

# Chile's Neo-Liberal Revolution: Incremental Decisions and Structural Transformation, 1973–89\*

MARCUS J. KURTZ

*Abstract.* This article analyses the surprising emergence of a comprehensive and coherent neo-liberal developmental model during the period of military rule in Chile. Rather than reflecting a clear and definitive choice, the political process that produced this model was characterised by hesitation, policy contradiction, shifting priorities, and incremental choices. This was a result of the military's efforts to deal with two, often conflicting, overarching goals – economic and political stabilisation – as they evolved and were redefined over time. The focus on incremental, iterated decision-making weaves the insights of other explanations based in underlying institutional, coalitional, or ideational factors into a micro-political explanation that is consistent with the substantial variations in policy outcome across different phases of military rule.

The wrenching economic and social transformations initiated during the course of military rule in Chile (1973–89) have come to be seen as one of the most internally consistent and comprehensive neo-liberal developmental models in the world. Yet how can this be explained, given that at the time of the coup in 1973 the pre-existing political ideologies, policy and institutional legacies, and domestic social coalitions all suggested that neo-liberalism was not a likely outcome? Moreover, close examination shows that the emergence of this wide-ranging and coherent model was not the product of the sort of comprehensive, synoptic patterns of decision-making implicitly or explicitly suggested in most analyses.<sup>1</sup> Ironically, the process of making and implementing decisions through

Marcus Kurtz is Assistant Professor of Political Science at the University of Miami.

\* The author wishes to thank David Collier, Ruth Berins Collier, Carol Medlin, and the many members of the U.C. Berkeley Latin American Politics colloquium for their many insightful comments.

<sup>1</sup> See, for example, Eduardo Silva, 'Capitalist Coalitions, the State, and Neo-Liberal Economic Restructuring: Chile 1973–88', *World Politics*, vol. 45 (July 1993), and *Ibid.*, 'The Political Economy of Chile's Regime Transition: From Radical to 'Pragmatic' Neo-Liberal Policies', in Paul Drake and Iván Jaksic (eds.), *The Struggle for Democracy in Chile* (Lincoln, 1992); J. Frieden, *Debt, Development, and Democracy: Modern Political Economy and Latin America, 1965–1985* (Princeton, 1991); A. Foxley, *Latin American Experiments in Neo-conservative Economics* (Berkeley, 1983), p. 32; Rhoda Rabkin, 'How Ideas Become Influential: Ideological Foundations of Export-Led Growth in Chile (1973–90)', *World Affairs*, vol. 136, no. 1 (Summer 1993).

hesitation, policy contradiction, shifting goals, and incremental choices created a developmental model internationally hailed for its coherence, rationality, and scope. By examining processes of iterated and incremental decision-making, the varying influence of underlying social-coalitional, ideational, and institutional factors can be woven together to explain the unlikely emergence of Chilean neo-liberalism.

Decision-making in authoritarian Chile should be understood as iterated attempts by military rulers to address two, often conflicting, overarching goals – economic stabilisation and political restructuring. Importantly, while these twin goals were always central to military policy-making, their specific content evolved over time in response to external contingencies and past efforts to address them. In the economic sphere the military sought to stabilise Chilean capitalism and restart growth after the threat posed by the policies of Salvador Allende (1970–3). On the political side, the organisation of state-society relations was modified in an effort to induce changes that would permanently defeat the left. At many points in this process there was no alternative that fully addressed both goals. Instead, policy-making was fragmented and attention focused on first one goal, then the other. A dynamic of increasing coherence emerged as policy evolved due to the outcomes of past decisions, unintended spillovers across issue areas, and changing international contingencies. In the end both goals were achieved. Economically, Chilean capitalism was stabilised, and politically, new social actors, patterns of institutional organisation, and a liberal legitimating ideology were produced that help to ensure the model's survival. Yet the path followed in achieving this outcome was an indirect one.

An incrementalist approach to understanding the evolution of Chilean development policy is important because existing accounts that emphasise ideological, coalitional, and institutional variables do not fully explain the timing and progression of this neo-liberal outcome.<sup>2</sup> The focus here on the pattern of decision making does not, however, seek to discount the utility of such approaches. Rather, it contextualizes them in a way that substantially increases their explanatory power; it helps to explain if, when, and how these other explanations come into play in shaping policy.

This article seeks to accomplish three things. First, it shows that the development of the neo-liberal model in Chile was anything but the coherent, wide-ranging, and rational process typically described by most analysts. Secondly, it proposes an explanation rooted in the dynamics of

<sup>2</sup> D. Braybrooke, and C. E. Lindblom, *A Strategy of Decision: Policy Evolution as a Social Process* (London, 1963); and M. T. Hayes, *Incrementalism and Public Policy* (New York, 1992) are two classic exponents of the incrementalist approach to understanding decision-making.

‘disjointed incrementalism’. Finally, it demonstrates how the introduction of a decision-making perspective actually increases the analytical leverage of ideological, coalitional, and institutional explanations.

*Decision-making and the marriage of ideas, institutions, and social coalitions*

Due in part to the eventual scope and coherence of what came to be known as the ‘Chilean model’, supporters, opponents, and academic analysts of Chilean neo-liberalism have tended to conclude that it was the product of synoptic decision-making. Hernán Büchi, an economist who was Treasury Minister under General Pinochet (1985–9) and presidential candidate of the right in 1989, has argued that the model ‘represented a gigantic effort to provide an integrated, coherent, and coordinated response to the country’s principal dilemmas’.<sup>3</sup> Kaufman refers to the ‘import[ation] virtually without reservation’ of Friedmanite monetarist doctrine.<sup>4</sup> Stallings characterises the implementation of such ideas as proceeding in ‘almost textbook fashion’.<sup>5</sup> Irrespective of their evaluations of the neo-liberal model, there is broad agreement among a number of scholars that the process by which the package of policies was developed and implemented was coherent, rational, and done with an early and clear understanding of final goals.<sup>6</sup>

In my view, an incremental optic is truer to the actual course of decision-making than these scholars suggest. The point here is not to assert that decision-makers (meaning the military junta, and later General Pinochet himself) were or were not ‘committed’ to neo-liberalism at any particular point in time. Rather, the focus is on the process through which

<sup>3</sup> H. Büchi, *La Transformación Económica de Chile: Del Estatismo a la Libertad Económica* (Barcelona, 1993), p. 25.

<sup>4</sup> R. Kaufman, ‘Industrial Change and Authoritarian Rule in Latin America: A Concrete Review of the Bureaucratic-Authoritarian Model’, in David Collier (ed.), *The New Authoritarianism in Latin America* (Princeton, 1979), p. 180. David Hojman, ‘The Political Economy of Recent Conversions to Market Economics in Latin America’, *Journal of Latin American Studies*, vol. 26, no. 1 (February 1994), p. 195 is perhaps alone in asserting substantial continuity between pre- and post-coup economic policies.

<sup>5</sup> B. Stallings, ‘Political Economy of Democratic Transition: Chile in the 1980s’, in Barbara Stallings and Robert Kaufman (eds.), *Debt and Democracy in Latin America* (Boulder, 1989), pp. 183–4.

<sup>6</sup> Pilar Vergara, ‘Las Transformaciones de las Funciones Económicas del Estado en Chile Bajo el Régimen Militar’, *Colección Estudios CIEPLAN*, vol. 53 (July 1981), p. 123 suggests that military leaders had such a programme in mind from an early date. Foxley, *Latin American Experiments*, Chs. 3–4 contends that the economic project was present within the military from an early date, while conceding that the broader political project was of substantially later vintage. Stallings, ‘Political Economy’, p. 183 suggests that at the time of the coup the military ‘had a longer-term project in mind: to depoliticise the country, eliminate the power of labour and the left, and put a new economic mode in place’.

policies were made and implemented, a process which by no means moved in a consistent direction, or was coherent across issue areas. But we must then ask how dramatic and wide-ranging transformations can emerge out of such piecemeal decision-making.

Why incrementalism? It has been argued by some that in times of political or economic crisis decisive and innovative policy responses will be more common.<sup>7</sup> But several facets of the Chilean case make this unlikely. First, the military was operating in the context of substantial informational deficits. Problems of economic stabilisation and reactivation certainly had no ‘obvious’ answers at the time.<sup>8</sup> Similarly, there is consensus that the military itself had few orienting ideological beliefs beyond a commitment to national security and anti-communism. Given the very disparate coalition backing the coup, incremental policy changes had the virtue of helping maintain a heterogeneous negative coalition, united around the idea of moving ‘away’ from the policies of the Allende era. To define a final goal early on would have been politically risky. Finally, serial and relatively small moves allow the correction of errors that might crop up as policy is implemented under shifting and uncertain conditions. But examining processes of decision-making by themselves does not explain policy outcomes. It is here where the insights offered by other explanations of Chilean neo-liberalism become important.

Thus, the use of the incremental optic highlights the importance of short-run political decisions in shaping long-run outcomes. Decision-makers’ changing definitions of, and responses to, immediately pressing problems affect when and how underlying institutional, coalitional, or ideational factors shape broad policy outcomes. For example at times contingent domestic and international pressures left the military open to the pressures of social coalitions, while at other times their absence increased military autonomy from societal influences. Similarly, military autonomy and short-run crisis may have facilitated economic stabilisation, but this policy changed institutions in ways that favoured subsequent moves in a neo-liberal direction, while raising costs of the alternatives. A policy initiated because of military autonomy created institutional patterns that later constricted its freedom to act.

