four "Asian tigers" (Hong Kong, South Korea, Singapore, and Taiwan).

The Chilean experience in neoliberalism is also distinguished from those of other Latin American countries in that its economic reforms were initiated, carried out, and consolidated largely prior to its transition back to democratic government. The Chilean case thus contradicts much thinking that envisions a necessary and causal link between political and economic liberalization. This review essay will provide an overview of selected recent scholarship on the political economy of neoliberal reform in Chile and will comment on the specifics of the Chilean case as well as the more general lessons it implies for other "transition economies."

Broad agreement exists among mainstream economists (represented here by the work of David Hojman and the collection edited by Barry Bosworth, Rudiger Dornbusch, and Raúl Labán) that Chile has largely succeeded in promoting strong and stable growth because it has embraced free-market policies. Other analysts dissent from this view, however. Joseph Collins and John Lear, for example, believe that the regime headed by General Augusto Pinochet was far from representing a genuine adoption of free-market economic philosophy and policy and actually was involved heavily in subsidizing the structural transformation of the Chilean economy to favor the interests of a collection of capitalists (domestic and international) tied to the export sector. Although the democratic transition near the end of the 1980s represented a necessary step toward genuine popular political and economic participation, it falls well short of anything that could properly be described as "a miracle" for most Chilean citizens. James Petras, Fernando Ignacio Leiva, and Henry Veltmeyer argue that the transition that occurred when an elected civilian government replaced the military junta in 1989 cannot be called democratic at all because the election of Patricio Aylwin by itself did little or nothing to alter the exercise of power by the established elites according to the judicial-political and institutional bases of the Pinochet dictatorship. What these scholars find remarkable is the continuity of authoritarian state power during a regime change from military to civilian government.

The Coup and Phase One of the Chilean Miracle: The Quest for Stability

Of the six volumes treated here, Lois Hecht Oppenheim's *Politics in Chile: Democracy, Authoritarianism, and the Search for Development* does the best job of placing recent Chilean political-economic experience in the historical context since the election of Allende's socialist coalition government in 1970. Some might argue that a voluminous literature already exists on the rise and fall of the Allende regime and that further discussion would be redundant.[1] But given that most of the works under review here seek to evaluate the neoliberal experiment in terms of social welfare,

1. Representative works include Paul E. Sigmund, *The Overthrow of Allende and the Politics of Chile, 1964–1976* (Pittsburgh, Pa.: University of Pittsburgh Press, 1977); Jim Stickter, *Allende and the Saga of Chile* (Corpus Christi, Tex.: Hemisphere House, 1976); and James R. Whelan, *Allende: Death of a Marxist Dream* (Westport, Conn.: Arlington House, 1981).

it seems reasonable to ask how the welfare consequences of neoliberalism compare with those that it sought to supersede. More fundamentally, a genuine understanding of the 1973 military coup that overthrew Allende requires comprehension of the particulars of the historical experience of Chile under the coalition government of Unidad Popular (UP).

This is precisely the task that Oppenheim sets for herself in the first hundred pages of *Politics in Chile.* She argues that although Allende's ambitious program of economic reform was on the whole situated well within the juridical parameters established by the Chilean constitution, it clashed with the interests of Center-Right opponents. Whatever the economic contradictions of the agrarian reforms and the nationalization of several large-scale manufacturing firms, such measures polarized Chilean society into camps that increasingly sought recourse via strikes and at times organized violence. Oppenheim shows that the Allende government's restructuring of property rights could not tame inflationary pressure, and she offers a conventional critique of its economic policy. She also notes the support, official and covert, provided by the United States to the UP's opposition. But according to Oppenheim, Allende's political-economic project was ultimately limited by the fact that while his UP coalition was a constitutionally elected government seeking to function within the law and expecting to be treated like any other legal government, its agenda was decidedly revolutionary (p. 103). This contradiction was one that established political institutions and procedures could not tolerate, and it sealed Allende's fate via extra-constitutional means.

The period immediately following the coup witnessed an effort by the Pinochet regime to undo the structural reforms instituted during the brief UP government, to implement a new market-oriented model of economic development, and to repress all elements of actual or potential opposition to the neoliberal political-economic vision. Several writers, including some whose works are under review here, have noted the influence of a group of young economists trained at the University of Chicago, commonly referred to as "the Chicago boys." This label also reflects their shared commitment to the rule of market forces as the most efficient means of allocating resources and their common belief in limiting government involvement in the economy to promote macroeconomic stabilization.

In *Chile: The Political Economy of Development and Democracy in the 1990s,* David Hojman finds the term "Chicago boys" inappropriate and perhaps pejorative, a label attached to the group of technocrats whose growing influence largely shaped Chilean economic policies only well after the immediate aftermath of the coup. He judges the term to be inappropriate in that while many of the group were trained at the University of Chicago, several other influential economists in the junta's inner circle received their training from other institutions in the United States and Europe.[2] According to Hojman, the emphasis on Chilean economic policy's conformity with the theoretical pronouncements of celebrated Chicago economists like Milton Friedman and Arnold Harberger overlooks the free-market doctrine's long and respected history in Chile during the most prosperous periods in its development (p. 28).

