The Political Economy of the Chilean State in the Neoliberal Era: 1973–2005*

James M. Cypher

ABSTRACT — While the present-day state in Chile operates far beyond the narrowest constraints of the “neoliberal” state as strictly defined, it is nonetheless fatally confined by the ideological limits imposed through the neoliberal vision of the state. Hence, Chile lacks a national development strategy and is now forced to operate within the parameters of a quasi-stagnationist structure, temporarily buoyed by 19th-century-style commodities booms. In a process that evokes Aníbal Pinto’s classic dissection of Chile’s lost opportunities in the 19th century, Chile has once again failed to forge a sustainable “export-investment nexus” sufficient enough to shift away from reliance upon resource-based rentier activities.

RÉSUMÉ — Même si le Chili fonctionne présentement en dehors des limites étroites de l’État « néolibéral » au sens strict, il reste néanmoins fatalement confiné dans le cadre idéologique qu’impose la vision néolibérale de l’État. Par conséquent, il n’a aucune stratégie nationale de développement et il doit maintenant s’adapter aux paramètres d’une structure économique quasi stagnante, mais temporairement maintenue à flot par un boom des marchandises caractéristique du XIXe siècle. Au cours d’un processus évoquant l’analyse classique d’Aníbal Pinto au sujet des occasions perdues à cette époque, le Chili s’est encore montré incapable de forger un rapport durable entre exportations et investissements qui lui aurait permis de sortir de sa dépendance à l’égard des rentes provenant des activités liées aux ressources.

Introduction

This article is concerned with four interrelated issues. First, what is the meaning of “neoliberalism” in the context of Chile’s evolution since 1973? Second, in spite of the partial evidence of a “restructuring” of Chile’s economy, what is the role of the traditional 19th-century agro-mineral sector (specifically the copper mining industry) in Chile? Third, given the typologies of the state commonly used in development economics, what is the fitting interpretation of Chile’s contemporary state? Fourth, what, specifically, are the pivotal activities of the state — in the context of the economy — that give empirical definition to the state? Following the above analysis, the conclusion of this article is that while the present-day state in Chile operates far beyond the narrowest constraints of the “neoliberal” state as strictly defined, it is nonetheless fatally confined by the ideological limits imposed through the neoliberal vision of the state. Hence, Chile lacks a national development strategy (proyecto país) and is now forced to operate within the parameters of a quasi-stagnationist structure, albeit one that can be temporarily buoyed by 19th-century-style commodities booms. In a process that evokes

* The author gratefully acknowledges the support of the Facultad Latinoamericana de Ciencias Sociales (FLACSO — Santiago, Chile), where much of the research for this article was conducted throughout 2003, the helpful comments of the anonymous referees of this journal, the guidance of Oscar Muñoz, the insight of Orlando Caputo, and Osvaldo Sunkel’s response to an earlier draft.
Anibal Pinto’s classic dissection of Chile’s lost opportunities in the 19th century, Chile has once again failed to forge a sustainable “export-investment nexus” sufficient to engineer a fundamental transformation of the economy away from reliance upon resource-based rentier activities (Pinto 1962).

I. A Neoliberal State?

A. Incoherent Restructuring (1973–1975)

At the outset of military dictatorship (1973) the state operated within the confines of an “emergency” situation (Huneeus 2001, 296). In framing economic policy the two dominant policymakers were Economic Minister Fernando Léniz and Minister of Economic Coordination Raúl Saéz. Neither Léniz nor Saéz were neoliberals: Saéz, in fact, was certainly a key — if not the key — policymaker in Chile’s peak developmental institution, Corporación de Fomento de la Producción (CORFO) (Saéz 1994a, 1994b). Since 1938 CORFO (discussed in section III) had been the principal protagonist in Chile’s import substitution industrialization strategy (ISI), and Saéz had long been associated with ISI, CORFO, and the policy of state-led development.

Seeking to consolidate his political power, General Augusto Pinochet outmanoeuvred his military rivals and formed the “second government” in July 1974 through to April 1978 (Huneeus 2001, 297). This “government” was marked by the dominance of military leaders in positions of power: 24 of the 38 ministers appointed to govern were military professionals. Most were strong nationalists, supportive of formative institutions such as CORFO, and they held to a vague developmentalist ideology that highlighted the formative role of ISI strategies in the economy.

Immediately, Pinochet appointed the first of the “Chicago Boys,” Jorge Cauas, as Ministro de Hacienda. This was followed by the appointment of Sergio de Castro, an extremely powerful “Chicago School” critic of current government policy, as Ministro de Economía in April of 1975. De Castro’s appointment came shortly after what was considered a watershed economic conference in March, headed by Milton Friedman and Arnold Harberger, wherein the Chicago Boys introduced their proposal (also supported by the IMF and World Bank) to impose a “shock treatment” consisting of a drastic reduction of the money supply, a policy of privatization, opening to the international market, deregulation, and the shrinking of the state sector (Kangas 2003, 2).

Saéz briefly remained Minister of Economic Coordination, yet he had effectively criticized the government’s human rights record in April 1975. In June of 1975 Saéz protested an early and demonstrably corrupt privatization of the textile firm Panal (Huneeus 2001, 400, 413). Subsequently, he
moved laterally to help set up what would become the key non-profit, semi-public/semi-private developmental institution of the Pinochet period: Fundación Chile. Fundación Chile is described in section IV. Saéz was one of the few members of the technocratic elite whose misgivings about the dictatorial regime were tolerated. His credentials could not be dismissed by the brash Chicago Boys. His critique of the corrupt privatization process of Panal was prescient: later estimates of 41 of the 68 firms privatized by the Chicago Boys by 1978 showed that the buyers had received a subsidy of 48% (approximately US$615 million in 2003) in buying these firms below their estimated assessed asset value (Foxley 1980, 18–19). In all there have been 725 privatizations, the 30 largest of which generated a subsidy of more than US$6 billion to their buyers (Gutierrez 2005, 33).


