

***GLOBALIZACIÓN CHILENA: MUESTRAS DEL MODELO
NEOLIBERAL MADURO***

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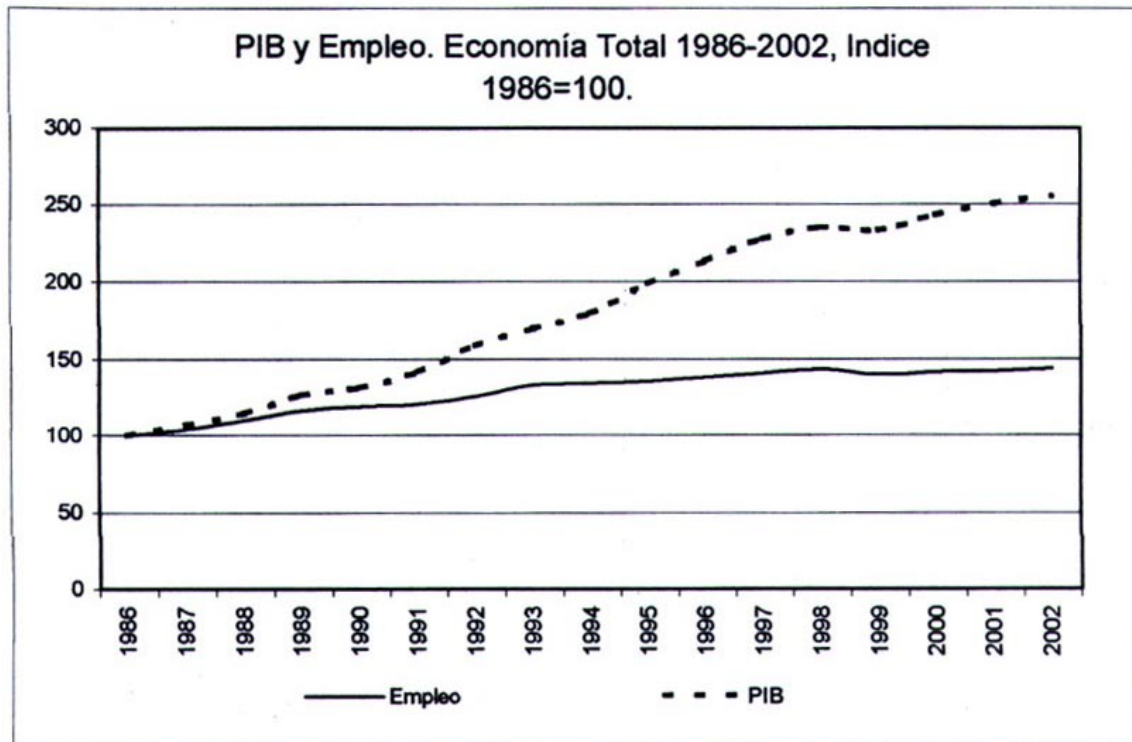
I. The Chile Myth:

Chile is commonly portrayed as the great exception to Latin America's long and difficult struggle to overcome economic backwardness and instability: In 1982 Milton Friedman pronounced the market-driven policies of the military dictatorship (1973-1989) "an economic miracle". Arnold Harberger (a U. of Chicago economist—later at UCLA—who began in the 1950s to recruit the right-wing Chilean graduate students that designed the dictatorship's economic policies) stated in the American Economic Review in 1993: "Chile has had the longest and most successful economic modernization process of any Latin American country". Harvard economist Robert Barro asserted that Chile's "outstanding performance derived from the free-market reforms instituted by ...Pinochet" (Business Week, 2000). Even Joseph Stiglitz, a strong critic of the Chicago School, treated Chile as a successful exception in Globalization and its Discontents in 2002.

After enduring a brutal economic depression in 1982-85 (unemployment reached 20 percent in 1982), Chile's economy more than bounced back. In 1987 per capita income was the same as in 1981, but by 1998 it was 88 percent higher. By 2002 Chile had the highest average per capita income in Latin America. Workers, however, enjoyed average wage increases of only 53 percent 1987-98, and, because of wage losses that lasted for 22 years [1970-1992], 1998 wages were only 29.5 percent higher than in 1970. From 1970 to 1998, in contrast, average per capita income rose 105.3 percent (Banco de Chile 2001: 32, 50). By 1998 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. Note from Grafica 1, below, that there is a decline in the rate of growth of employment in relation to the rate of growth of GDP.