Hojman's view contrasts starkly with that advocated by Juan Gabriel Valdés in *Pinochet's Economists: The Chicago School in Chile.* Valdés states flatly that nothing in Chile's history marked it as fertile ideological soil for implanting the neoliberal worldview that came to dominate the country after 1975 (p. 13). Valdés's main purpose is to explain how and why such an ideological transfer was effected. Paradoxically, according to the author, Chile was perhaps the ideal receptor for the Chicago school doctrine because of the doctrine's marginality to both official policy circles and the dominant postwar political-economic discourse. The first of the Chicago boys were relegated to the confines of the Universidad Católica in Santiago and had no option except to pursue their economic research.[3] The relative political, social, and academic isolation of the Chicago-trained economists promoted an esprit de corps among the group and enabled them to cultivate an attitude of political disinterestedness that is the hallmark of the University of Chicago's claim to "positive social science." This attitude, Valdés claims, fostered the emergence of the Chicago boys as the sole source of political-economic legitimacy following the 1973 coup. *Pinochet's Economists* gives a fascinating account of the conditions favoring ideological transfer, the specific events and actors involved in it, and the conditions that facilitated the initial flourishing and subsequent reproduction of neoliberalism in Chile.

The macroeconomic performance of the Chilean economy under military rule can best be described as erratic. In its first two years, the regime failed to formulate any coherent policy. It ruled instead via executive decrees designed to return property expropriated under the Allende government rather than trying to articulate and implement a policy package along neoliberal or monetarist lines. Like most of the world economy, Chile suffered a sharp recession in 1975 in the wake of the supply-side shock prompted by the Arab oil embargo and the jump in petroleum prices. Vittorio Corbo and Stanley Fischer point out in their contribution to

2. Hojman also considers the term *Chicago boys* potentially pejorative in that the expression could conjure up images of Capone-style gangsterism (p. 22).

3. Valdés notes that the Universidad Católica became the logical recipient of the transmitters of the neoliberal doctrine (under the International Cooperation Agreement of the U.S. government working with the University of Chicago) precisely because its economics department was comparatively weak (pp. 117–18). The lack of internal academic competition gave the Chicago boys a great opportunity to become a dominant force in the institution. The fact that the ICA and the University of Chicago provided funding to support a full-time professor of economics at Universidad Católica further enabled the Chilean university to establish itself in relative isolation from the political scene prevailing nationally.

the collection edited by Bosworth, Dornbusch, and Labán, *The Chilean Economy: Policy Lessons and Challenges,* that the Chilean recession was exacerbated by the need to stop inflation. This situation prompted the Pinochet government to pursue fiscal and monetary policies that were contractionary.

The major inconsistency in macroeconomic policy at this time was the decision to maintain a fixed exchange rate, which plagued policy makers for at least another decade. On this point, Corbo, Fischer, and Hojman agree. Corbo and Fischer view miscalculations on exchange-rate policy as a prime factor in plunging the economy into a second severe recession in 1983–1984 and delaying the transition to a growth model based on expanding exports. In Hojman's view, the delay in abandoning an obsolete policy of fixed rates resulted from an attempt to gain control over inflation by forcing the domestic inflation rate to conform to the global rate based on preannounced mini-devaluations (*la tablita*).[4] Hojman argues that the theoretical assumptions underlying this approach to exchange rates, known as purchasing power parity, were not present in the Chilean case. Although Chile is certainly a small open economy, nontraded goods figured prominently in determining the domestic price level. The tablita does nothing to control the prices of these goods while rendering exportables uncompetitive.

The real challenge of taming inflation, according to both analyses, required combating its inertial component caused by the index linking of nominal wages. Corbo and Fischer assert that this inertial inflation was the failed outcome of a gradualist approach to inflation and that the deep recession of 1983 was necessary to correct private-sector expectations as well as official policy. Rudiger Dornbusch and Sebastián Edwards point out in their contributions to *The Chilean Economy* that the general applicability of the Chilean experience is limited by two facts: Chile was able to restructure its labor-market institutions quickly via brutal suppression of opposition activities, including labor unions; and the regime was willing to tolerate massive unemployment that eventually enveloped nearly a third of the labor force.

Another factor accounting for the erratic performance of the Chilean economy following its immediate liberalization in the mid-1970s was virtual decontrol of the financial sector. Financial-sector reforms allowed and even encouraged bank acquisitions of nonbank enterprises and the founding of huge conglomerates (*grupos*). Official encouragement was provided by selling off state enterprises at highly subsidized prices, often with loans provided by the government. The lack of regulatory oversight also encouraged speculation and did little to discourage massive inflows of foreign capital. But as Manuel Marfán and Barry Bosworth point out in *The Chilean Economy,* the substantial increase in foreign indebtedness

4. The *tablita* refers to the schedule of preannounced mini-devaluations.

failed to translate into an increase in the domestic savings rate and instead fed a consumption boom (p. 188). When global interest rates rose and the terms of trade declined, Chile was caught in a squeeze that led to the meltdown of its financial sector. The state was forced to underwrite a massive bailout of the commercial banking sector. As Marfán and Bosworth indicate, the state was also forced to bail out many of the private firms acquired by commercial banks, which were facing bankruptcy during the crisis. These rising demands on the resources of the Banco Central de Chile further reduced the national rate of savings.

The social consequences of the crash and subsequent bailout are detailed by Oppenheim in *Politics in Chile.* She cites a study of Greater Santiago showing that the poverty rate climbed from 26 percent in 1969 to 49 percent by 1987 (p. 155). Real wages in 1975 had plummeted to 62 percent of their 1970 value and recovered to only 91 percent of that level as late as 1989 (p. 154). Petras, Leiva, and Veltmeyer describe similarly the burden borne by working Chileans in *Democracy and Poverty in Chile.* They also discuss the role played by the structural adjustment program imposed by the International Monetary Fund (IMF), which was designed to reduce wage costs via a highly restrictive monetary policy combined with cuts in social spending and the abolition of wage indexation (p. 30).

Thus the first phase of the Chilean miracle must be carefully qualified. As Petras, Leiva, and Veltmeyer argue, the high rates of economic growth partly resulted from the historically low levels of economic performance of the Chilean economy. These levels in turn reflected severe crises afflicting the economy in the mid-1970s and again in the early 1980s. Moreover, the costs of stabilization and resumed growth following these crises exacted a tremendous toll from the most vulnerable segments of Chilean society.