From 1975 onward the influence of the Chicago Boys grew but was tempered to some degree by the developmental attitudes of the military leaders who occupied many ministries, at least until 1978. As the degree of autonomy in defining economic policy steadily increased for the Chicago Boys, the economy moved ever closer to the precipice of economic breakdown. Financial speculation was rampant. Fuelled by a variety of hidden state subsidies — most particularly the assets acquired through the corrupt privatization process — the largest and most powerfully connected of the grupos nacional de poder used Ponzi-style techniques to build “new economy” firms linked to real estate, finance, and foreign trade. In 1974 the largest two grupos were Cruzat-Larraín and BHC, holding 11 and 18 firms respectively. By 1977 these conglomerates held 85 and 62 firms respectively. By 1978 these top grupos held 37% of the assets of the top 250 firms, while the inclusion of the next two largest grupos (Matte and Luksic) brought the level of concentration of the top four to 49% of the assets of the top 250 firms (E. Silva 1997, 160). By the 1990s the grupos (along with a number of large foreign-owned firms) comprised the top 1% of all Chilean firms that accounted for 75% of all sales and 95% of all exports (Castillo and Álverez 1998, 286). During the 1970s and 1980s a fundamental restructuring of the grupos occurred as some of the “traditional” grupos collapsed (e.g., Cruzat-Larrain) while others gained power (e.g., Luksic). Still, the fundamentally non-competitive structure of the economy remained and was strengthened by the mid-1990s: the large grupos accounted for 30% of the GDP, with the five largest in control of the 100 largest firms in the nation (287). While some observers suggested that in this process of restructuring a new “entrepreneurial culture” had emerged, a detailed study by Mario Castillo and Raúl Álvarez found that the changes made in organizational structures in Chile were shallow, denoting primarily new capabilities in marketing and commercial techniques (Montero 1997; Castillo and Álvarez 1998). In the more crucial areas, such as the training, equipping, and motivating of the labour force, they found profound stagnation or the reintroduction of more retrograde methods. This point was subsequently borne out in a series of industrial case studies of labour relations and work processes in Chile (Winn 2004). Likewise, Castillo and Álvarez found that Chile’s business elite were disinterested in advancing their production processes and products.

[There is] …a strong tendency for these firms to have their central focus on short-term results, assigning a low priority to the analysis and improvement of [production] processes; also we can verify an underutilization of the available machinery, equipment and technology that could be used to modernize production processes.

In the area of innovation, even though the opening of the economy would seem to suggest an acceleration of technological transfers … generally such transfers are limited to
products wherein the application is made to commercial activities alone, leaving the issue of technological advancement in general at a low level. When technological changes are introduced at the level of the production process it is frequently the case that this involves the mere "upgrading" of existing equipment and machinery, whereas genuine innovation is an exception (Castillo and Álverez 1998, 290).

Deindustrialization proceeded rapidly while the economy grew and admirers from abroad with a Chicago School orientation proclaimed Chile a “miracle.” Yet by 1981 Chile had a commercial trade deficit of US$2.7 billion, which represented 71% of the value of exports. Foreign debt exploded during the hard Chicago Boys era; debt service alone absorbed 49.5% of the value of exports (Loveman 2001, 289, 293). Like Mexico in late 1994, the inevitable collapse arrived and the GDP fell by 14.3% during 1982 while the unemployment rate reached above 30%.


By 1984 a hesitant recovery began, but under a completely different policymaking regime. Instrumental in this reconfiguration of Pinochet’s state apparatus were the yet militant sectors of labour, which had begun to initiate mass-based protests at the societal level on 11 May 1983 (Klubock 2004, 228). Some of the largest financial grupos had been, to the surprise of many, swept away with the crisis, along with some of their closest cronies in government, including the core Chicago Boys. In their stead came economists who paid homage to the core concepts of the Chicago Boys but who used their power and influence to restructure the economy toward an array of new export industries based in commodities. Meanwhile, peak business organizations, particularly the powerful Confederación de la Producción y el Comercio (CPC), regained much of their historical influence. Eduardo Silva describes the new configuration.

On the state side, the system of interaction [between large business and policymakers] now featured a mixture of experienced, well trained, career bureaucrats in financial agencies that still stood at the apex of the hierarchy of economic bureaus. Between 1984 and 1985 some businessmen occupied the top positions in the financial and economic ministries. The available evidence suggests that Pinochet did this to recover the loyalty of business elites, and to keep an industrial faction from joining the moderate opposition…. After… 1985 the top occupations of Finance (top of the hierarchy), Economy, the central bank, and the budget office, were headed by men who had close ties to the Cruzat-Larraín, BHC and Edwards conglomerates. These links gave the top directors of these international conglomerates — especially Cruzat-Larraín — privileged access to policymakers. That access allowed them to discuss policy reforms with the policymakers; and according to [Juan Villarzú, budget director from 1974–75] the directors of privileged conglomerates participated with increasing frequency in key policy meetings, and that clique eventually froze out all opposition to their views” (159). “They had been either executives, advisors, or members of the professional staff of those conglomerates before taking office, and most returned to those positions after they left government service. Significantly, these were the same conglomerates that had organized business resistance against Allende … and collaborated with the military in the conspiracy to overthrow [him]” (159).