Three alternative explanations of the Chilean model’s emergence have been advanced. One emphasises changing coalitions during the course of military rule, specifically the relative power of elites whose economic base

<sup>7</sup> See, for example, M. S. Grindle and J. W. Thomas, *Public Choices and Policy Change: The Political Economy of Reform in Developing Countries* (Baltimore, 1991), pp. 78–9.

<sup>8</sup> Even monetarist versus structuralist debates as to the causes of inflation were not yet resolved. See C. Kay, *Latin American Theories of Development and Underdevelopment* (London, 1989), pp. 47–57.

was in liquid assets and/or export production.<sup>9</sup> A second, institutionalist, approach focuses on the substantial autonomy of the authoritarian state, which gave it the 'space' to implement radical changes.<sup>10</sup> The liberal content of policy is here explained as the negation of prior moves in non-capitalist directions.<sup>11</sup> A third centres on the role of ideologically driven leadership, specifically the Chicago-school economists affiliated with the Catholic University who attained predominance in the national economic planning agency (ODEPLAN).<sup>12</sup>

Each of these approaches – coalitional, institutional, and ideational – has highlighted important aspects of the process through which a radical free-market developmental model emerged in Chile. Of course, none of the explanations above is truly monocausal. The categorisation used here reflects differences in theoretical emphasis. But linking these perspectives to the politics of incremental decision-making produces a more compelling explanation of the unlikely emergence of neo-liberalism than each approach can provide separately. As a result, the analytical whole is greater than the sum of its parts.

For example, a focus on social coalitions is important in understanding the re-production and expansion of neo-liberal patterns in the later part of the military period – important interests had much to lose from deviations from free-market policies and the state's dependence on social support was heightened. But it is less compelling in explaining the emergence of such a model in the mid-1970s when most vested industrial interests were threatened by trade opening, and potential beneficiaries were either economically weak or public property. Similarly, a focus on the high level of state autonomy early in the military period accounts for the success in implementing a controversial programme, but is less able to account for

<sup>9</sup> E. Silva, *The State and Capital in Chile: Business Elites, Technocrats, and Market Economics* (Boulder, 1996), especially Ch. 1, is an excellent (principally) social-coalitional analysis of the rise of Chilean neo-liberalism.

<sup>10</sup> Foxley, *Latin American Experiments*, p. 32; Philip O'Brien, 'The New Leviathan: The Chicago School and the Chilean Regime, 1973–1980', *Occasional Papers No. 38* (Glasgow, 1982), p. 5. For a more general argument about the effect of intra-governmental politics and the incentives created by political institutions see Barbara Geddes, 'The Politics of Economic Liberalisation', *Latin American Research Review*, vol. 30, no. 2 (1995).

<sup>11</sup> Both P. O'Brien, 'Authoritarianism and the New Economic Orthodoxy: The Political Economy of the Chilean Regime, 1975–1983', in Philip O'Brien and Paul Cammack (eds.), *Generals in Retreat: The Crisis of Military Rule in Latin America* (Manchester, 1985), p. 148, and Foxley, *Latin American Experiments*, pp. 31–2, pursue this argument. It is not clear, however, why serious threats to property rights under the preceding Allende administration necessarily imply a shift to extreme liberalisation.

<sup>12</sup> A. Fontaine, *Los Economistas y el Presidente Pinochet* (Santiago, 1988), p. 46; see also P. Simund, *The United States and Democracy in Chile* (Baltimore, 1993), pp. 119–23; and J. Valdés, *Pinochet's Economists* (Cambridge, 1995), Ch. 1.

its content. Here is where ideational explanations matter, when situated in the context of military decision-making. They bound the range of possibilities available to junta members at different points in time. But the intellectual commitment of General Pinochet to any particular ideology cannot be taken for granted, especially given the fits and starts through which policy evolved, and his willingness to abandon core neo-liberal tenets when political pressures mounted.<sup>13</sup>

These modes of analysis share an implicitly synoptic understanding of how decisions are made.<sup>14</sup> I argue that it is truer to the evolution of policy in Chile to view decision-making as incrementally organised around the two competing imperatives of economic stabilisation and political restructuring. The adoption of specific policies at particular points in time responded in an often disjointed, incremental manner to the results of previous policy initiatives, to the evolution in the content of the national political agenda, and to shifting external contingencies. This makes no claim as to the personal beliefs of important decision-makers. Rather, the decision-making process can be characterised according to the concrete manner in which policies were proposed and implemented. Idea systems, coalitions, and institutions had a crucial effect in shaping these incremental decisions. But they did not always have such an effect. The point here is to determine when and how these factors enter into the making of policy decisions.

#### *Four phases of policy evolution*

This section presents an incrementalist analysis of the rise of the Chilean neo-liberal economic and social model. We will see that the actual policies proposed and implemented along the road to neo-liberalism were frequently anything but liberal. Indeed, as a coherent economic and social package, the model did not emerge until well into the 1980s – nearly a decade after the onset of military rule.

In the initial phase of policy-making (1973–5), neither economic stabilisation nor efforts to restructure of state-society relations were neo-liberal. It was not until the second phase (1975–9) that neo-liberalism made its entrance, and then only in the economic arena; as a result the policy for political restructuring began to diverge quite substantially from economic policy.

<sup>13</sup> This is not to say that the economists who worked for the regime were unconvinced; they were. But the decisions were made by the generals, not the economists. And even into the 1980s the military – and General Pinochet – were willing to listen to non-liberal perspectives.

<sup>14</sup> For a discussion of the differences between synoptic/rational and incremental decision-making see Braybrooke and Lindblom, *Strategy of Decision*, pp. 61–70.

A coherent neo-liberal model emerged briefly in the third period, between 1979 and 1982. But in the wake of the economic crisis of 1982–3, a period of indefinición and vacillation again set in, with halting moves away from liberalism in banking and agricultural policy. While efforts at political restructuring remained firmly neo-liberal in this final period (1982–9), substantial deviations from orthodoxy occurred in the economic arena. But these moves were part of an effort to reconstruct a viable political coalition that would support the model into the non-authoritarian future, not a shift to a new developmental pattern. With the crucial exception of agriculture, policies deviating from neo-liberal orthodoxy began to move back in the liberal direction after 1985.

This section analyses the trajectory of policy through these four phases, focusing on the ways in which the twin goals of economic stabilisation and political restructuring were negotiated in the face of ever-shifting internal and external contingencies. It was a road that, only after a series of dead-ends, switch-backs, and meanderings, led to a coherent and politically consolidated neo-liberal development project.

*Phase one: economic crisis and initial repression (1973–5)*

The two general issues that would dominate the national political agenda throughout the period of military rule initially crystallised out of the conditions facing the military at the time it seized power. Stabilising capitalist economic relations and restarting growth was imperative in the wake of the mass nationalisations, land and factory seizures, and price controls of the Allende period.<sup>15</sup> Shortages were rampant, inflation surged to triple digits, and private investment had nearly ceased.<sup>16</sup> At the same time, Chilean society became extremely polarised, with direct mobilisation becoming a central aspect of political competition.<sup>17</sup> In this context the military seized power and publicly justified its intervention in light of the breakdown of social peace and economic crisis.<sup>18</sup>

While the need for economic stabilisation and political restructuring

<sup>15</sup> By 1973 the Chilean state controlled the financial system as well as at least 444 of the largest industrial firms and virtually all large farms. See Daniel Wisevarver, 'Regulación y Deregulación en Chile: Septiembre 1973 a Septiembre 1983', *Documento de Trabajo No. 59* (Santiago, 1986), p. 7; Cristóbal Kay, 'Political Economy, Class Alliances and Agrarian Change in Chile', *Journal of Peasant Studies*, vol. 8, no. 4 (July 1981), p. 503; and Ian Roxborough, 'Agrarian Policy in the Popular Unity Government', *Occasional Papers No. 14* (Liverpool, 1974), p. 27.

<sup>16</sup> F. Larraín and P. Meller, 'The Socialist-Populist Chilean Experience, 1970–1973', in Rudiger Dornbusch and Sebastian Edwards (eds.), *The Macroeconomics of Populism in Latin America* (Chicago, 1991), pp. 206–11.

<sup>17</sup> A. Valenzuela, *The Breakdown of Democratic Regimes: Chile* (Baltimore, 1978), pp. 77–80.

<sup>18</sup> Junta Militar de Gobierno, *Bando No. 5*, Reproduced in *El Mercurio* (Santiago, 26 September 1973), p. 22.

was clear to the junta, the characteristics of the military as an institution, the process of coup-plotting, and the structure of the coup coalition did not suggest a clear consensus on the directions of policy. But the range of alternatives was not unlimited.