Phase Two of the Miracle: The Drive to Restructure

After the sharp contraction of the early 1980s, renewed attempts were made to restructure the Chilean economy. This course was inspired in part by the IMF structural adjustment conditions required for new lending, among them further decreases in public spending, contraction of the money supply, and the deindexation of nominal wages.

Abetting the restructuring was the 1979 reform legislation on labor law, which reworked the rules for labor unionizing to make organizing much more difficult. The reforms also granted employers greater latitude in hiring and firing and allowed them to lay off unionized workers first. In *Chile's Free-Market Miracle: A Second Look,* Collins and Lear cite a Chilean trade unionist who noted that strikes are limited by this law to sixty days. During this period, employers have the right to replace striking workers, and after thirty days, striking workers can conduct individual negotiations with their employers (p. 79). By 1987, Collins and Lear report, the combination of repression, unemployment, and the new labor law had reduced union membership to 11 percent of the labor force, less than one-third of the level before the coup (p. 80).

Corbo and Fischer view these measures as necessary to reduce the inertial element of inflation, but they are interpreted by Petras, Leiva, and Veltmeyer as an effort to impose the cost of stabilization and restructuring on the classes least able to defend themselves, namely workers and peasants. All these authors concur that the regime's willingness to accept high rates of open unemployment was central to the deflationary process. It should also be noted that official unemployment figures actually understate the severity of the recession because government make-work programs were eventually instituted to alleviate the worst of the social burden.

A fundamental objective of the restructuring was to promote and diversify exports. The traditional Chilean export industry had been dominated by copper and nitrates. Such concentration in export activity has accounted for the historic tendency toward externally induced instability stemming from wide fluctuations in Chilean terms of trade. Recent Chilean exports were also boosted by a depreciation of almost 30 percent in the exchange rate between 1982 and 1986, according to Edwards and Dornbusch's essay in *The Chilean Economy* (p. 90). They consider the commitment to openness and neoliberal reform as one of the lasting accomplishments of the past two decades of Chilean economic policy (p. 93).

Exports have been the engine of growth in the Chilean economy, and more than in any other Latin American economy, the move toward openness has provided international capital with the reassurances necessary to restart inflows of private capital. As Edwards and Dornbusch point out, however, this resumption was a mixed blessing. Such inflows led, for example, to difficulties in managing exchange-rate and monetary policies. Moreover, it remains unclear whether renewed capital inflows reflect an ongoing commitment by foreign investors to the Chilean economy rather than merely short-term portfolio flows.[5] Although Chile was hurt less than some other Latin American countries by the recent crisis provoked by the Mexican devaluation, it did suffer the "tequila effect" of portfolio capital flight to a lesser degree.[6]

Despite the renewal of higher rates of growth in the Chilean economy after 1983, most analysts continue to believe that the benefits derived accrued mainly to the wealthy end of the income distribution and that the

5. *Portfolio flows* are equity investments that do not endow the investor with a controlling share of ownership in the affected firm.

6. Moisés Naím noted that the Chilean stock market dropped 12 percent in the first quarter of 1995, following the Mexican devaluation. See Naím, "Latin America the Morning After," *Foreign Affairs* 74, no. 4 (July–Aug. 1995):45–61, 49.

burdens of fiscal and structural reform fell heavily on the working class and the poor. The authors under review here concur on this point. Mario Marcel and Andrés Solimano (in the Bosworth, Dornbusch, and Labán collection) provide data showing that the ratio of income shares of the wealthiest 20 percent to the poorest 40 percent of Chilean society was 5.69 under the Eduardo Frei government (1965–1970), 5.23 under Allende (1971–1973), and 6.8 under the Pinochet regime (1974–1989) (p. 219). This same ratio declined modestly with the return of civilian government to 6.09, indicating that Chile remains a highly polarized country in terms of income distribution.[7]

Hojman readily admits the failure of recent Chilean growth to spread its benefits evenly across all segments of society. He argues nonetheless that this growth has not come at the cost of immiserization of the middle class and that substantial progress has been made in alleviating the plight of the poorest sectors of Chilean society. As evidence, he cites the comparatively high values assigned to Chile by the United Nations Development Programme (UNDP) in calculating its human development index. The HDI is calculated as a weighted average of three human development indicators: average life expectancy, educational attainment (including adult literacy), and per capita income. According to this measure, Chile tops the list of Latin American countries, along with Argentina and Uruguay, and is also included in the subset of developing countries considered by the UNDP to rank high in human development.

Some difficulties nonetheless surround the claims made by Hojman for Chile in this context, however. The first is that the UNDP has been calculating and publishing its figures on the HDI only since 1990. Hence this measure cannot be used to make meaningful comparisons over different periods of time. Second, even when considering only the six years for which the HDI has been published, it is difficult to detect an improving trend in human development in Chile. The HDI for Chile in 1990 was .931, a relatively high value. But for 1992, it fell to .863, then rose again to .880 by 1995 (the most recent year for which the index has been published).

A third qualification is that Chile's relatively impressive performance in terms of the HDI is based on the high values it has attained in the primary indicator variables of the index. An important point to keep in mind is that Chile has a long history of strong performance relative to its Latin American neighbors and other developing countries in measures of human development such as adult literacy, educational enrollments, and life expectancy. Chile's high standing according to these measures

7. Marcel and Solimano note in *The Chilean Economy* that the degree of income inequality in Chile exceeds that of Asian countries and those belonging to the Organisation for Economic Cooperation and Development. Among Latin American countries, only Peru and Brazil are more extreme in distribution of income (p. 219).

predates 1974 by years, even decades in some cases. To attribute a high value for the HDI to the neoliberal transformation after the military coup is highly misleading. In fact, Chilean quality of life has actually deteriorated according to a number of measures of human welfare since 1974.