3. E. Silva (1997) writes, “Many of the key Chicago Boys … had links to a narrow range of internationalist conglomerates that tended to concentrate their holdings in financial intermediation, companies that were internationally competitive and trade. Key economic ministries and institutions, such as Finance (top of the hierarchy), Economy, the central bank, and the budget office, were headed by men who had close ties to the Cruzat-Larraín, BHC and Edwards conglomerates. These links gave the top directors of these international conglomerates — especially Cruzat-Larraín — privileged access to policymakers. That access allowed them to discuss policy reforms with the policymakers; and according to [Juan Villarzú, budget director from 1974–75] the directors of privileged conglomerates participated with increasing frequency in key policy meetings, and that clique eventually froze out all opposition to their views” (159). “They had been either executives, advisors, or members of the professional staff of those conglomerates before taking office, and most returned to those positions after they left government service. Significantly, these were the same conglomerates that had organized business resistance against Allende … and collaborated with the military in the conspiracy to overthrow [him]” (159).

4. Created in 1935, this confederation unites the pinnacles of private sector power via six underlying associations. The three most powerful are (1) the venerable National Agricultural Society (1838), the collective voice of the landed oligarchy in bygone times and now that of the agro-export elite; (2) the National Mining Society, the voice of the dominant sector of Chile; (3) The Society of Industrial Development, the ascendant organization in the 1890–1970 period.
economic policymakers of those principal agencies were almost exclusively drawn from the ranks of experienced, technocratic, flexible, civil service officers. ... Beneath them, however, prominent businessmen headed the sectoral ministries (Economy for Industry and Commerce, Agriculture, Mining, and Public Works) (E. Silva 1997, 166).

No longer did clientelism, personal ties, and political threats mainly form the nexus between the state's top policymakers and the financial elite, a fluid linkage that had previously defined the parameters of the radical neoliberal model. The peak business associations sought and received forms of state intervention that were broadly used in the era of ISI: "drawback" schemes of tariff exemption to facilitate the new orientation toward commodities-based exports for the emerging new industrial sectors, housing subsidies for the construction industry, and price floors for the ex-hacendados and medium-sized farmers as well as for the copper mining industry. In response, private investment rose steadily in the non-financial sectors. Yet the rentier ethos was only dampened; when the opportunity arose in the 1980s and 1990s to acquire another round of privatized firms, the looting (saqueo) of public assets continued apace: between 1985 and 1989, 30 large parastate firms were privatized, with the subsidy to the private sector estimated to be in excess of US$1 billion in the year 2000 (Mönckeberg 2001, 22).


Indications of an economic boom began to emerge in 1986. In 1987 per capita income was the same as in 1981, but by 1998 it was 88% higher. By 2002 Chile had the highest average per capita income in Latin America. Workers, however, experienced average wage increases of only 53% in 1987–98 and, because of wage losses that lasted for 22 years [1970–1992], 1998 wages were only 29.5% higher than in 1970. From 1970 to 1998, in contrast, average per capita income rose 105.3% (Banco de Chile 2001, 32, 50). By 1997 a triumphalist attitude had swept Chile. The message seemed to be that if a nation stuck to the precepts of neoliberal economics (through a difficult period of “transition”) the economy would eventually soar. Nonetheless, the model was exclusive; wages lagged very far behind the growth in average per capita income, as did the rate of growth in employment, forcing a rise in the so-called informal sector. The middle class and the elite reaped the gains of the model, and Chile displayed one of the most unequal income distribution profiles in the world.5

Thus, when the democratic regimes commenced, under the Concertación alliance of centre-left parties, a sustained economic boom was underway: Chile was favourably compared to the “tigers” of Asia and commonly proclaimed a “model” for Latin America. How to explain the long boom became a serious pursuit for many, including some specialists who had long been critical of the neoliberal model. One popular interpretation held that a new “Schumpeterian” stratum of entrepreneurs had emerged alongside the structural change signalled by the emergence of the new commodities-based export industries (Montero 1997). Certainly, exports had soared throughout the boom: they were the leading sector. But much of the sectoral shift to exports had been achieved prior to the boom. The export/GDP ratio had risen from 12% in 1970 to 30% in 1985, but it remained at that ratio or lower through to 1995 (V. Silva 2001, 12).

5. In 1969 the top 20% received 44.5% of household income. After the 1973 coup this rose to 51% in 1978 and 54.9% in 1988, and in 1997 the Concertación government had not changed matters, and the top 20% received 54.5% (Ffrench-Davis 2003, 315, 322). Between 1990 and 2003 Chile’s distribution of income did not change, according to the Gini coefficient measure, and in 2003 the top 10% received 40% of all household income (CEPAL 2004, 91, 340).
Clearly, there was (and is) some substance to the claim that a new and more professional class of managers had emerged in some sectors. Nevertheless, the question remains as to whether these necessary changes have been widespread and irreversible. When the bloom faded in 1997, with cumulative per capita income rising only 3.4% between 1998 and 2002 and unemployment stayed above 9%, Concertación economists had no policy response. The “Schumpeterian” entrepreneurs were seemingly no longer to be found. Some call this period a slowdown, while small business owners refer to it as a recession, but semi-stagnation might be a more accurate term. Export growth clearly stagnated — exports in 1997 were at US$17 billion and were virtually identical at US$17.4 billion in 2002 — as did per capita income.

One of the most telling negations of the “new entrepreneur” hypothesis — and its corollary, the new “professionalized” macroeconomic policymakers — was the return of massive capital flight in 1998 and 1999. In fact, capital flight, equal to 11.4% and 11.8% of the GDP in 1998 and 1999, respectively, was higher than in any other years of the entire neoliberal era (Bener and Dufour 2004, 38; see Figure 1). Under pressure, the “new” entrepreneurs appeared no different than the “old” predatory entrepreneurs. The “new, professional” economic policymakers were powerless, and silent, regarding the predatory practices of the grupos nacional de poder, which had drained the circuits of capital as never before in modern times. Chile had gained notoriety in the 1980s for its imposition of capital controls on short-term financial flows. But in the 1990s those controls were eliminated: a step backward from the Pinochet era.