Four main alternative policy strategies were initially represented within the military government.<sup>19</sup> The moderates, principally Christian Democrats and their middle sector supporters, laid the blame for Chile's difficulties on the irresponsibility and polarisation of the Allende period (1970–3), not on any fundamental flaws in the institutional fabric of the Chilean society or the democratic regime. They hoped the military intervention would be brief, and that after some minor adjustments they would be returned to power. The traditional conservatives, many of whom were important leaders of the National Party (PN), included the most backward elements of the former landowning oligarchy and industrial bourgeoisie. They sought not only a rollback of the policies of the Allende government, but indeed of all the social reforms of the 1960s and 1970s. Their hope was that this would re-establish the conservative stability of the 1940s and 1950s. Both perspectives saw the crisis that provoked the coup as the result of bad policies, not fundamental defects in organisation of society or politics.

Two other perspectives made the case that the disorders of 1970–3 had their roots in substantially deeper and less tractable flaws in the Chilean socio-political system. The corporatists saw the problems of Chile in social terms – social organisations were too autonomous, penetrated by the left, and conflictual. To replace this system of competing social actors they proposed a state-centric vision of strong, depoliticising organisation.

Finally, the neo-liberals were not historically well-represented in Chilean society or the party system. Their core was in a coterie of orthodox economists at the Catholic University who since the 1970 election had unsuccessfully urged the Chilean right to take on a neo-liberal orientation.<sup>20</sup> They advocated similar policies from their positions in the economic planning bureaucracy of the military government.

For part of the course of military rule, authority over different aspects of policy-making was institutionally decentralised to the four service branches.<sup>21</sup> In addition, policy was defined in terms of two broad goals

<sup>19</sup> The best analysis of the ideological evolution of the Chilean military regime is Pilar Vergara, 'Auge y Caída del Neo-liberalismo en Chile: Un Estudio sobre la Evolución Ideológica del Régimen Militar', *Documento de Trabajo No. 216* (Santiago, 1984).

<sup>20</sup> This plan was rejected as impractical and unwise even by the conservative candidate Alessandri. See J. G. Valdés, *La Escuela de Chicago: Operación Chile* (Buenos Aires, 1989), p. 15; and Centro de Estudios Públicos (CEP), *El Ladrillo: Bases de la Política Económica del Gobierno Militar Chileno* (Santiago, 1992).

<sup>21</sup> Fontaine, *Los Economistas*, p. 45.

– economic and political stabilisation. Of these, because of the overwhelming need to consolidate military rule in the short run, political restructuring initially predominated. Within this fragmented decision-making structure, corporatist ideas initially dominated the effort at political restructuring, while moderates defined economic strategy.

*Economic stabilisation.* At the time of the coup, the economic situation was dire. Foreign reserves were virtually gone, the fiscal deficit stood at more than 30 per cent of GDP, and inflation topped 600 per cent.<sup>22</sup> Opinion on the appropriate response to this manifest crisis was divided. Moderates like Raúl Sáez, soon-to-be Minister of Economic Coordination, proposed an economic package calling for substantial increases in public sector investment and infrastructure, direct production, and social services.<sup>23</sup> The neo-liberals, by contrast, advocated much more severe economic measures.<sup>24</sup> But they advocated a similar approach to stabilisation – subsidy cuts, price decontrol, trade liberalisation, and privatisation. It is critical to remember, however, that the debate was a narrow one over how best to combat inflation and its associated problems. At no time in the first phase was the creation of a coherent overall developmental model contemplated by the generals. Neo-liberal economists certainly had such a plan.<sup>25</sup> But they were far from the only perspective then present in the government. As a result, economic policy lacked a clear, defined vision of the appropriate role of state and market.<sup>26</sup> The policy disagreements were greatest with regard to choices about the rate and depth of austerity measures, and about attempts to cushion their recessionary impact.

The junta faced a complex decision – even the economists of ODEPLAN recognised that the situation of near-hyperinflation facing Chile was one with which no one had had any experience.<sup>27</sup> The decision involved grave political risks at a time when consolidation of the coup was the principal goal. In such a context, the turn to cautious, remedial, and stop-gap solutions is unsurprising. Indeed, according to Hirschman, this is precisely the sort of response one would expect a decision-maker to take in a context where problems are pressing, but understanding of them is low.<sup>28</sup>

<sup>22</sup> Larraín and Meller, 'The Socialist-Populist Chilean Experience', pp. 208–11.

<sup>23</sup> R. Sáez, *Programa de Desarrollo a Corto y Mediano Plazo* (Santiago, 1974), pp. 3, 39–41.

<sup>24</sup> Oficina de Planificación Nacional [ODEPLAN], *El Sistema Socio-Económico Chileno* (Santiago, 1978), p. 10; and S. de Castro, *Exposición sobre el Estado de la Hacienda Pública* (Santiago, 1981), pp. 9–10.

<sup>25</sup> See CEP, *El Ladrillo*.

<sup>26</sup> Vergara, 'Auge y Caída', pp. 32–3.

<sup>27</sup> ODEPLAN, *Chile: El Desafío/The Challenge* (Santiago, 1974 or 1975), p. 20.

<sup>28</sup> A. Hirschman, *Journeys Toward Progress: Studies of Economic Policy-Making in Latin America* (New York, 1963), Ch. 4.

Fearing that neo-liberal shocks would harm important pro-coup social actors, threaten the primary goal of political restructuring, and impede long-run economic development, General Pinochet opted for a moderate stabilisation strategy. Indeed, the moderate approach at least had some historical precedent in the 1960–1 stabilisation effort of President Alessandri. Just as in the 1960s, credit reduction and real wage restraint were the tools employed, but sudden tariff reductions – which would have entailed serious economic restructuring – were avoided.<sup>29</sup> A neo-liberal approach to stabilisation would have produced, according to Pinochet, ‘a strong [increase in] unemployment and the suspension of numerous basic public works that the country cannot cancel without affecting its future development’.<sup>30</sup> Given the priority of short-run political stabilisation, this was avoided.

Coalitional and institutional explanations do not by themselves fully explain this policy outcome. At the time (1973–5), domestic capitalist actors stood to suffer enormously from even moderate stabilisation policies – they would increase international competition and raise the cost of capital. As Hastings points out, government controls had historically provided them ‘adequate profits in a risk-free environment’.<sup>31</sup> Business interests did support some aspects of the stabilisation package, particularly privatisation and price-setting freedom. But monetary tightening, fiscal austerity, and trade liberalisation posed serious threats to the survival of industrial firms.<sup>32</sup> And those sectors likely to benefit most from free-market reforms were either largely state-owned (mining and banking) or held as peasant cooperatives.<sup>33</sup> Rather, the tremendous autonomy of the

<sup>29</sup> *Ibid.*, p. 219.

<sup>30</sup> ‘11 de Septiembre: El Informe de General Pinochet’, *Ercilla* (Santiago, 18 September, 1974), p. 11.

<sup>31</sup> L. Hastings, ‘Regulatory Revenge: The Politics of Free-Market Financial Reforms in Chile’, in Stephan Haggard *et al.* (eds.), *The Politics of Finance in Developing Countries* (Ithaca, 1993), p. 211.

<sup>32</sup> As early as January, 1974 Finance Minister Gotuzzo made it clear that such potentially threatening trade liberalisation would be part of the moderate stabilisation package. Lorenzo Gotuzzo, ‘Three Years to End Protection: New Tariff Schedule under Study’, in Juan Méndez (ed.), *Chilean Economic Policy* (Santiago, 1979), pp. 77–81. In any event, S. De la Cuadra and D. Hachette, ‘The Timing and Sequencing of a Trade Liberalization Policy: The Case of Chile’, *Documento de Trabajo No. 113*, Instituto de Economía, Universidad Católica de Chile (Santiago, 1988), p. 76, argue that significant trade liberalisation was possible only because of the military’s autonomy from such traditionally-powerful groups.

<sup>33</sup> The transfer of agrarian reform sector lands to private hands was not complete until 1979. Even the neo-liberal economists Sergio de la Cuadra and Salvador Valdés Prieto, ‘Myths and Facts about Financial Liberalization in Chile: 1974–1982’, *Documento de Trabajo No. 128* (Santiago, 1990), p. 37 point out that the bank privatisation programme did not even solicit bids until July, 1975, and complete private control was not obtained until February, 1976.

military from social forces in 1973–5 – a point emphasised in institutionalist explanations showing the economic prostration and frank decomposition of capitalist interest in the wake of three years of a ‘transition to socialism’ – made for unconstrained but risk-averse choices from available ideological options.

*Political restructuring.* The coup opened with a dramatic episode of state terror, but the military soon moved to couple repression with efforts to establish a more durable form of authority. The generals declared their intention to remain in power until political and economic institutions could be rebuilt along different lines, defined at this point in corporatist terms.<sup>34</sup> This was in keeping with Chile’s already highly-developed set of interventionist state institutions, and was backed by some of the most powerful and mobilised supporters of the coup – small business and the *gremios* (trade associations). Corporatist institutions created an organisational form that could fill the vacuum created by the repression of the parties and unions of the political left. Once state-sponsored organisations occupied this space they would serve as a barrier to penetration of civil society by the left. Finally, these institutions would mitigate the social and political tensions that corporatists saw as a characteristic feature of capitalist economies, and that they blamed for the rise of Allende.<sup>35</sup>

Moves in the economic arena were gradual to be sure, but they were decidedly not corporatist. Why did social policy move in this very different direction? Critically important in understanding this are the differences of opinion within the military government and the institutional fragmentation of the different arenas of policy-making. Economic affairs at this point were under the purview of the Navy’s representative, Admiral Merino. Social and Labour affairs were under the control of Air Force General Leigh, an avowed opponent of neo-liberal economic policies. He believed they implied ‘an enormous cost in lives, low wages, and a cruel and discriminatory economic policy’.<sup>36</sup> Here ideas, institutional autonomy, and decision-making fragmentation come together in the context of military attempts to establish near-term political stability to explain divergent, but non-liberal, social and economic policy outcomes.