Despite the basic continuity in economic and social policy, the Aylwin administration demonstrated a desire to correct at least some of the direst inequities emerging over the previous seventeen years. Public spending was increased on social programs designed to alleviate extreme poverty. The need to maintain the government's commitment to fiscal responsibility dictated that this spending be financed by taxes. But according to Marcel and Solimano's contribution to *The Chilean Economy*, increased effort by the new civilian government "to service the social debt" resulted in per capita public expenditures on education, health insurance, and pensions at a rate almost double that of overall government spending (p. 229). Marcel and Solimano also note that the poverty rate fell from 45 percent to 33–35 percent between 1988 and 1992.

The Sectoral Consequences of the Chilean Miracle

As noted, transformation of the Chilean political economy over the past two decades has involved profound institutional and sectoral change as a complement to macroeconomic stabilization and growth. Some would argue that such change was actually a condition for stabilization and growth. This section will examine some of the specific sectoral changes and their consequences, as discussed in the works under review.

Much has been made of the new role of exports and export-driven growth in the Chilean economy after the junta. The main lines of export-oriented production that have emerged are based on exploiting Chile's rich endowment of natural resources. Production for export of fruit, timber, fish, and fish products has expanded dramatically to diversify the traditional national exports of mineral and nitrates. Hojman as well as Collins and Lear underscore Chile's natural advantages in producing primary goods requiring a temperate climate, products with a ready market in North America. Chilean geographical access to that market has further enhanced its comparative advantage. Since 1975, food exports have more than doubled in Chile's total trade from 6 to 12 percent, while basic metals have declined from 64 percent to about 36 percent by 1991. Similarly, forest and fishery products, negligible exports in 1970, have ballooned to some 18 percent of total merchandise exports.[8]

But as Collins and Lear make clear, it would be hard to defend the claims that this growth has resulted from a policy of free-market forces

8. These ratios were calculated based on data provided by *Statistical Abstract of Latin America*, edited by James W. Wilkie (Los Angeles, Calif.: UCLA Latin American Center, 1993).

or that it is entirely the outcome of policies pursued by regimes since Allende. Both fruit and lumber production have benefited from generous subsidy programs and government planning. Moreover, the profitability of the large agro-enterprises has benefited from government policies to restrict labor organization and cancel support to small producers and cooperatives (p. 192).

Perhaps more significant for the boom in agro-industrial production over the past twenty years were the preparatory reforms and stimuli afforded these sectors by the Allende regime and governments preceding it. Collins and Lear note the importance of the land reforms of the Allende and Frei administrations, which broke up the large and unproductive *latifundios* and undermined the feudal character of Chilean agriculture until the 1960s. Much of the area currently providing the dramatic increases in yields was originally cultivated prior to 1974. Similarly, much agricultural research accounting for the increase in productivity in these sectors came from publicly funded efforts predating the military junta and its free-market regime (p. 189).

A similar story can be told about forest products. According to Collins and Lear, the civilian governments prior to 1973 helped provide the preconditions for takeoff in the industry, while more recent regimes, including the military, played key roles in providing subsidies for replanting and for irrigation facilities as well as tax credits for exporting unprocessed logs. As with the fruit industry, the military and the transitional democratic regimes have established a labor policy that has promoted the use of nonunionized and temporary labor, a practice that enables firms to reduce their wage costs.

Analysts also recognize that the rapid expansion of Chile's new export lines may be imposing significant environmental and health costs not yet fully appraised. Chemical pesticides and herbicides are applied widely in the fruit industry, often with little regard for the health and living conditions of workers and their families. In the forestry industry, the introduction of fast-growing non-native species like the Monterey pine has narrowed the gene pool of native trees and plants and made forests more vulnerable to disease. Clear cutting has destroyed natural habitats, and the use of chemicals to control pests is accelerating ecological degradation. Collins and Lear describe in detail the irrationality of Chilean forest management in allowing the destruction of the large expanses of native forest by the wood-chip industry, an economic activity that adds little value in comparison with the economic potential of the resources being consumed (pp. 213–15).

Collins and Lear discuss in similar terms the fishing industry, where overfishing is rapidly depleting stocks of fish that are not given sufficient time to replenish themselves. Again, the authors question the rationality of such production because the Chilean industry is dedicated almost entirely to producing fish meal, which adds little value. The high value end of the industry is dominated by foreign trawlers that pay a small fee to work Chilean coastal waters. According to Collins and Lear, these boats often act illegally in exceeding quotas and underreporting their catches and earnings (pp. 222–23).

Hojman's description of the boom in nontraditional exports notes favorably that the expansion took place without elaborate government planning and support. He also condemns the government attempts to take an activist approach to identifying and supporting dynamic comparative advantage (p. 169). Yet Hojman raises the possibility that the levels of government subsidy in promoting nontraditional exports were excessive (p. 165). He further argues that while dynamic comparative advantage may merit "some extremely carefully selected, implemented, and monitored attempts at import substitution, in which protection should be moderate and strictly temporary (p. 164)," direct subsidy of preferred sectors is a better policy than import protection (p. 171). Hojman reiterates the well-known economic argument that government programs addressing a particular social objective without introducing price distortions are preferable in terms of social welfare to those that cause such distortions.[9] Although this theoretical point is well taken, it is obvious that introducing any such government support undermines the claim that Chile's export boom was entirely market-driven.