Why this occurred should be set in a larger context: in the late 1990s the peak business organizations, particularly the CPC (see footnote 2) had adopted a much more aggressive stance in opposition to initiatives of the state than existed during the period of “pragmatic neoliberalism.” In the face of the dominance of the centre-left coalition of Concertación, the CPC shifted to the right and Chile’s political polarization became much sharper. By 1999:

The hard right defenders of the military government’s legacy now dominated both right wing politics and large-scale business elites. [And], the balance of power with the employer organizations had shifted to the hard-line elements of the Industrial Society (SFF). Over the past ten years, the SFF had grown increasingly dissatisfied with its subordination in the CPC and the CPC’s willingness to compromise with Renovación Nacional [a conservative party] and the Concertación … In fact it briefly broke with the CPC in the late 1990s. By 2000 the SFF had rejoined the CPC and gained ascendency within it (E. Silva 2002, 350).

In spite of the fact that it was commonplace to praise the “objective” macroeconomic management of the economy, the technocratic elite running the state apparatus in the economic areas were, apparently, powerless to challenge the unprecedented capital flight that occurred in 1998 and 1999. The degree to which the policymaking elite were limited by the agenda of the right became the subject of a mocking editorial in Augustín Edward’s extremely influential newspaper, El Mercurio. The Chicago Boys had made their public debut in the editorial pages of El Mercurio in the 1970s, and Edwards continued to offer the editorial pages to adamant neoliberals such as Hermógenes Pérez de Arce, who proclaimed in late 2003:

As you fail to recognize, but should know, the right in the world has won in virtually every area: … ideological content, … the supremacy of the private sector in the economy and the political control of governments both where the right reigns openly and where the right rules while centre/left governments “officially” hold power. In this latter case we have been well
accommodated, because while we do not hold power explicitly, we have managed to make leftist government maintain and expand our policies (Pérez de Arce 2003, 3).

As discussed below, the “democratic neoliberal” governments under Concertación have been able to make some important policy changes, particularly to address Chile’s highly unequal distribution of income, yet economic policymaking at the level of the state has been heavily constrained by the neoliberal view seeking a minimalist state.

II. Chile’s “Resource Curse” and Path Dependence

Commonly used in development economics, the term “resource curse” aptly describes many Latin American economies, particularly that of Chile, since it has been relatively easy to rely on resource exports and direct foreign investment (DFI) in resource-intensive activities to spur economic growth. This relative ease has led to the neglect of a more difficult path to economic development, a determined ISI strategy that would pivot on the implementation of a flexible industrial policy. Rather than take this difficult path, Chile has become “path dependent” on agro-mineral exports, first with the salitre (nitrates) boom in the 19th century, and then with copper.

By 1970, 76% of Chile’s exports were copper. The copper mines were unionized, and under Salvador Allende (1970–73) they had been nationalized. Even though the industry had been substituting capital for labour for decades, the military/Chicago School dictatorship faced a looming paradox: ramping up copper production and other mining activities (Chile is the Persian Gulf of copper, controlling more than 37% of the world’s reserves) would pivot the economic policy on (1) the constant suppression of the militant miners; (2) the substitution of even more machinery and equipment for human labour, constituting massive investments. While a copper-led industrialization strategy had much to recommend it (as a fundamental sectoral/macro development strategy), the military sought an easier path, pivoting growth on the export of forestry products, aquaculture, fresh fruit, and wines.

Rather than opting for a state-led strategy for economic development based on a coherent policy for the broadening and deepening of the copper industry (in terms of creating backward and forward linkages) copper resources were massively turned over to foreign mining transnational corporations (TNCs). Between 1989 and 1995 US$11.5 billion in DFI was received by Chile. In contrast, during the entire dictatorship only US$5.3 billion flowed to Chile. Sixty percent of the DFI received by Chile in 1989–1995 went to mining, virtually all into the private transnational copper mines that were allowed to expand under the dictatorship’s new “constitution” of 1980. From 1974 to 1999, 80% of all new copper reserves discovered and developed in the world were found in Chile (Moguillansky 1999, 119–32).

Graciela Moguillansky attributes the mining investment boom to (1) the high rate of profit anticipated from the new mining areas due to extremely high copper prices in the 1986–89 period; (2) new technologies and new levels of productivity attained by the mining TNCs in the 1980s; (3) the perceived “stability” of Chile due to changes in the constitution and the mining laws, which virtually assured the TNCs that a new pro-corporate/pro-DFI regime had been consolidated and made irreversible (Moguillansky 1999, 132). The vast bulk of the investment in copper mines has occurred under the Concertación governments. Thus, in theory, Chile would have had a higher potential to achieve a broad-based, socially rational expansion of the copper industry if the Concertación government had been willing to bargain with the TNCs, to control the direction and pacing of that investment, and to ensure that backward and forward linkages to the domestic economy were created,
sustained, and solidified. Indeed, a state-led policy to create a mining cluster could have also enabled a strategy of incipient support for the capital goods industry, since nearly one-half of all the capital goods produced in Chile are for mining (Culverwell 2001, 78). Focusing economic development around a leading sector, copper, carried the potential of creating a proyecto de acumulación that might well become a proyecto país.