GRAFICA 1: CHILE



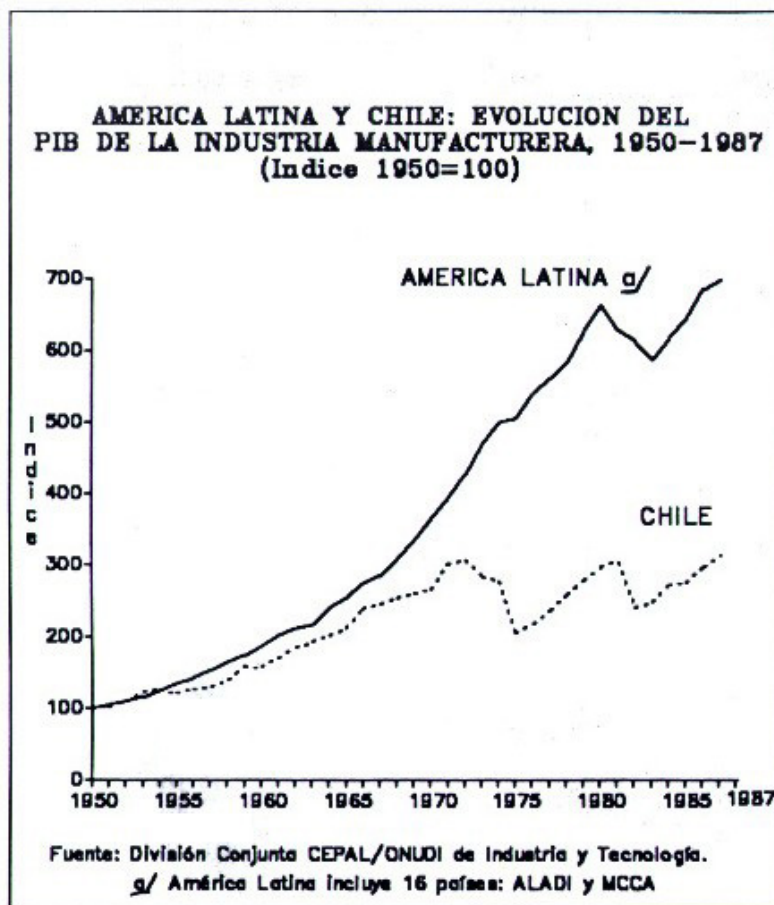
Fuente; (Agacino, 2003: 14)

What is Neoliberalism?

Neoliberalism, a term first employed in Latin America, describes the Chicago-school experiment in unregulated capitalism that the military embraced in 1973 when they toppled the elected Socialist government. Many associate the Chicago-school with strange ‘monetarist’ doctrines that purport to control an entire economy through control of the money supply. But, the chief target of the right-wing economists, the military and

the business interests were Chile's unions, not control of the Central Bank. With the unions out of the way (their leaders tortured, assassinated, imprisoned or exiled), Chile introduced a "flexible" labor system that shifted power at the point of production to capital. In describing neoliberalism it is common to highlight other aspects of this perspective—that is, balance the government budget, control the money supply, devalue the currency to eliminate a trade deficit, sell-off public-owned assets (at less than their value to the best-connected business interests), eliminate price controls and subsidies designed to aid those who fare poorly in the market, etc. Rarely mentioned, however, is the hard core of the neoliberal strategy in Chile—crush and destroy union power, in the manufacturing sector, in the countryside (where peasant unions had blossomed in the 1960s and 1970s along with land reform), and in the national political system. (Grafica 1, and Cuadro 1, below, demonstrate the degree to which, prior to the late 1980s, Chile