Hojman alludes lightly to the overexploitation of Chile's coastal fishing resources, but he expresses greater concern over the problem of air pollution in Santiago. He believes that an effective solution to this "problem of market failure" is to press for measures that reduce the exercise of oligopolistic power in the urban transport cartel. Hojman fails to note, however, that a policy of deregulating the industry is precisely responsible for exacerbation of the problem of a multiplicity of companies competing for the same limited number of highly profitable routes. Santiago's main passenger routes are congested with redundant buses carrying far fewer riders than their capacity. The result is more air pollution, with its attendant ill effects on public health and a higher accident rate entailing increased injuries and fatalities (Collins and Lear, p. 236).

Two other areas receiving significant attention for their welfare implications from several of the works (particularly those by Hojman and by Collins and Lear) are health and housing. Once again these two analyses fundamentally agree that "the threat of market failure" (Hojman's preferred term) suggests the need for government to take an active hand in formulating a housing policy designed to address the needs of the homeless and the ill-housed. Housing policy directed at the poor under

9. See for example R. G. Lipsey and K. Lancaster, "The General Theory of the Second Best," *Review of Economic Studies* 24 (1956–1957):11–32.

Pinochet resembled the regime's approach to so many other social and economic matters: largely privatizing what had been a public responsibility. This process was accomplished by distributing vouchers to the poor, which were redeemed for housing services that were otherwise provided privately.

As both books point out, however, the actual impact of this program was regressive because participation required recipients to be able to supplement voucher-provided resources with private savings. This requirement effectively excluded most of the poorest families, while including some from the middle class. Both studies also note that housing policy under the Pinochet regime ended up segregating Greater Santiago according to class, with the poorest segments of the city being literally marginalized to the outer periphery of the metropolis. Hojman characterizes this outcome as merely a "controversial feature" of the policy, while Collins and Lear demonstrate its pervasive economic, social, and political consequences.

Economically, the policy imposed significant costs on the poor, who either could not find jobs in the newly created municipalities or had to commute significant distances to their inner-city jobs. In social terms, the policy broke up established communities where families had benefited from the support of their own organizations as well as social and kinship networks. Politically, the policy undermined grassroots organizations, which were replaced by municipal governing organizations charged with the task of "administering their own poverty," according to Collins and Lear (p. 152).

Collins and Lear assert similarly that privatizing the Chilean health insurance system has sharpened the differences in access to quality health care that segregate Chileans by class. The privatized system created in the aftermath of the 1973 coup can be used only by the middle- and upper-class sectors of Chilean society that can afford the premiums. The remnants of the defunded public health care system must continue to serve the majority of Chileans who depend on it. Thus, Collins and Lear explain, even as the number of persons requiring attention from publicly provided health care has increased between 1973 and 1988, the number of employees working in the system has been more than halved (p. 101). They also argue that the recent rise in the incidence of diseases like tuberculosis is linked to the government's failure to reimburse clinics for the costs of diagnosis.

Hojman substantially agrees that Chile is plagued by considerable inequalities in access to health care. He admits that neoliberalization probably went too far in this dimension, as well as in several other cases involving the push toward greater reliance on market solutions in Chile after the Allende government. But he insists that the problems created are correctable if appropriate regulatory oversight is provided.

In this context, Hojman tries to compare factors before and after 1973 that have contributed to the decline over decades in Chile's infant mortality rate. Because this rate is a prominent indicator of social welfare, proponents as well as critics of the neoliberal reforms are anxious to take credit for the decline. Drawing on several of his own published articles, Hojman argues that the decline in infant mortality cannot be attributed entirely either to pre-1973 public investments in public health or to post-1973 mother-and-child nutrition programs (p. 72). This point is a significant one for Hojman because the Pinochet policy of targeting extreme poverty has been lambasted as a cynical political strategy to deflect attention from the harsh costs imposed by the regime on the poor.[10]

Collins and Lear argue in *Chile's Free-Market Miracle* that this was precisely the impact of the Pinochet regime's policies. While infant mortality was lowered by the targeting programs, children between the ages of one and four did not show similar declines in mortality and in fact suffered higher rates of debilitating illnesses. Collins and Lear also point out the increased rates of poverty-related diseases such as typhoid and hepatitis A (p. 119).

Transition and Political Participation

Dissatisfaction with the distributional results of neoliberalization fed grassroots opposition to the continuation of military rule. In a 1988 plebiscite, voters chose to end the dictatorship and prepare for a return to civilian democratic government. Despite a strong attempt by the military to elect a civilian regime ideologically and politically inclined in its favor, voters in 1989 elected a Center-Left coalition government headed by Patricio Aylwin.

The plebiscite was largely a response to increased grassroots pressure for economic and political change. Oppenheim discusses in detail the impact of the ability of these organizations to mobilize pressure on the regime, citing the important role played by women. As in many other instances of Latin American politics, women in Chile had been effectively marginalized from the established institutions of organized political power—the parties. Yet as Oppenheim indicates, these organizations lacked the leadership and unity to bring down the regime. This undertaking ultimately required normalization of the political parties, which was ironically accomplished by the regime itself in an effort to ensure its own political survival.[11] This normalizing of polical parties was, as Oppen-

10. Hojman's empirical estimations show instead that a decrease in unemployment is the best predictor of improvement in infant mortality. Thus the best anti-poverty policies are the ones that increase employment among the poor.

11. In 1987 the Pinochet regime passed a law on political parties specifying prerequisites for groups seeking to establish legal status as political parties.

heim explains, also an attempt to rig the rules for future political participation. The factions of Unidad Popular that espoused views based on class conflict were proscribed. This ban led to establishment of the centrist Partido por la Democracia, the main organizing influence in the Concertación por el No, the ensuing plebiscite that removed Pinochet from power, and the elections that returned a civilian regime to govern the country.