The copper industry in Chile is the first of several proyectos de acumulación to be examined because of its broad potential and also because of the extreme laissez-faire policy adopted by the state in this vital sector. When the Chilean government opened the vast mineral reserves to TNC capital it also unleashed a process that led to global overproduction of copper, declining prices, and a mining slowdown, which was the chief detonator of the period of virtual stagnation in per capita income from 1997 to 2002. Between 1989 and 1994 Chilean copper production in the private sector increased by 197%, while the Chilean National Copper Corporation (CODELCO) dropped production by 9%. From 1995 to 1999, private sector TNC output increased by 165% (Alcayaga and Lavandero 2001, 81). Rising production coincided with rapidly rising global demand during the boom years of the 1990s. Nonetheless, no boom could match the overall increase in Chilean copper output in 1989–99: with the onset of the “Asian Crisis” in 1997 the overproduction of copper became apparent. The copper bust went on until October 2003, when a sustained price rise began. In April 2004 copper prices reached levels ($1.40/lb) last achieved in 1995; by August 2005 prices had moved substantially higher ($1.69/lb).

Any focus on Chile’s mining sector immediately reveals a series of great opportunities forgone by the state as well as implicit consent for sweeping predatory activities carried out by the private mining sector. Highest on the list is “legal” tax evasion, since the Chilean government permits a number of activities that allow the TNCs to show a “loss” on their investment in Chile. Of the 47 copper TNCs operating in Chile only three showed “profits” and therefore paid taxes (Lavandero 2001a, 207). Senator Lavadero revealed the fact that the mining TNCs use a combination of transfer pricing schemes and fraudulent interest payments (the parent company “loans” funds to the Chilean subsidiary and then the subsidiary makes interest payments on these artificial/inflated “loans”) to avoid taxation.

Most of CODELCO’s mines are extremely efficient, which allows for a meaningful comparison with the newer and highly efficient mines of the TNC. In 1996 CODELCO paid taxes to the central government of US$860 per ton, while the private mines paid only US$156 per ton (Alcayaga and Lavandero 2001, 98). This suggests that the total mass of economic rents given by the state to the private mining sector (and taken by the private mining sector through transfer prices and fraudulent “debt” service) could have been as high as US$1.1 billion, assuming identical average cost structures. In 1999 the private copper companies paid only US$350 million in taxes; by comparison, CODELCO paid US$858 million in taxes in 1994, even though its production in 1994 was only 39% of that of the private mines in 1999 (Alcayaga and Lavandero 2001, 81, 98; Lavandero 2001b, 60.).

These were not the only rents that the state relinquished, seemingly willingly, to the private TNCs in copper production. When the mining areas were turned over to the TNCs for exploration and production, the state failed to perform independent professional assessments of the discounted present value of the ore reserves. It is conceivable that CODELCO was paid as little as 1% of the normal market value of the mineral reserves in some instances (Lavadero 2001c, 36–40).

Until May 2005 private mines paid no royalty; all other copper-producing nations charge a

6. CODELCO is the vast government-owned copper company whose profits sustain many of Chile’s social programs. CODELCO has several copper mines throughout Chile including the world’s largest open-pit mine in Chuquicamata and the world’s largest underground mine near Rancagua.

7. Obviously, not all these rents could have been captured by the state if production had remained in the private sector; a normal rate of profit would have to be deducted from the above estimate.
substantial royalty. The *Concertación* government now will impose a meek gross profit (or royalty) tax of 5% on profits declared.

The larger issue in this sector pertains to the opportunities foregone in terms of turning the mining sector into the cutting edge of a *proyecto país*. Specifically, in the northern region of Chile where a network of linkages exists — in Antofagasta — only 5.8% of the value of the inputs into mining (holding aside labour) are produced (Culverwell 2001, 79). Given the very low, and declining, role of national manufacturing in the GDP (discussed below), and given the lack of technological autonomy in terms of national research and development (also discussed below) the probable inference is that an extremely high portion of the remaining 94% of the inputs into the mining sector are imported (although some clearly come from the Santiago area). Thus, a potential opening in terms of backward linkages would be to encourage, through a targeted industrial policy, manufacturing industries that could supply a wide range of inputs.

Chilean specialists are putting more emphasis on “horizontal” and forward linkages. Leopoldo Contreras of the Chilean Institute of Mining Engineers believes that Chile has the potential to expand horizontally by boosting exports of mining services and technologies and specialized mining equipment from US$2.5 billion per year to US$10–$20 billion (Contreras 2003, 3). Meanwhile, the director of the Asociación de Industriales Metalúrgicos y Metalmecánicos believes that Chile could do much more than refine only roughly 1% of the copper metal produced, the rest being refined abroad (Lehedé 2003, 3). Fully refined copper could be used as an input into a great variety of manufacturing processes. Currently, in the electronics industry alone only one firm, Coporin, of the nearly 100 in this sector is Chilean. Coporin is located in the lowest value-added area, producing only copper wire and cables. All remaining firms in this sector, overwhelmingly operating at higher levels of technological sophistication, are either TNCs or joint ventures (*Electro Industria* 2003, 44). One government agency with oversight in the copper sector, the Comisión Chilena del Cobre, estimates that the tendency to export unrefined copper cost Chile approximately US$400 million per year in the 1990s; these value-added activities are captured by the nations that refine Chile’s copper, thus constituting, from Chile’s perspective, another economic rent for the TNCs (Lavandero 2001d, 15).

Even though Chile made major, perhaps irreversible, concessions to the copper TNCs in the early 1990s, the state retains CODELCO, the largest and perhaps most efficient copper mining company in the world. CODELCO’s large, professional labour force could become the operational basis for strategies to develop forward, backward, and horizontal linkages. In no other area could the Chilean state move so easily or broadly, with such diverse and important ramifications, to realign the economy. How such an endeavour might unfold will be discussed, by implication, in the following section.