<sup>34</sup> Gobierno de Chile, *Declaración de Principios del Gobierno de Chile* (Santiago, 1974), p. 36. The junta declared itself opposed to Marxism as well as the materialism that in consumer societies ‘spiritually enslaves’ man (p. 10).

<sup>35</sup> To cope with these tensions major initiatives were planned in the areas of labour law, worker participation in factory management, and the reform of the pensions system. See Air Force General Leigh in a speech to the USEC, 20 November 1974. Cited in *Ercilla* (Santiago, 27 November 1974). In agriculture, policy moved toward the creation a strong state-controlled co-operative system. See Instituto de Capacitación e Investigación en Reforma Agraria (ICIRA), *Análisis de la Situación de los Asignatarios de Tierras a Junio de 1978* (Santiago, 1979).

<sup>36</sup> Quoted in F. Varas, *Gustavo Leigh: El General Disidente* (Santiago, 1980), p. 65.

*Phase two: neo-liberal economics versus corporatist politics (1975–8)*

The second phase of military rule runs from the deepening of economic liberalisation and fiscal austerity in April 1975 to the final abandonment of the corporatist model of state-society relations with the appointment of José Piñera as Labour Minister in late 1978. During this period neo-liberal economists achieved control over economic policy-making, taking Chile in a decidedly more deflationary direction. Corporatist ideas were still prevalent in the organisation of state institutions and in policies toward agriculture.

Of the two pressing issues that dominated the political agenda in the first phase, the question of short-run political stability had been answered with repression.<sup>37</sup> In economic terms, however, the story was one of substantial failure. The moderate approach to stabilisation, while less politically risky than more strict economic orthodoxy, was ineffective.<sup>38</sup> Economic growth was barely positive and inflation remained in excess of 300 per cent. These two factors combined to shift the ordering of issues on the military's agenda, making economic stabilisation primary.

Here we can see the utility of the incremental optic. It was clear by 1975 that repression could effectively shut off open political opposition to military rule. On the other hand, international pressures for economic stabilisation mounted, forcing the latter issue to the top of the political agenda. Policy-making was short-run and iterative; the policy outcomes of the first phase, when coupled with an important external contingency – the balance of payments crisis of 1975 – produced a different set of costs and benefits for decision-making in the second phase. Similarly, the separation of decision-making in economic and political arenas remained, even though policy outcomes produced important spillovers between them. In the first phase fears of social instability pushed economic policy in more risk-averse, moderate directions. In the second, the certitude of repression lowered the costs of deepening the neo-liberal reforms, even as the spill-over from these reforms slowed long-run corporatist projects in the organisation of the state and society. The point here is that one cannot make sense of the move toward neo-liberal economic policy after 1975 without simultaneously giving credit to the prior success – i.e., the short-

<sup>37</sup> On the repression, see Comisión Nacional de Verdad y Reconciliación (CNVR), *Informe de la Comisión Nacional de Verdad y Reconciliación* (Santiago, 1990).

<sup>38</sup> Inflation persisted at levels in excess of 300 per cent. At the same time Chile was buffeted by an external shock. Between 1973 and 1975 there was a six-fold increase in the price of imported oil, while copper, Chile's principal export, suffered a real price decline of 46.7 per cent; Banco Central de Chile, *Economic Report of Chile 1982* (Santiago, 1982), p. 58.

run establishment of political control – of the repressive policies of the first phase.

*Economic stabilisation.* When the initial, less severe approaches to stabilisation failed, a space was opened for the neo-liberal economists who advocated more deflationary solutions.<sup>39</sup> While the neo-liberal stabilisation after 1975 was recessionary, unlike the moderate approach of 1973–4, the tools used to implement it were familiar. Fiscal austerity, privatisation, moderate trade liberalisation, and real-wage erosion were tools that had been in place to some extent since the onset of military rule.

While the economic ‘shock treatment’ introduced in April of 1975 marked the rise to dominance of the neo-liberal economists within the planning bureaucracy, this is not the same as the attainment of consensus within the military as to the desirability of a generalised neo-liberal developmental ‘model’. What the military agreed to implement in 1975 was a set of severe fiscal and monetary restrictions, which intensified already adopted policy measures. An outward reorientation of the economy – a central goal of the neo-liberals – was not yet in the offing. Indeed, Jorge Cauas (a key neo-liberal, and the Minister of Finance) pointed out that the goal was simply to reach a maximum tariff level of 60 per cent by 1977.<sup>40</sup> This was enough to force firms to adjust to a moderate level of international competition, but not enough to reorient the economy away from domestic import substituting firms.<sup>41</sup> A fully neo-liberal model would have refocused on the external sector, with decidedly less interest in the survival of the existing industrial plant.<sup>42</sup> Such pressures would emerge only later, toward the end of the second phase.

At this juncture we see how underlying idea-centred and institutional explanations increase in importance. First, as policy-making moved into the second phase, the military faced a much more constrained set of choices. Voices in the government pushing moderate policies were politically affiliated with the Christian Democratic Party (PDC). As concerns over human rights abuses propelled former President Frei into open opposition to military rule, many of these economists left the military government. Silva has noted this, as well as the tendency for moderates to be affiliated with the Navy, while neo-liberals had closer ties

<sup>39</sup> See Vergara, ‘Auge y Caída’, p. 95; and CEP, *El Ladrillo*, p. 19.

<sup>40</sup> J. Cauas, ‘The Government Economic Recovery Program’, Text of an address to the nation, April 24, 1975. Transcribed in J. C. Méndez (ed.), *Chilean Economic Policy* (Santiago, 1979), p. 161.

<sup>41</sup> Tomás Moulian and Pilar Vergara, ‘Estado, ideología, y políticas económicas en Chile, 1973–1978’, *Colección Estudios CIEPLAN*, vol. 3 (1978), p. 79.

<sup>42</sup> See ODEPLAN, *El Sistema*, pp. 21–2; ODEPLAN, *Plan Nacional Indicativo de Desarrollo 1978–1983* (Santiago, 1978), p. 37.

to the politically ascendant Army (and General Pinochet).<sup>43</sup> The key point is that for contingent political reasons the moderate vs. neo-liberal dialogue over economic management became more of a neo-liberal monologue. Corporatist ideas continued to dominate within the social and labour arenas, but were not brought into the economic policy debates in part because of their institutional separation. They were firmly ensconced in the Labour Ministry under the authority of General Leigh, but had little access to the economic planning apparatus.

In the end, the debate over economic policy was fought between moderates in the Ministry of Economic Coordination under Sáez and neo-liberals in the planning agency, ODEPLAN. Also arrayed on the side of moderation were special advisory committees created explicitly as a counterweight to the neo-liberals under Decree Law 460 of May 1974.<sup>44</sup> The first battle was won by the neo-liberals when Jorge Cauas was appointed Economics Minister in July of 1974 and Sergio de Castro replaced the more moderate Fernando Léniz at the helm of the Treasury in April of 1975; and the imposition of neo-liberal policies was phased in over a period of years.<sup>45</sup> The neo-liberal economists did not achieve complete dominance until the April 1978 appointment of Sergio Fernández as Interior Minister.<sup>46</sup> Thus even in a phase when neo-liberals became dominant in economic policy-making, decisions were made in incremental and serial fashion, and resulted from a series of ongoing political struggles.

Some increase in austerity measures was likely in 1975 because inflation was still running at a dangerously high annual level of 340 per cent, while the oil import bill had surged and copper export prices collapsed.<sup>47</sup> Given the limited access to foreign credit at the time, this balance of payments crisis became a hard constraint.<sup>48</sup> With moderates largely excluded from policy-making, only corporatist alternatives remained. But a move to a heterodox inflation control strategy more consonant with the corporatist tone of social policy would have been difficult because it involved a direct

<sup>43</sup> Silva, *State and Capital*, pp. 108–9.      <sup>44</sup> Fontaine, *Los Economistas*, pp. 70–87.

<sup>45</sup> The orthodox measures introduced in 1975 were consistently deepened until by 1979 tariffs on virtually all imports were reduced to ten per cent, and the peso was officially pegged to the dollar at a rate of 39 to one. R. Ffrench-Davis, 'Import Liberalization: The Chilean Experience, 1973–1982', in J. Samuel Valenzuela and Arturo Valenzuela (eds.), *Military Rule in Chile: Dictatorship and Oppositions* (Baltimore, 1985), pp. 56–7. While tariff reduction was gradual, it eventually went far beyond the 60 per cent level declared by the neo-liberals at the beginning of the phase as the final goal.

<sup>46</sup> G. Arriagada, *Pinochet: The Politics of Power* (Boulder, 1991), p. 28.