Pinochet, sensing his party's defeat in the plebiscite and subsequent election, made further attempts to ensure control of the post-military political economy by passing a constitutional reform in July 1989 that institutionalized permanently many of the authoritarian elements of the military regime. For Oppenheim, this end run raises the question of whether the transition was authentically democratic. With the military regime's success in ensuring a measure of authoritarian continuity in the reformed judicial structure of the country and with the grassroots movements that had initially spearheaded resistance to the regime again pushed into the background, can the elected regime claim to possess a genuinely democratic character?

In general, Oppenheim seems to suggest that the answer is "yes," despite the fact that the Aylwin government felt compelled to give priority to maintaining continuity in the economic model over achieving social justice. She is convinced that the Aylwin government adopted this position because it was operating under significant constraints that prevented it from departing significantly from the previous regime's economic and social policies. Chief among them was a changed international environment. According to Oppenheim, the victory of neoliberalism in Chile was merely a single facet of the global victory of capitalism, whose chief proponent was the United States. Thus for the Aylwin government, "Changing the economic model would meet not only with domestic opposition but with international disapproval as well. . . . The United States would do all it could do to destroy any government it deemed hostile to its interests" (p. 209).

Oppenheim is clearly overstating her case in suggesting that Chile would have risked the kind of direct U.S. intervention that occurred in Panama and Grenada during the 1980s if the Aylwin government had redirected its domestic social and economic policies to redress directly the needs of the poor and working classes. But it is not an exaggeration to argue that deviation from the strict neoliberal program would have risked a retreat by the international financial community on which the Chilean economy has grown so dependent.

For Petras, Leiva, and Veltmeyer, the answer to Oppenheim's question about whether the Aylwin government was authentically democratic is a resounding "no." According to the authors of *Democracy and Poverty in Chile,* the remarkable outcome of the Chilean transition to civilian-democratic government was the basic continuity of the commitment to the free-market model, despite its obvious failures to address the basic needs of growing numbers of Chileans. They attribute this continuity in part to an emerging consensus among intellectuals and leaders of the established political parties in Chile that political stability required that the basic economic reforms engineered by the military junta be maintained and in some cases even deepened. This consensus recognizes the inviolable nature of the "rights" and prerogatives of capital. Failure to maintain the neoliberal reforms, the authors argue, risked an investment boycott, international financial alienation, and domestic capital flight. Moreover, the democratic transition left the extraordinary constitutional privileges and institutional influence of the military unchallenged. Consequently, any attempt to alter the basic direction of macroeconomic policy or the many sectoral reforms launched by the previous regime ran the risk of renewed direct military intervention.

According to Petras, Leiva, and Veltmeyer, the ability of the reemergent elite-dominated parties to suppress or co-opt militant community-based organizations represents only part of the explanation for the failure of the Left to recover its political voice. Equally culpable were its own political miscalculations, including the failed attempt to assassinate Pinochet and its inability to sustain the mass social movements (p. 81).

Petras, Leiva, and Veltmeyer agree in substance with Oppenheim on the significance of two factors: the pact negotiated between the Center-Right parties and the military regime that set the conditions for the transition to civilian rule, and international financial pressure to stay the neoliberal course aimed at macroeconomic stabilization and open trade. They also cite the role of the U.S. government, which had direct influence in facilitating "the ascendancy of the center-right 'anti-regime forces' over and against the leftist 'anti-system' movements while minimizing the changes in the socioeconomic model and state institutions" (p. 84).

Aiding and abetting this institutional authoritarianism with a democratic face, according to Petras, Leiva, and Veltmeyer, has been the cooptation of intellectuals formerly part of the critical Left and the moderates.[12] For example, Alejandro Foxley and Carlos Ominami, who were prominent critics of the Pinochet regime and the economic program of the Chicago boys, became strong supporters of virtually the same program after democratic restoration in the late 1980s. Continuity in the economic

12. The idea that Latin American leftist intellectuals have broken faith with formerly espoused principles and positions is considered at length by Petras in "Retreat of the Intellectuals," in James Petras and Morris Morley, *Latin America in the Time of Cholera: Electoral Politics, Market Economics, and Permanent Crisis* (New York: Routledge, 1992). It is interesting to compare Petras's view with that of Hojman in "The Political Economy of Recent Conversions to Market Economics in Latin America," *Journal of Latin America Studies* 26, pt. 1 (1994):191–219. Hojman also argues that the emergence of an intelligentsia committed to the neoliberal vision is a key factor in recent market success in Latin America.

stabilization and liberalization programs was felt to be necessary to consolidate the democratic transition. As the authors point out in *Democracy and Poverty in Chile*, the mechanism for containing the attendant conflicts was the so-called *concertación* (p. 52).

The vehicle for concertación was the array of elite political parties that had displaced grassroots organizations as the driving force of the oppositional movement to end the dictatorship. The major parameters dictating the strategy of concertación included the imperative of respecting the fundamentals of the neoliberal vision so that "the capitalist elites would not feel threatened and the military would return to its barracks" (p. 56). Ideologically, concertación required that Latin American structuralism, a political-economic doctrine born of the Economic Commission for Latin America under the intellectual leadership of Raúl Prebisch, be eschewed in favor of "neostructuralism." Whereas Latin American structuralism had long criticized unrestrained economic liberalism as a recipe for unbalanced and dependent growth, neostructuralism exhibits a notable convergence with the neoliberal policy agenda. The main difference between the two doctrines, according Petras, Leiva, and Veltmeyer, is that neoliberalism allows market forces to dictate the direction and pace of economic restructuring while neostructuralism holds that the state is a necessary and active agent in the restructuring process. This distinction helps explain the civilian coalition government's aggressive policy of export promotion even while adhering to strict monetarism in conducting macroeconomic policy.