### III. Typologies of the State

Peter Evans’ research has been extremely useful in terms of concepts and interpretations that allow for a stronger theoretical presentation of the role of the state in the economy (Evans 1995). For Evans, the state is an *endogenous* element of any national economy. In contrast, in the neoclassical/neoliberal paradigm the state is viewed as *exogenous* and no attempt is made to present a theory of state action.8

---

8. Anne Krueger, an influential neoclassical economist, has maintained that the state can be understood as an endogenous component of a national economic system. For Krueger, however, the state is no more than an area wherein rampant rent-seeking occurs by the agents of the state. Thus, in this formulation, no state policy could ever be effective — except by accident — since the people who create and implement policy are only interested in using the state apparatus as an instrument for personal accumulation of wealth and power. In this section no direct reference will be made to Krueger’s views. For further analysis see Cypher and Dietz 2004, chap. 7.
Evans’ research points to three possible state forms: (1) the predatory state; (2) the intermediate state; and (3) the developmental state. These are static categories in Evans’ presentation; movement from one form to another can be inferred, but is not presented.

A. The Predatory State

A predatory state is dysfunctional by every possible measure. A predatory state has no *proyecto país*, nor does it have *proyectos de acumulación*. A predatory state could be the “captured” agent of TNC capital, or it could operate without any exterior influence. In any case, the predatory state will not consider issues of sustainability in regard to natural resources, state-owned enterprises will not be operated efficiently to fulfill national development goals, and no merit-based system will exist in terms of requirements for state employees who administer the state apparatus. Corruption will be rife; the state will be unstable and fragile. The minimalist functions of the state — those to which the neoliberals believe the state must be confined — cannot be achieved because the police, the military, and the judicial system (all needed to preserve a regime of law and sanctity of property rights) will be decimated by endemic, systemic corruption.

Clearly, Chile began to exhibit some of the characteristics of the predatory state under the military dictatorship through a sustained process of human rights violations, the targeted crushing of the autonomous labour unions, the looting of the hundreds of privatized firms, and the giveaway of public lands to the copper TNCs.

B. The Intermediate State versus the Developmental State

Evans’ second typology describes a state that operates areas of efficiency yet is unable to mount a coherent *proyecto país*. For whatever reason, this state lacks the *embedded autonomy* that is a requisite for the developmental state. Embedded autonomy is Evans’ key concept: In such a construct the state has to be an autonomous actor, capable of presenting a coherent vision and acting on this vision. The state will be in a position to offer to the private sector incentives to enter into or expand certain areas of economic activity. But given incentives demand reciprocity in terms of compliance by the private sector. Nonetheless, the state’s autonomy is limited, conditioned on the fact that the state is embedded in civil society. This demands a fluid and complex web of relationships between the public and private sphere. Embeddedness means that the state is not “above” or autonomous from the business sector, but neither is it “below” or captured by the business sector.

Given this formulation, there seems to be ample evidence to demonstrate that Chile has an intermediate state today. Chile exhibits “pockets” of efficiency in terms of the role of the state in the economy, some of which will be reviewed in the following section. But it also shows major areas of deplorable inefficiency and capture by the business sector, the best example being in the key copper sector as reviewed in the previous section. Another extremely important example is the failure of the state to address the long-standing issue of capital flight, as discussed in section II.

IV. Deindustrialization

In the aftermath of the coup in 1973, Chile abandoned its manufacturing core, but it did so without regard to the effects of this structural change. The lasting effect is that Chile does not have a viable manufacturing sector, and this means that it cannot derive the productivity-enhancing externalities that flow from a viable manufacturing sector — the essence of Verdoorn’s Law — which Chile has ignored (Verdoorn 1998).
The military dictatorship under the guidance of the Chicago Boys engineered a predatory strategy switch: developing manufacturing had been the core of the state’s ISI policy. Hence, to destroy the socio-economic framework that the neoliberals claimed was the central reason for Chile’s relative economic backwardness — allegedly inefficient state-owned enterprises and supported private-sector manufacturing firms associated with a dynamic unionized labour force — the neoliberals privatized without regard to the macroeconomic context and opened the economy to lower-cost international producers, ignoring the dynamic effects on Chile’s emerging industrial/manufacturing base. This helped ensure that Chile’s technological capabilities, with some notable exceptions, remained nearly non-existent (discussed below). Table 1 traces the recent trajectory of the manufacturing sector: in Chile this relationship is often presented in an unclear manner, with much emphasis placed on the growth of “industrial” exports, actually commodities that have undergone some, often minimal, refining processes. Table 2 presents data on the key export sectors.

### Table 1. Chile: Degree of Industrialization: Manufacturing Sector/PIB

<table>
<thead>
<tr>
<th>Year</th>
<th>Degree of Industrialization</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>20.8%</td>
</tr>
<tr>
<td>1960</td>
<td>22.3%</td>
</tr>
<tr>
<td>1970</td>
<td>24.7%</td>
</tr>
<tr>
<td>1975</td>
<td>21.5%</td>
</tr>
<tr>
<td>1980</td>
<td>21.6%</td>
</tr>
<tr>
<td>1987</td>
<td>20.8%</td>
</tr>
<tr>
<td>1987</td>
<td>17.6% (1986 prices)</td>
</tr>
<tr>
<td>1990</td>
<td>17.5%</td>
</tr>
<tr>
<td>1995</td>
<td>16.2%</td>
</tr>
<tr>
<td>2000</td>
<td>14.4%</td>
</tr>
<tr>
<td>1995</td>
<td>17.5% (1996 prices)</td>
</tr>
<tr>
<td>2000</td>
<td>16.3%</td>
</tr>
<tr>
<td>2002</td>
<td>16.0%</td>
</tr>
</tbody>
</table>

Net changes within the above periods at constant prices:
- 1970–1987: 3.9% PIB
- 1987–1996: 2.0% PIB
- 1996–2002: 1.5% PIB

**Total net decline of the manufacturing sector 1970–2002:** - 7.4% PIB

Source: Banco de Chile (2001).