<sup>47</sup> Instituto Nacional de Estadística [INE], 'Sistema para Calcular Variaciones del Índice de Precios al Consumidor (IPC) y su Aplicación en la Reajustabilidad de Cantidades', unpubl. ms. (Santiago, 1992), p. 3.

<sup>48</sup> Banco Central de Chile, *Economic Report of Chile*, p. 38.

admission of failure of the original policy tack, and a shift to an altogether different set of policy tools and political institutions.

*Political restructuring.* With respect to the organisation of state-society relations, the period 1975–8 continued to be dominated by corporatist rhetoric. But in terms of the actual implementation of policy proposals, little was accomplished. Even the ODEPLAN economists asserted that changes in this area were impossible or impractical.<sup>49</sup> The bottleneck was explained as the result of a need to focus first on economic stabilisation in the wake of the 1975 recession. What did proceed during this period was the dismantling of the remaining social and political organisations that had been the bedrock of the previous democratic regime, most importantly non-Marxist political parties and labour and cooperative organisations. For example, the atrophy of state institutions that had previously supported such social organisations – e.g., the rural union extension fund (Fondo de Educación y Extensión Sindical, FEES) and the agricultural promotion agency (Instituto Nacional de Desarrollo Agro-Pecuario, INDAP) – was the inevitable consequence of economic austerity measures, and not necessarily part of any coherent plan to produce social atomisation.

Thus, the second phase of military rule expanded the substantive differences between policy styles with respect to economic stabilisation and political restructuring. Conflicting policy trajectories became ever more divergent. For example, General Pinochet's speech on the third anniversary of the military coup highlighted as the central goals for the year: (1) stabilisation of the balance of payments, (2) heightening the anti-inflationary fight, and (3) gradual economic reactivation. When references were made to the organisation of social relations, corporatist proposals were consistently held up as the direction in which policy would eventually move.<sup>50</sup> A social enterprise statute promising co-determination was actually promulgated in 1976, but left unenforced pending the finalisation of the proposed corporatist labour code; the latter was never forthcoming.<sup>51</sup> Of course, no mention was made of the incompatibilities between these two policy styles.

With the July 1977 Chacarillas speech<sup>52</sup> General Pinochet for the first time offered a timetable for political transition. The beginning of the

<sup>49</sup> Política: El Tiempo Social', *Ercilla* (Santiago, 26 April 1978), pp. 12–13.

<sup>50</sup> Augusto Pinochet, 'Address by H. E. the President of the Republic of Chile, General of the Army Augusto Pinochet Ugarte on the Third Anniversary of the Military Coup' (Santiago, 1976), pp. 26–52.

<sup>51</sup> Moulian and Vergara, 'Estado, Ideología', p. 85.

<sup>52</sup> Speech given at Chacarillas to the Juventud de Unidad Nacional. Transcribed in 'Anoche en Chacarillas: S. E. Indicó Grandes Líneas Institucionales', *El Mercurio* (Santiago, 10 July 1977), pp. 37, 39.

move to what he called a ‘protected democracy’ in this period centred on the use of juridical barriers to the re-emergence of the left in the putative post-authoritarian order. The military’s project was not yet about the creation of a new social order. Rather, it was about the creation of new institutions and the destruction of organisational forms considered dangerous.<sup>53</sup> This focus on legal barriers and state controlled organisations remained consonant with the corporatist idea of a state with substantial regulatory control over the workings of social organisations.

A major result of the effort to increase regime legitimacy by creating juridical foundations for military rule and for the increasing economic austerity was to heighten the importance of institutional variables. As previous economically interventionist institutions were dismantled under the pressures of economic austerity, and rules began to confine the autonomy of military leaders, policy progressively became channelled in neo-liberal directions.

*Phase three: emergence of the neo-liberal ‘model’ (1979–82)*

There has been much divergence among scholars as to what ‘neo-liberalism’ or ‘economic liberalisation’ means.<sup>54</sup> For some it simply means monetarist (as opposed to structuralist) approaches to inflation-control. For others, it entails a broader package of policies that facilitate economic orientation along the lines of international comparative advantage. But to speak of a neo-liberal ‘model’, one must add to this a redefinition of state-society relations that privileges market mediation. Just such a broad, coherent model was created in Chile in the 1979–82 period, but it came about as the result of the series of short-run responses to unexpected international contingencies which affected existing political and economic patterns.

In 1979 General Pinochet declared that the process of economic reconstruction was complete and that the process of ‘modernisation’ would begin. In the wake of ‘successful’ economic stabilisation<sup>55</sup> and a period of sustained, non-inflationary economic growth, the generals basked in an aura of triumphalism. In this context a series of new external political pressures came to a head – especially a threatened AFL-CIO import boycott and the political fallout of the Letelier assassination – that for the first time since the coup compelled the military seriously to

<sup>53</sup> A clear example of this was the attempt in agriculture to create a state-run co-operative system to replace existing peasant unions and independent co-ops.

<sup>54</sup> See T. Banuri, *Economic Liberalization: No Panacea* (Oxford, 1991), pp. 6–8.

<sup>55</sup> This is success only in terms of the goals of military rulers. Throughout this period unemployment remained high, wages remained depressed, and distributional inequality worsened. See Patricio Meller, *et al.* ‘Growth, Equity, and the Environment in Chile: Issues and Evidence’, *World Development*, vol. 24, no. 2 (1996), p. 262.

contemplate political liberalisation. As a consequence of this apparent economic success and this external challenge, the government's political project became the central issue in the third period.

These events, while strongly constraining the military in terms of the necessity of some form of political opening, did not determine its specific content. What was critical, however, was that the neo-liberal economic policy was considered a success. As growth surged and inflation plummeted, moves were made to consolidate the neo-liberal economic programme.<sup>56</sup> Economics Minister Sergio De Castro limited the mechanisms available for the creation of new money to the accumulation of international reserves and fixed the peso in relation to the US dollar.<sup>57</sup> This was to be the external anchor for the Chilean peso, and would facilitate economic adjustment and foreign investment through the mechanism of expanded private capital flows. Monetary policy could become fully passive, and adjustment would occur through changes in the direction and volume of private capital flows. Of course one could (and many did) argue that fixed exchange rates are anything but liberal. But for the ODEPLAN economists, fixing the exchange rate was a small price to pay for the transfer of control over the money supply to market forces.

*Political restructuring.* As pressures for political opening mounted, the overarching goal of political stabilisation was pursued by creating new patterns of social organisation that would be, by their very structure, inhospitable to statist or Marxist policy proposals. Crucially, this centred on an individualised, highly targeted, and market-mediated form of state-society interaction and social provision. These policies responded to a redefined understanding of political restructuring. No longer were legal/institutional barriers alone to prevent the re-emergence of leftist political tendencies in a more open political regime; market-led social transformation would also play this role.

In particular, the transformation of state-society relations in such key areas as labour law, health care, pensions, and education would, according to Labour and Social Provision Minister Piñera, 'create the basis of a new political, economic, and social reality'.<sup>58</sup> The ends of policy had shifted, making changes in patterns of social organisation the principal means by which democracy would be 'protected'. At this juncture the emergence of the unchecked power of General Pinochet within the junta becomes critical. When the neo-liberals came to him with a plan that

<sup>56</sup> De Castro, *Exposición*, p. 23.

<sup>57</sup> P. Meller and P. Romaguera, 'Evolución Macroeconómica', in Patricio Meller, *et al.* (eds.), *Chile: Evolución Macroeconómica, Financiación Externa y Cambio Político ed la Década de los 80* (Madrid, 1992).

<sup>58</sup> Quoted in *¿Qué Pasa?* (Santiago, 27 December 1980), translation by the author.

promised political institutionalisation, it was attractive indeed.<sup>59</sup> But this was an alliance that could be (and was) terminated or modified at his discretion.

In addition to bringing personal political benefits, a neo-liberal form of political restructuring offered the most gradual, least risky, and most plausible policy move during this period. First, the return to low-inflation growth during the second phase of military rule favoured a re-ordering of the national agenda, shifting the focus back toward social and political policies. The ‘successes’ (albeit temporary) of economic stabilisation and the return to growth, when added to the abundance of foreign exchange between 1978 and 1981, made serious reforms to state institutions fiscally feasible. At this particular conjuncture both the incentives and resources for reform were present.<sup>60</sup>

The perceived risks of shifting to neo-liberal patterns of institutional organisation were reduced because of the ‘transferred legitimacy’ of such strategies from the economic arena. Put simply, neo-liberal ideas were beginning to win. Success in reducing inflation helped convince the junta that liberal ideas might be successfully applied in other areas of policy. As these in turn appeared to produce rapid economic growth, arguments in favour of market-oriented transformation of social and welfare institutions gained currency.<sup>61</sup> Finally, moving in a neo-liberal direction in the definition of state-society relations placed economic and social policy in the same framework for the first time since the coup. That is, the massive privatisation of social services (most importantly, pensions) and the end of state intervention in labour disputes would be consonant with the neo-liberal vision of a reduced economic role for the state.

The social reforms of this period all involved redefinitions of the appropriate scope and role of state action. In the arena of labour law, the state ceased to be the arbiter of class conflict. Whereas earlier law and practice had involved appeals to political leaders and complex labour courts, the 1979 labour reform reduced the level of bargaining to the individual enterprise and removed the state from any explicit role in the

<sup>59</sup> See Arriagada, *Pinochet*, pp. 29, 47–8.