It is clear that Petras, Leiva, and Veltmeyer have a much more demanding definition of the authentically democratic state than does Oppenheim or any of the other writers reviewed here. While Oppenheim raises questions about the quality of Chilean democracy given the authoritarian contamination of its constitution and institutions, she views the country as essentially democratizing. Petras, Leiva, and Veltmeyer remain convinced that the governing civilian regime in Chile (along with the corresponding ideological capitulation of its most prominent intellectuals and advisors) represents an extension of an authoritarian state that is instrumental in global finance capital. For these analysts, nothing less than the restructuring of Chile's basic institutions that would place power in the hands of the currently politically and economically disenfranchised majority would satisfy their requirements for popular democracy.

Offering a third perspective, Andrés Velasco's contribution to the collection edited by Bosworth, Dornbusch, and Labán interprets the recent evolution of state power in a dramatically different light. For Velasco, the reforms instituted by the Pinochet regime, institutionalized by the Constitution of 1980, and endorsed by the civilian coalition under Aylwin have provided the state with the necessary autonomy to serve the national welfare, free from the pressures of competing rent-seeking interests.

Among the most prominent of these reforms were laws to ensure the security of private property against the intrusions of the state as well as other laws to prevent the capture of state institutions by specific social sectors. Velasco insists, moreover, that critics who maintain that the reforms advanced the interest of capital at the expense of labor overlook the fact that business interests paid a high price over the reform period in a "loss of political control and actual economic pain which was not trivial" (pp. 403–4). He notes that particular disadvantages were imposed on small businesses as well as on import-competing interests (p. 408). Overall, however, it is clear to Velasco that the general interests of the country have been served well and that "for Chile, the period of conflictual politics, inefficient policy-making, and economic stagnation, which lasted for more than a century, is finally coming to an end" (p. 411).

Conclusions

It is hard to imagine more diametrically opposed points of view about the recent past, present status, and future prospects of the Chilean political economy than those offered by Velasco and by Petras, Leiva, and Veltmeyer. Broad differences on the same issues also separate Hojman from Collins and Lear. Oppenheim is far more critical than many of the contributors to the volume edited by Bosworth, Dornbusch, and Labán but perhaps not as critical as Collins and Lear and far less so than Petras et al. Clearly, a broad range of perspectives exists on the meaning of the "Chilean miracle." What generalizations can be proposed on the basis of this review?

Different readers will inevitably come to varying conclusions from their interpretations of these books, other scholarly works, and their understanding of the relevant evidence. My own view is that the political-economic experience of Chile over the past two decades falls well short of miraculous in terms of the depth and range of its general accomplishments, the historical basis for those accomplishments, and the implications for the social welfare of Chileans.

Perhaps the most often cited accomplishments of the Chilean experiment are its achievement of first the macroeconomic stability required as the basis for high rates of economic growth and then such growth per se. Relative to its Latin American neighbors, Chile indeed possesses an exceptional record in taming inflation, achieving external balance, meeting its external debt obligations, and realizing enviable annual rates of growth in some years. But as many observers have noted (including most of those reviewed here), these accomplishments must be qualified by several circumstantial factors. The most obvious is that this record was achieved under a regime that brutally repressed political opponents and undertook its economic programs by dictatorial fiat.[13] Highly contractionary demand-management policies are more likely to succeed in their stabilization objectives when political opposition is effectively neutralized. Chile thus represents an outstanding contradiction to the frequent assertion that economic and political liberalization must be complementary processes.

The high growth rates achieved by the Chilean economy must also be considered in the context of two severe recessions. Although Chile achieved growth rates exceeding double digits during the boom years of the 1970s and 1980s, this accomplishment fades when one considers the abysmal levels of activity to which the economy had fallen. Moreover, on taking a longer view of the record from 1973 through 1990, the annual rate of real growth per capita in Chile averaged a mere 2.16 percent. This score places Chile twelfth among nineteen Latin American countries.[14] In comparison with the average annual rate for the region of 3.15 percent, Chile's performance looks decidedly mediocre. Yet its annual rate of growth from 1960 through 1972 averaged nearly 4.16. Certainly, the nationalist development model of import-substitution industrialization on which this latter growth record is based had reached its historical limit. The point is that when one examines economic growth per se, the period from 1960 to 1972 seems a more impressive period in Chilean postwar development than the one following the coup.

Moreover, Chilean growth over the past twenty years has been largely of the extensive variety, the consequence of greater use of the country's resource base, including natural resources. No discernible advance can be detected in what economists refer to as "total factor productivity," a function of technological progress and the formation of human capital (via education, training, and acquisition of skills). Recent Chilean growth has lacked these dynamic impulses, as noted by Marfán and Bosworth (p. 167). And future prospects for such a trend are constrained by the failure to provide adequate increases in the ratio of capital to labor and by inadequate allocation of resources to education. Hojman as well as Collins and Lear note the proliferation of educational institutions since educational reforms were introduced, although both studies question the quality of performance of these institutions.

13. In a recent review, Barbara Geddes argued that the evidence reveals no particular relationship between authoritarianism and liberalization. It would seem, however, that comparisons between national experiences in these terms must consider particular historical circumstances. See Geddes, "The Politics of Economic Liberalization," *LARR* 30, no. 2 (1995):195–214.

14. Chile places ahead of such countries as Argentina (.94), Bolivia (1.4), Venezuela (1.35), and Peru (1.32) but behind Brazil (4.37), Columbia (4.31), Paraguay (5.52), and Ecuador (5.42). According to this sort of comparison, it may be more appropriate to refer to "the Paraguayan miracle" or "the Ecuadorian miracle" rather than to "the Chilean miracle." These rates were calculated based on data from *Statistical Abstract of Latin America*.