### Table 2. Relative Shares of Chilean Exports (%)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports ($ billions)</strong></td>
<td>$1.6</td>
<td>$3.85</td>
<td>$16.0</td>
<td>$14.9</td>
</tr>
<tr>
<td>Copper (%)</td>
<td>54</td>
<td>47</td>
<td>40</td>
<td>34</td>
</tr>
<tr>
<td>Primary Materials</td>
<td>19</td>
<td>18</td>
<td>13</td>
<td>12</td>
</tr>
<tr>
<td>First-Stage Processed Natural Resources</td>
<td>14</td>
<td>24</td>
<td>25</td>
<td>26</td>
</tr>
<tr>
<td>Second-Stage Processed Natural Resource and Other Manufactures</td>
<td>12</td>
<td>11</td>
<td>22</td>
<td>27</td>
</tr>
</tbody>
</table>

Note the last category: a slightly higher level of processing designates that the natural resources have been converted into “manufactures.” With this sleight of hand, Chilean policymakers began to portray Chile not as a deindustrialized nation but rather as a nation with a growing “manufacturing” sector, based in raw materials. Thus, to those who did not understand the new categories, Chile was viewed as a nation that was successfully achieving export-led growth not in raw materials but in “manufacturing.” Note also that by 1985 the shift to first-stage processed natural resources was no longer a leading sector driving growth. Essentially, the same effect is to be found in second-stage processed exports after 1995: a jump from 11% of exports in 1985 to 22% in 1995 occurs. The 1998 number in this category suggests that growth continued; however, it did so at a much slower rate (the average share for 1990–94 was 20% and this rose modestly to 23% in the 1994–98 period).

Efforts to stop the growth rate of second-stage processing from slowing became a major theme in the 1990s as many economists stated their belief in the continuance of the 1987–97 boom based on la segunda fase exportadora. As proposed, Chile would diversify its exports, further emphasize the second-stage process, increase value added, and enhance the indigenous technological component of these commodity-based exports: this new step would also entail the rapid development of linked service components in these exports. As proposed, this constituted an effort to articulate a new proyecto país. This vision stood in contrast to several other attempts to articulate a proyecto país but it was the one proposal that implied a strategy switch with only marginal changes to the socio-economic base of Chile (Muñoz 2001, 17–66). In the course of the 1990s, however, nothing of any great note was done to alter the production system of the economy; instead, the grupos nacional de poder shifted some of their resource activities out of Chile and they moved into the service sector seeking rapid returns, particularly investing in commercial activities in Argentina and Peru in 2000–2005. The difficult, capital-intensive, technology-intensive process of pushing their activities up the value chain did not appeal to the grupos. Instead (see Figure 1), they virtually stopped investing and engaged in massive capital flight beginning in 1997.9 In short, while the growth trajectory until the late 1990s was strong, when Chile reached a moment for a strategy switch the neoliberal economic apparatus of the state did not exhibit either the necessary autonomy or embeddedness needed. The state did not challenge the draining of the circuits of financial capital via capital flight, as the grupos nacionales de poder once again revealed their shallow and essentially rentier profile.

Instead, Chile became devoted to signing as many trade agreements as possible, including the 2003 U.S.–Chile Free Trade Agreement. This trade agreement, along with the soaring prices of copper, wood products, and other raw materials, should allow for a year or two of strong growth. Nonetheless, Chile will return to what Jorge Katz referred to as the “stationary state,” meaning in this instance a “stationary” low growth rate that will allow for near stagnation of per capita income, as was the case from 1997 to 2002.10 As Moguillansky (1999) stressed, Chile’s financial/industrial groups are disinterested in technological modernization; in a study of 15 similar nations, the UN ranked Chile next to last in its index of technological capabilities, and at 13 in terms of expenditures on research and development by private firms.

9. Indeed, capital flight rose to over 11% of the GDP in 1998 and 1999, roughly twice the level reached in the crisis of 1981–83.
10. Personal interview, 3 October 2003, Santiago, Chile.
V. The Intermediate State in Chile

While Chile has made notable achievements in its recent economic past it owes much of that success to policies and institutions created in the ISI era, or to entities that derived from that era. As these institutions have weakened due to the steady pressures exerted by the neoliberals to destroy such institutions, Chile’s potential for making a necessary strategy switch and articulating and engineering a new proyecto país continues to decline.

A. Proyectos de Acumulación

As noted above, the intermediate state is noted for its “pockets of efficiency” and for its ability to achieve limited transformations in some sectors. Specifically, Chile has been able to realize many important proyectos de acumulación through three key state institutions. Chile’s development path was established by CORFO in the late 1930s. CORFO was responsible for the creation of the great bulk of Chile’s industrial sector from 1940 to 1974: a 1993 study pointed out that of the 20 top private exporting companies at least 13 had been created by CORFO (Alvarez 1993).

For a while under the dictatorship it seemed that CORFO’s mission was to assist the sell-off of all the state-owned firms and then disappear. But CORFO continues to exist, and after the great crash of 1982–85 CORFO became more active in the financing and development of new firms that were geared toward the export market in the resource-based sectors. Furthermore, CORFO was responsible for the funding and creation of the forestry sector, a strategy that CORFO had advocated and supported for decades prior to the coup. Thus, while the Chicago School economists have portrayed the boom in forestry products (the largest export sector after mining) as a result of good policy and private initiative, the real story is that CORFO struggled to create a new comparative advantage. Private capital would not take the risks and lacked foresight to develop the forestry sector.