<sup>60</sup> Over the period 1977–81, GDP recorded average annual real growth rates of 7.9 per cent. Inflation declined from 63.5 per cent in 1977 to 9.5 per cent in 1981, and foreign indebtedness rose from 5.2 billion USD to 15.5 billion. Data for growth calculated from S. Edwards and A. Cox Edwards, *Monetarism and Liberalization: The Chilean Experience* (Cambridge, 1987), p. 12. Inflation figures from INE, *Sistema*, p. 3. Debt figures from Banco Central de Chile, *Indicadores Económicos y Sociales 1960–1988* (Santiago, 1989), p. 343.

<sup>61</sup> It also helped that exclusive control over the labour issues had been removed from Air Force purview by the mid 1970s. And in July of 1978 General Leigh was expelled from the junta, removing from the decision-making circle the most prominent supporter of corporatist policies and critics of neo-liberalism. See Varas, *Gustavo Leigh*, pp. 24, 65.

process of negotiation. With respect to pensions, management of retirement funds was transferred to private hands, and the system was stripped of most of its redistributive features. These and other reforms ended up producing a marked pattern of social atomisation and interest disarticulation.<sup>62</sup> This outcome – the dismantling of previous incentives to organisation and the reduction in the ability to mobilise that it entailed for popular sector actors – eventually became a factor favouring the institutionalisation of the developmental model.<sup>63</sup> And ‘protected democracy’ began to be seen increasingly in social terms by the military.

The reform of the pension system is perhaps the best example of this approach to social restructuring. The neo-liberal economists had been criticising the old system of social security on economic grounds for quite some time. They argued that it distorted the relative prices of labour and capital by imposing a ‘tax’ on employment equivalent to nearly 40 per cent of wages.<sup>64</sup> During this transformative phase, the criticism sharpened to become political as well. The old system was labelled ‘collectivist’, and the key aspects of its replacement were the focus on a strict linkage of personal effort with compensation and individual market-mediated choice.<sup>65</sup>

The new approach was designed to remove the incentives inherent in the old system of social provision that created beneficiary coalitions seeking to extract rents through concerted action in the political sphere. The reform had as a central goal the individualisation of beneficiaries. The old system relied on political processes to make distributional decisions that Piñera believed should be inherently individual and private. One’s pension was directly linked to one’s own individual savings effort. The increase in the rate of savings that this would spur was also seen as having a positive aggregate economic impact.

From the perspective of the present analysis, a key point is that the pension reform also helped to construct a base of support for the new

<sup>62</sup> José Piñera, the architect of the reforms, justified them on exactly these grounds. Interest group pressure on the state was exactly what the new system was designed to avoid. J. Piñera, *El Cascabel al Gato: La Batalla por la Reforma Previsional* (Santiago, 1991), pp. 157–8.

<sup>63</sup> See M. Garretón, ‘Political Processes in an Authoritarian Regime: The Dynamics of Institutionalisation and Opposition in Chile, 1973–1980’, in J. Samuel Valenzuela and Arturo Valenzuela (eds.), *Military Rule in Chile: Dictatorship and Oppositions* (Baltimore, 1985), p. 150; and P. Vergara, ‘Market Economy, Social Welfare, and Democratic Consolidation in Chile’, in William Smith, *et al.* (eds.), *Democracy, Markets, and Structural Reform in Latin America* (New Brunswick, 1994), pp. 238–9.

<sup>64</sup> See CEP, *El Ladrillo*, p. 41; and J. Petras and F. I. Leiva, *Democracy and Poverty in Chile: The Limits of Electoral Politics* (Boulder, 1994), p. 22.

<sup>65</sup> José Piñera, quoted in Dagmar Raczynski, ‘Social Policies in Chile: Origin, Transformations and Perspectives’, *Democracy and Social Policy Series Working Paper No. 4* (Notre Dame, 1993), p. 54.

developmental model in Chilean society, and to disarticulate and fragment potential opponents. It gained support as newly-powerful financial interests stood to benefit, while previously powerful beneficiary coalitions were politically disarticulated by military rule. Indeed, the financial interests who stood to gain were in this period at the peak of their influence, sparking a dialectic of social welfare privatisation, which strengthened their position, leading to increased pressure for further privatisation. By the late 1980s, the private pension system had transferred to capitalist management funds equivalent to some 25 per cent of GDP.<sup>66</sup>

*Institutions and coalitions in context.* While this third phase of hegemonic neo-liberalism resulted from another round of short-run, iterative decision-making, it was one in which social coalitions and institutional legacies conditioned political choices. While capitalist coalitions may not have had the strength to have caused initial moves in the liberal direction, by the 1979–82 period those previous moves had dramatically strengthened the economic position of actors favouring liberalisation. Insofar as regime legitimacy depended on economic performance, the autonomy of the state *vis-à-vis* just such capitalist actors declined. They were the dynamic economic sectors of the time, and shifts in non-liberal directions could only bring a return of hard times.

Precisely the solidity of societal support behind free-market economics by the late 1970s produced institutional barriers to the pursuit of corporatist or even moderate social reforms. Previous institutional fragmentation – the control of the Air Force over labour and the social arena – had made possible the divergence between policy approaches in the economic and social arenas. When power was fully centralised under Pinochet and external pressures for political liberalisation mounted, the result was a harmonisation of policy along neo-liberal lines. Indeed, as a consequence of the success of economic neo-liberalism (fiscal austerity requires the dismantling of much of the state apparatus), the institutional capacity to manage a more corporatist form of state-society interaction had been degraded. To rebuild it would have been costly, and opposed by powerful societal interests, and would have threatened an apparently successful economic strategy, and have relied on the intellectual contributions of corporatists who had been increasingly marginalised from the corridors of power.

Still, while coalitional and institutional variables are critical components of the explanation of the evolution of policy in this period, the incrementalist optic is necessary to connect them. It helps one to understand why and how such variables had importance at this particular

<sup>66</sup> Vergara, 'Market Economy', p. 240.

conjuncture. Crucially, abundant international lending reduced the perceived costs of social reform and supported high rates of growth. Human rights pressures put the problems of restructuring state-society relations back at the top of the national agenda. And finally, the political struggles leading to the centralisation of power under General Pinochet promoted more coherence in policy. These short run parameters shaped the influence of institutional legacies and societal pressures. It is the combination that explains and expansion of liberalism into the social arena.

*Phase four: reconstituting a bourgeois political coalition (1982–89)*

In 1982 the cutoff of foreign lending, huge trade deficits, and a seriously over-valued peso provoked a collapse of GDP, mass unemployment, nationalisation of the failing financial system, and the reintroduction of serious tariffs.<sup>67</sup> This had led some to label this a period of ‘defeat’ or ‘retrenchment’, or a turn toward ‘pragmatic’ neo-liberal policies.<sup>68</sup> Policy did change, but this was more due to short-run political concerns, rather than reflecting a fundamental change in economic perspective. As Silva has noted, protest helped prompt the military’s willingness to modify economic policy to reconsolidate a conservative political coalition. It also galvanised private sector demands for policy changes. In this period neo-liberalism was modified (and in a few arenas, largely abandoned), but for incremental political reasons.

Paradoxically, just as economic problems became more severe than at any point in the course of military rule, political issues dominated national decision-making. First, massive opposition protests starting in 1983 shook the very stability of military rule. Secondly, the political position of upper class actors had shifted from strong support to at best tepid backing, and at worst open opposition.<sup>69</sup> Finally, the very institutional rules created by the military began to reduce its autonomy. From the vantage point of the mid-1980s, the 1988 plebiscite called for by the authoritarian constitution was not far off. And success would require the construction of a viable political coalition. However, building such a coalition would involve important deviations from the strict neo-liberal orthodoxy of the previous period.

Coalitional explanations of policy in this period centre on the emergence and organisational coherence of a reformist or pragmatic business

<sup>67</sup> Official statistics report a collapse in GDP of 14.1 per cent in 1982. Real wages tumbled some 11 per cent between 1982 and 1983, and open unemployment surged from 8.1 per cent in July–September of 1981 to 23.9 per cent in 1982. (Data calculated from Banco Central de Chile, *Indicadores*, pp. 26, 277, 303.)

<sup>68</sup> Vergara, ‘Market Economy’; an ‘Auge y Caída’; E. Silva, ‘Capitalist Coalitions’; and Foxley, *Latin American Experiments*. <sup>69</sup> Silva, *State and Capital*, Ch. 7.

faction.<sup>70</sup> These business elites were under intense pressure from the economic collapse of 1982, and organised to force policy in a more reflationary direction. However, timing is important here. Economic crisis was apparent as early as the third quarter of 1981, when international pressures forced domestic interest rates to punishingly high levels of between 42.6 and 49.4 per cent in real terms.<sup>71</sup> Economic disintegration in early 1982 made problems obvious to all. But strong policy responses to the crisis did not occur until almost two years later, in the 1983–5 period.