More generally, it may be argued that Chile's recent growth record represents merely the early "easy phase" of export-led growth and development. In this regard, recent performance mirrors the rapid growth achieved during the 1960s based on a strategy of import substitution. What limited growth inspired by import substitution may also limit Chile's current export-led growth: the failure to widen and deepen the basis for further development. This task cannot be approached merely by redefining the rules under which economic agents compete. Due attention must be paid, as Moisés Naím has argued, to refashioning institutions to deepen and extend development as well as to further develop human capital.[15]

Clearly, Chilean economic performance under Pinochet and the post-dictatorship civilian regimes is scarcely miraculous in terms of the growth record. Moreover, the post-1973 reforms had important structural consequences for the Chilean economy. Exports grew dramatically in absolute and relative terms and diversified greatly. These changes reflect in part the new military regime's commitment to a neoliberal trade regime. But they also represent a conscious attempt by the government to direct particular sectors and guide the restructuring process. This support came in the form of direct subsidies to producers, sell-offs of public enterprises at below-market values, relaxation of environmental protection and resource conservation, and bailouts of private enterprises and conglomerates racked by crisis. From this perspective, interpreting the post-1973 model of development as essentially market-liberal is a significant exaggeration.

At the same time, the contributions made by the pre-1973 national development approach to policy as well as Chile's institutional and cultural inheritance have been largely underestimated by those who assert the qualitative advances represented by the post-1973 reforms. As Collins and Lear point out in *Chile's Free-Market Miracle*, much of the infrastructural investment that enabled the takeoff in nontraditional exports was made by prior administrations well before the military coup. Chile's relatively high rates of adult literacy and life expectancy can be traced to publicly funded and directed initiatives that were subsequently reversed in the 1970s and 1980s. Many of these same programs had undoubtedly reached their limits in terms of demands on fiscal resources. But the positive externalities (side benefits) that they provided must also be credited for the developmental momentum enjoyed by those favored sectors during Chile's recent economic restructuring.

Another broad conclusion that can be gleaned from this review is that the Chilean experience is definitely not miraculous in terms of its generalized welfare and distributional consequences. Writers critical as well as supportive of the neoliberal reforms undertaken by Pinochet and

15. Naím, "Latin America the Morning After," 60–61.

extended by Aylwin have pointed to their negative effects on real wages and the rise in absolute poverty. Even those who have lauded the efforts to reduce extreme poverty via "targeted" social welfare programs admit that more needs to be done to include broader segments of the working class in the fruits of economic growth.

What, then, remains of the Chilean experience that would lead anyone to recommend it as a model for other countries seeking "the correct path" to developmental success? One lesson seems to be that a proven recipe for macroeconomic stabilization (meaning price stabilization) calls for strict monetary control along with sharp reductions in government spending and control of labor costs. One might add that the prospects of gaining the confidence of the international financial community are enhanced by a government's willingness to pursue other liberalization objectives: reducing tariffs and other obstacles to trade; privatizing state enterprises and functions; liberalizing the financial sector; and passing laws to ensure the security of private property, including a policy of exchange-rate stability and predictability. The miscalculations evident in the Chilean case also reinforce the wisdom of following a strategy of liberalization that is measured carefully in terms of the timing and sequencing of reforms and the need for government regulation to prevent abuses and excesses.

The idea that some observers have learned from the Chilean case may be evident in the recent reform experiences of other Latin American countries such as Argentina and Brazil. Argentine efforts bear remarkable similarities in the liberalization campaign. Like those in Chile, Argentina's neoliberal reform efforts have emphasized a wholesale restructuring of the economy toward producing primary goods for export while curtailing import protection. Argentina has also made a similar commitment to privatizing state enterprises (including its social security system) and has attempted to reduce labor costs by adopting labor-reform measures.[16] The Argentine government's desire to avoid the financial meltdown experienced in Chile in the early 1980s and more recently in Mexico may explain the current urgency in reforming and consolidating the somewhat chaotic Argentine commercial banking system.

At the same time, Chile is clearly unique. Few if any other countries will ever be confronted with the historical conjuncture faced by Chile in the early 1970s, which led the country to cast off its democratic legacy and impose a macroeconomic stabilization and restructuring program without serious opposition. Few other countries faced with domes-

16. Much has been made of the fact that most Argentine movement toward neoliberalism has occurred under democratically elected regimes. But it may be more significant that Argentina (like Chile) could undertake such a fundamental transformation only after a period of military dictatorship that had repressed the independent elements of the most combative labor movement on the continent.

tic demands for stabilization and restructuring are as well endowed with the human and infrastructural capital that Chile possessed at the outset of its own experiment. Chile's geography gave it access to the world's largest market, along with a political-economic imperative to conform to the demands of that market. Few other countries are as well positioned.

Finally, due respect must be paid once again to the arguments of critics who doubt the desirability of the inevitable welfare consequences of Chilean-style neoliberalism since the coup. Proponents may reasonably argue that the dispersion of the political and economic benefits promised by the market miracle require time to be realized, while critics may maintain that such benefits have failed thus far to reach enough of the poor and working classes. Analysts may agree that the cost of the transition has been borne disproportionately by these same marginalized groups. One must also recognize the legitimate charge that the two civilian governments of Chile since the dictatorship have not advanced adequately in their democratic responsibility to bring the military under constitutional authority and reduce its undue influence in the congressional and judicial branches. We need not go as far as Petras, Leiva, and Veltmeyer in minimizing the changes in the substantive character of the civilian government from the previous dictatorship, but we can still agree with them that the present regime falls short of the goal of broad-based political democracy. For these reasons, the Chilean case is a model to be avoided rather than emulated.