The same was true for the salmon industry (and fishing in general) as well as most of the developments in fresh produce and processed food: rather than the invisible hand moving through
market forces, the visible (but largely unknown) hand of Fundación Chile was responsible for most of this diversification by underwriting technological experiments and initial funding in these areas (Huss 1991). Fundación Chile began in 1976, with the assistance of a prominent economist (Raúl Saéz) who had headed CORFO for many years. Like many of the military leaders, Saéz was contemptuous of the pretensions and ignorance of the Chicago School neoliberals. With CORFO under attack by this cadre, Saéz moved laterally and gathered a group of experts who have achieved major changes in the productive apparatus of the Chilean economy. If we examined the causes of Korea’s or Taiwan’s or much of Asia’s recent economic development we would find incubating institutions like Fundación Chile, but these nations have consciously avoided neoliberal free trade policies. Instead of accepting the dictates of the market, they have sought to govern the market. In a similar vein one finds ProChile, a government agency created in 1974, designed to assist the private sector in locating and marketing to foreign markets. Today many of the activities of ProChile are coordinated with support programs fostered by CORFO. Although the sub-rosa policy has been one of sizeable state intervention and support for production — encompassing many other areas not discussed here\(^\text{11}\) — there is no one unifying concept behind the production-promoting activities of the state.

B. Proyectos de Legitimidad: Concertación Programs

Of greatest note, Concertación policies pushed the rate of poverty down from 45.1% of the population in 1987 to 20.6% in 2000 (Ffrench-Davis 2003, 320).\(^\text{12}\)

It is possible here merely to mention three new creative programs that Concertación has introduced (or attempted to introduce) in the past three years.

1. Chile Solidaridad

This innovative program (begun in 2001) is designed to eliminate extreme poverty (indigence) in Chile by 2006. It is also designed to reduce non-indigence poverty while creatively orchestrating programs in housing, health care, urban facilities, education, and food subsidies, along with income support programs that approach poverty in a much broader context than a defined income level. Chile Solidaridad is premised on the view that empowerment — not merely income support — is the program's objective. This program will potentially lift 5.7% of the population (roughly 900,000 individuals) out of extreme poverty. As of late 2003 the program was on track: the annual rate of decline in indigence, if maintained, will eliminate extreme poverty in 2006 (Ministerio de Planificación 2003, 1–9).

2. Programa de Cesantía (Unemployment Insurance)

Unemployment insurance is virtually non-existent, although it may exist by statute, throughout Latin America. Also begun in 2001, Chile’s program now has 1.7 million affiliates, about 28% of the labour force (servants and houseworkers and the self-employed are excluded). All newly hired workers from

\(^{11}\) A full survey of forms of Chilean state intervention in the neoliberal era has yet to be written. See Enrique Román González (2003) for a discussion of the scope and the financial commitment made to the state’s smaller development programs (many linked to CORFO).

\(^{12}\) The Chicago School economists would argue that the decline in the poverty rate was due to the economic growth of the period, not to the “interventionist” policies of Concertación. However, Patricio Meller has differentiated between the effects of growth on poverty reduction and the effects of policy changes on poverty reduction. This research demonstrates that in the 1990–1996 period as much as 50% of the decline in the poverty rate was due to policy changes designed to distribute income to the poor, the residual being explained by economic growth (Meller 1999, 48–55).
2002 onward were and are automatically incorporated into the program. After 12 months of payments, unemployed workers are eligible for replacement of 30–50% percent of their previous wage (Estudio Jurídico 2003).

3. Plan Auge (Universal Access to Health Care)
With the full backing of Concertación, an ambitious program to deliver a broad array of health care services to all Chileans (some without cost, some with modest co-pay arrangements) was introduced to the legislative process in June 2002 (Ministerio de Salud 2002). Although some aspects of the plan have raised debate, a modified and weakened version of Plan Auge will allow for a minimum health plan available to all of its citizens in 2005. This stands in stark contrast to the Chicago School’s attempt to fully privatize health care in Chile.

**Conclusion**

The Chilean state has demonstrated its capacity to achieve “pockets of efficiency” and to sustain important proyectos de acumulación. Major efforts have been made to promote proyectos de legitimidad under the reign of the Concertación governments. Their crowning achievement has been to dramatically decrease the poverty rate at a time when poverty rates have remained brutally high throughout Latin America. At the same time, Concertación’s focus on issues of production has been blurry. No movement toward a proyecto país is to be found, nor has any strategy switch been promoted. The dynamic thrust of the policy triangle of Chilean industrial policy is weakening: the state appears unable to mount new proyectos de acumulación of any consequence. Instead, Concertación seeks a passive neoclassical/neoliberal “solution,” for example, signing major free trade agreements with the US and the EU in 2003. Predatory practices abound: the state has no policy to either stop capital flight or the pillage of the copper sector by the TNCs, while tax evasion remains a major (largely) unaddressed factor.

Behind the current short-term commodities boom, Chile’s export-led model appears exhausted. Far from being a successful model of adaptation to globalization — to inspire the rest of Latin America — Chile’s economy is mired in a “stationary-state” trend of near-constant per capita income. Nineteenth-century-style commodity booms and busts can cause deviations from this trend but cannot alter it. Only a shift toward the developmental state, complete with a deep industrial policy, will end Chile’s malaise. And the powerful neoliberal faction will struggle to foreclose this way out.

**References**


Ministerio de Salud (2002) Plan de Acceso Universal con Grantías Explicitas (AUGE), Santiago: Gobierno de Chile.