As Silva's largely coalitional explanation notes, the existence of reformist capitalists was insufficient to force change. It was the emergence of massive opposition protest beginning in May 1983 that produced an opening, and the reformist coalition which helped shape its direction.<sup>72</sup> Under fire from a multi-class opposition movement, Pinochet was finally willing to budge on economic issues insofar as would help him stabilise a coalition with which to confront the protests. Moreover, in the wake of the May protests, peak business organisations had gained a new unity around a common set of demands.<sup>73</sup> In this context, after a period of exclusion, domestic business interests were granted all manner of protections and special treatments.<sup>74</sup> The key point here is that contingent political pressures helped induce both private sector collective action and openness to policy change on the part of the military. For this phase coalitional explanations are indeed critical, but in part because of changed micro-political circumstances.

Idea-centred explanations are of less utility in this period. While neo-liberals had attained a monopoly of economic policy-making positions within the military government in the previous phase, General Pinochet moved against them when economic and political crises mounted. Suddenly, more pragmatic voices were being heard again. The appointment of Economics Minister Martín and Interior Minister Sergio Onofre Jarpa in 1983 put proponents of reflation in prominent positions, and the neo-liberal monologue once again became an active dialogue.

<sup>70</sup> *Ibid.*, pp. 175–92.

<sup>71</sup> De la Cuadra and Valdés Prieto, 'Myths and Facts', p. 16.

<sup>72</sup> M. Barrera and J. S. Valenzuela, 'The Development of Labour Movement Opposition to the Military Regime', in J. Samuel Valenzuela and Arturo Valenzuela (eds.), *Military Rule in Chile: Dictatorship and Oppositions* (Baltimore, 1986), pp. 260–1; Silva, *State and Capital*, p. 174.

<sup>73</sup> Silva, *State and Capital*, p. 179.

<sup>74</sup> For a brief period of adjustment, tariff levels were raised to 35 per cent, some debt relief was granted to the private sector, and continuing protection was reintroduced for those traditional (non-exportable) crops typically grown on large farms. See Frieden, *Debt, Development, and Democracy*, p. 174. Silva, *State and Capital*, p. 179 reports that in 1984 massive loan renegotiations were extended reducing interest rates to the comparatively minimal 5–6 per cent level, and in addition two year grace periods were granted.

While radical revisions of policy did not emerge – institutional constraints, principally the dismantling of the necessarily institutional capacity within the Chilean state apparatus, prevented that – a wide variety of deviations from liberal orthodoxy were implemented to favour important domestic economic interests. At the end of this period Chile was left with a changed economic model and a sustained high rate of economic growth. But this new form of neo-liberalism emerged more out of short-run political calculations than deliberate design. So, how was a dominant coalition reconstructed out of the economic and political chaos of 1982?

*Big business.* By 1983, relations between business and the military government were strained. The financial conglomerates, which between 1975 and 1982 had been the fundamental support base of neo-liberal policy, collapsed along with the bulk of the banking system. Domestically oriented industrialists had been devastated by the over-valued peso. The government's most fervent supporters had gone bankrupt or were seriously weakened, and the surviving business elites were increasingly oppositional in their attitudes.

The military responded to this pressure and quietly began to modify some policies to favour domestic business, but still within the confines of a broad neo-liberal model. Privatisation of the remaining state-owned industries was, for example, a policy used to obtain support from the business sector. Indeed, the scope of this second round of privatisation went well beyond that envisioned in the 1973–7 periods. Now several profitable and 'strategic' sectors were sold, including chemicals, steel, electricity, and the national phone company. In a move that would further build support, the government sold substantial numbers of shares of these firms to employees and small investors at substantially below-market prices.<sup>75</sup> In addition, the return of protectionism cushioned the blow of economic downturn.<sup>76</sup>

Despite the vocal opposition of some business elites during the 1982 economic crisis,<sup>77</sup> re-establishing their support for the developmental model which had emerged was, in the end, not exceedingly difficult. The structural transformations which Chile had undergone since 1973 had in important ways changed the composition of business's representative

<sup>75</sup> D. Hojman, *Chile: The Political Economy of Development and Democracy in the 1990s* (Pittsburgh, 1992), p. 134.

<sup>76</sup> The peso was devalued by almost 88 per cent between 1982 and 1988, according to C. Budnevich, 'Implicaciones Financieras de las Privatizaciones en Chile: Lecciones del Período 1985–1990', in *Las Privatizaciones en Chile* (Santiago, 1993), pp. 115–17. In addition, business costs were reduced first by the abolition of wage-indexation in 1981 and later through tax reduction in 1984.

<sup>77</sup> G. Campero, 'Entrepreneurs and the Military Regime', in Drake and Jaksic (eds.), *The Struggle for Democracy in Chile* (Lincoln, 1992), pp. 135–6.

organisations. Within the National Agrarian Society (SNA), the Confederation of Production and Commerce (CPC), and the mining association (SONAMI), producers for international markets had become dominant.<sup>78</sup> This shift was a clear product of outward-oriented economic policies, which in turn created a business sector likely to be strongly supportive of a neo-liberal developmental model.

*International capital.* The military also went to great lengths to mend and improve relations with foreign investors. Tightened linkage to the external sector tied Chilean domestic policy more strongly to powerful international actors, who would exert substantial pressure on any post-transition government for the continuance of liberal policies.

The tightening of linkages to international capital went through two stages. First, the Chilean state assumed the privately contracted debts of failing Chilean banks and industries. Because substantial portions of Chile's debt burden had been acquired without public guarantee, this initiative naturally heartened foreign lenders. Secondly, through the privatisations of this period (1985–9), foreign control over key sectors of the Chilean economy increased substantially. Most central to this were the debt-for-equity swaps used to reduce the now-crushing foreign debt burden. Chilean external debt notes could be used to purchase the companies privatised after 1985. Such swaps were so popular that, by 1988, nearly two billion dollars of hard currency had entered the economy, typically leading to a tight intertwining of foreign investors and domestic capitalists through the joint purchase of privatised firms.<sup>79</sup> This privatisation also represented an opportunity for substantial profits. Evidence suggests that the effective state subsidy of shares sold in 1987 and 1988 was startlingly high: between 50 and 60 per cent.<sup>80</sup>

This sort of a privatisation policy was hardly new. While it was managed on much more economically sound terms than that of the 1973–6 period, it represented a return to familiar policy tools. What had changed were the ends for which they were used. Maintaining state ownership of the intervened banks and parastatals would have entailed a more mixed economy, and a more interventionist state. Also, in the short run, the state no longer had the institutional capacity to effectively manage a large public sector. Finally, the pressures of funding the external debt in effect encouraged privatisation policies; the latter would produce the foreign exchange needed to pay the former. Thus, its relative risklessness, coupled with the political advantages outlined above, made privatisation an attractive option.

<sup>78</sup> E. Silva, 'Capitalist Coalitions', p. 117.

<sup>79</sup> *Ibid.*, p. 116.

<sup>80</sup> A. Butleman, 'Financiación Externa', in Meller, *et al.* (eds.), *Chile: Evolución Macroeconómica* (Madrid, 1992), p. 86; Budnevich, 'Implicaciones Financieras', p. 122.

*Agriculture.* Agriculture was considered crucial by the military in the forthcoming transition to democratic politics. In order to rebuild a base of support among domestically oriented large producers, the military selectively replaced neo-liberalism with an import-substituting policy for a few key crops whose production was dominated by large growers.

By 1983 most of the restructuring and adjustment in agriculture was complete. The bulk of the lands which had formerly constituted the land reform sector had been transferred to private (non-peasant) hands, and most of the Central Valley land suitable for export crop production had made that transition.<sup>81</sup> Yet large, domestically-oriented food-crop producers, who were critical of the military government, were economically prostrate.<sup>82</sup> To regain the support of these growers would be no small feat for the military, as they had suffered greatly during the previous decade. The basis for drawing domestic food producers into the neo-liberal coalition was a shift to price floors for the key crops which they produced, particularly wheat.<sup>83</sup> Subsidised credits were reintroduced, and most critically, the growers' bank debts were renegotiated on highly favourable terms.<sup>84</sup> Yet these initiatives did not generally apply to peasant producers. Protection and subsidy were part of a bargain that brought rural elites into the neo-liberal coalition.

To summarise, in the fourth phase the aim of political restructuring continued to dominate the military's agenda, though it was redefined to mean the consolidation of an electorally-viable conservative political coalition. To this end, economic neo-liberalism was modified in ways which brought international and domestic business together with agricultural elites in support of the government.

#### *Improving Existing Explanations*

This article has attempted to provide a decision-oriented explanation for the emergence and consolidation of the Chilean economic and social model. It has argued that the model was constructed in small steps over a decade and a half through a process of incremental decision-making

<sup>81</sup> P. Silva, 'The State, Politics, and Peasant Unions', in Cristóbal Kay and Patricio Silva (eds.), *Social Change in the Chilean Countryside: From the Pre-Land Reform Period to the Democratic Transition* (Amsterdam, 1992), pp. 225–7.

<sup>82</sup> See P. Silva, 'Landowners and the State: From Confrontation to Co-operation?', in Kay and Silva (eds.), *Social Change*, p. 282.

<sup>83</sup> Thus we see that while the average international price for wheat declined 22.1 per cent between 1980–4 and 1985–8, the average real wholesale price in Chile, however, increased by 8.2 per cent over the same period (calculated from D. Carreño, 'La década Agraria en Cifras', unpubl. ms. (Santiago, 1992), no pagination). Between 1983 and 1987, however, the land area planted in wheat increased 88.4 per cent.

<sup>84</sup> P. Silva, 'Landowners and the State', p. 284.

centred on the twin policy imperatives of economic stabilisation and political restructuring. The emphasis has thus been on the short-term factors constraining decision making, not on prevailing ideology, social coalitions, or the structure of state institutions. This is because the actual construction of policy was powerfully conditioned by these near-term constraints. Yet this focus on incremental decisions is not meant to deny the importance of these broader variables. Rather, this article has sought to incorporate coalitional, institutional, and ideological factors into an incremental account of decision-making that helps to explain how and when each of these factors is important.

Why are these alternative optics improved when coupled to the micropolitical contexts in which decisions were actually carried out? First let us consider idea-centred explanations. Rabkin, for example, contends that ‘The Chilean state was able to carry out its program ... because it had a coherent political-economic project and a talented, ideologically motivated bureaucracy capable (despite some costly policy errors) of designing new legal and economic institutions’.<sup>85</sup> Basically, she argues that the model was adopted because it was an optimal solution to the long run problem of political restructuring, one that General Pinochet seized upon from an early date.

There is much truth to this position. Certainly, neo-liberalism would never have emerged without the intellectual presence of the Chicago economists.<sup>86</sup> But during much of the military period, political and economic policies were on decidedly different trajectories – one corporatist and one neo-liberal. And within each arena there was substantial vacillation.<sup>87</sup> It is better to think of ideas less as causative agents, but rather as presenting a menu of options from which decision-makers choose, given the constraints under which they operate in each phase of policy-making. Accounts which emphasise conversion to a neo-liberal worldview make it difficult to understand the many vacillations and meanderings of policy over the course of military rule.

On the other hand, it is essential to recognise that the new idea system that has emerged as a consequence of the model has shaped discourse in both the business classes and among political opponents in ways that demonstrably help to reproduce it.<sup>88</sup> The conversion of large elements of even the formerly Marxist Socialist party to free-market ideas is an

<sup>85</sup> Rabkin, ‘How Ideas Become Influential’.

<sup>86</sup> Valdés, *Pinochet’s Economists*, Ch. 7.

<sup>87</sup> For example, throughout the third phase (1979–82) the exchange rate was fixed, but not before or after. In 1983–4 virtually the entire banking system was taken over by the government, and after 1984–5, substantial moves in the direction of import substitution were instituted for key crops.

<sup>88</sup> See Hojman, ‘The Political Economy’, p. 211.

indicator of the extent to which this idea system has penetrated.<sup>89</sup> But this largely occurred after the neo-liberal model had emerged through a series of incremental steps.

Institutionally-oriented explanations often begin with a very accurate emphasis on the autonomy of the military elites from social forces – both supporters and opponents.<sup>90</sup> Thus, institutions did not constrain politics, but rather it was the unusually unconstrained position of military leaders that accounts for the emergence of radical neo-liberalism. As O'Brien explains, this autonomy would allow a 'relatively small group of people to push through drastic reforms which, in the short run, went against the immediate interests of so many sectors of Chilean capital'.<sup>91</sup> The insights of institutional approaches convince us that substantial change was possible, but leave one wondering as to its direction. Autonomy from domestic social actors coupled with a dramatic economic and political crisis does not bring us far in the direction of specifying the content of policy outcomes, only the likelihood of their implementation.

One partial answer the institutionalists propose is the channels of communication between leaders in the state and civilian actors. The neo-liberals certainly had this sort of access from an early date. But it is important not retroactively to confuse access with influence. In the earlier phases of military rule, the generals deliberately created parallel and conflicting advisory bodies designed precisely to prevent any single tendency from monopolising the flow of information.<sup>92</sup> In addition, the military had no hesitation in removing representatives of one or the other current when political conditions were deemed appropriate. The more moderate Raúl Sáez was influential in the first phase, but quickly lost influence, and similarly, after the economic crash of 1982–3 the neo-liberal economists were temporarily removed from the important economic ministries.

Neither information monopolies nor rigid institutional constraints forced the generals in the direction of neo-liberalism. That being said, the close connections between the neo-liberal economists and important economic *grupos* did help support the free market position. Silva has done a masterful job of detailing just such interrelationships.<sup>93</sup> But the extent of this influence and the importance of such institutional channels varied considerably through the military period. It was situated in the context of an autonomous and often personalistic military government. At many

<sup>89</sup> Kenneth Roberts, 'From the Barricades to the Ballot Box: Redemocratization and Political Realignment in the Chilean Left', *Politics and Society*, vol. 23, no. 4 (December 1995), p. 513.

<sup>90</sup> Foxley, *Latin American Experiments*, pp. 29–32.

<sup>91</sup> O'Brien, 'The New Leviathan', p. 5.

<sup>92</sup> Fontaine, *Los economistas*, p. 73.

<sup>93</sup> Silva, *State and Capital*, especially Chs. 5–7.

points during the course of military rule choices were made that could have shifted policy in other directions. The road travelled was in important measure a product of micropolitical conflicts, short-run decisions, and external contingencies as they interacted with social and institutional variables.

The final optic focuses on the role of social coalitions. A significant pro-neo-liberal coalition did not really exist in the first phase of policy-making. At the time of the coup, the entire financial sector, mining, many large-scale industries, and all large agriculture were in the hands of the state. The most important and autonomous capitalists remaining were the small businesses in the *gremio* movement. But these were precisely the groups most harmed by neo-liberalism and precisely the coup-supporters most marginalised from policy circles. They tended to support corporatist economic policies. Moreover, if autonomy arguments are to be taken seriously, then class and sectoral coalitions – especially economically prostrate ones – are probably not the best starting point for explaining policy outcomes early in the course of military rule.

The turn to neo-liberalism is frequently explained by the increasing power of the export and financial sectors relative to other sectors of Chilean business. E. Silva cites two principal reasons for their rise: (1) the availability of high levels of international liquidity channelled through private commercial banks, and (2) the influence of domestic financiers and exporters who were well positioned to take advantage of these vast new resources. The latter built empires based on their access to foreign savings.<sup>94</sup>

Both of these factors are vitally important to understanding the evolution of policy, but not equally so throughout the period of military rule. Access to foreign savings helps explain the consolidation of a social coalition in favour of neo-liberal policies. But the question of timing is here essential. The level of private sector debt in Chile was relatively low between 1974 and 1977 (it grew from \$443 million to \$990 million USD). Only after economic neo-liberalism was fully imposed in 1978–81 did indebtedness soar to \$8.14 billion USD.<sup>95</sup> This suggests that the access to foreign savings was probably critical for explaining the neo-liberal transformation of social policy in the 1979–82 period, but much less important in the 1975–8 period. In that phase, the two processes developed contemporaneously and in a mutually reinforcing manner. But financial flows were too small to be determinant.

The other essential social actor, export-oriented capitalists, were not yet important at the time of the turn toward economic orthodoxy. During the

<sup>94</sup> E. Silva, 'Capitalist Coalitions', pp. 544–5.

<sup>95</sup> Banco Central de Chile, *Indicadores*, p. 337.

period when neo-liberals first came to dominate economic planning (1975–8), the massive expansion of non-traditional exports had not yet begun. As of 1978, 60 per cent of exports was still accounted for by the state-owned mining sector. Not only was there not yet a booming export sector, but most of the income from exports was concentrated in state hands. A large, export-oriented capitalist class did not exist at the crucial point in time. Certainly, the corporate-financial *grupos* of the 1975–82 period were important forces pushing for liberal policies. But they must be understood in light of (1) the unusual degree of autonomy held by the military and General Pinochet; (2) the short run political-economic contingencies that framed immediate decisions; and (3) the counter-pressures of domestic capitalists with much to lose from liberalisation. Coalitions constrained policy, but no group was so dominant as to be by itself determinative of outcomes. Politics and incremental decisions help bridge the gap between coalitions and policies.

During the period of authoritarian rule in Chile, policy evolved incrementally through four principal phases in an effort to address two overarching, and often contradictory, goals – economic and political stabilisation. The changing prioritisation and definition of these tasks, itself linked to short-run contingent events and the results of past policy moves, carved out the terrain which shaped the importance of underlying coalitional, ideational, and institutional variables at different key moments in time. The focus on shifting, serial, and incremental decisions provides an account that more fully mirrors the actual course of policy evolution. Military policy was initially fragmented between economic and social arenas, with neither characterised by the dominance of neo-liberals. It ended in a coherent neo-liberal model that was consistently applied across both arenas. But it was the micro-political factors shaping decisions along the path that, paradoxically, made such a consistent and unlikely outcome possible.

In emphasising such an incrementalist analysis, this article has highlighted the limitations of prevailing ideological, institutional, and coalitional explanations. In isolation, none of these approaches can fully explain the timing or character of policy change at key points during the course of military rule. By introducing the idea of incremental decision-making the intention is not to reject these approaches. Rather, the article seeks to incorporate their insights into a framework that can successfully account for when and how these underlying factors did (and did not) have an important effect on policy outcomes.