GRAFICA 2



was deindustrialized—both in relation to the rest of Latin America and to the historical trend.) Destroying the power of labor, and the ideology of Import Substitution Industrialization which had guided Chile since the 1930s, meant that Chile would take another approach to development. Neoliberal economists are strong advocates of the theory of comparative advantage and of the concept that international trade should be the guiding force of the economy, because (according to this theory) an economy oriented to free trade *will* develop. In an attempt to diversify the economy and incubate industrialization Chile had imposed high tariffs and other inhibitions to the free flow of goods from the advanced

CUADRO 1:
CHILE: TASAS DE CRECIMIENTO DEL
PIB MANUFACTURERO
(Por cientos)

Período	Tasa de crecimiento acumulativa anual
1940-1945	9,9%
1945-1955	6,2%
1955-1964	5,9%
1964-1970	4,6%
1970-1973	2,3%
1973-1981	0,9%
1981-1987	0,5%

Fuente: (Banco Central 2001)

nations. Neoliberals believed this policy was economic nonsense—being one major underlying *cause* of Chile's economic backwardness. Thus the dictatorship sought to open the Chilean economy to international trade and investment. The idea of the open economy eventually became *ideologically hegemonic*: To question it, no matter one's

economic philosophy, was unthinkable (and *is* taboo). As two prominent economists stated in 1998, at the height of the triumphalist moment:

“There was ample agreement [among all economic perspectives] of the imperative to open the economy to foreign trade and reorient the system of production. ...The country is clearly enjoying the harvest of the benefits of this [reorientation]. Because of this it has not occurred to anyone to question or dismantle the open [export-led] economy.” (Ramos and Diaz 1998: 74)

An anti-labor policy, therefore, had to be an *anti-industrial policy*, since the real strength (economic and political) of the unions was in industry. The only development strategy that would exclude a real voice for labor would be one that drew upon Chile’s vast treasure of natural resources. This strategy, however, had to overcome the fact that the labor movement in Chile had begun with the nitrate mining boom in the 19th Century (this same boom created the broad faith in theories of comparative advantage that presently constitutes the bedrock economic views of virtually all policy leaders.) When the nitrate market finally crashed, copper took its place. By 1970 seventy six percent 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 labor 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 over 33 percent 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 labor—constituting massive investments.

II. Non-Traditional Exports

An easier path, combining comparative advantage theory with an unremitting hostility to labor, was the creation of a “diversified” export sector. Exports eventually soared from 14.5 percent of GDP in 1974 to 31.4 percent in 1999. Copper fell to 40.5 percent of exports by 1995, while “non-traditional” exports (such as salmon) and resourced based “manufactured” products such as wood pulp, paper, cardboard, disposable diapers and processed woods, boomed. By 2002 all of the new resource based exports combined—fresh produce and processed foods, forestry products, wine and fishing—totaled \$6.7 billion. This was still less than total mining exports of \$7.3 billion, but ahead of copper, at \$6.3 billion.

Diversification on this level is a clear accomplishment, particularly since a new emphasis on private sector mining beginning in the 1980s should be considered: Copper exports increased by 263 percent from 1985 to 1995 as giant private-sector mines such as La Escondida, the top producer, outstripped production at the state-owned mines (Codelco). In other words, while Chile rapidly developed new specializations in food exports, fishing and forestry, private-sector mining was also enjoying yet another spurt of growth. Thus the diversification achieved is especially impressive.

III. The Role of the State in Export Diversification

But, it was not the invisible hand of the market that caused the new resource based exports to boom. Surprisingly, most of the credit belongs to the State, and most of the strategies and many of the personnel involved in the new Chilean “miracle” were products of the old, and much derided state “interventionism” of the Import Substitution Industrialization era.

How could the core changes generating the “miracle” come from the detested State sector? One part of the answer is that many in the military were “developmentalists”—believing that the economic growth of Chile was partly a by-product of an agile and creative state sector. (Notice that when the nationalized copper giant, Codelco, fell into the military’s control it *remained* a state-owned corporation. Selling off the electrical grid or the telephone system was permitted, but not copper.)

Another answer is that nations cannot quickly change their economic structure—all change is *path dependent*. Chile’s development path was established by CORFO (the state development agency) from the late 1930s onward. 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 thirteen had been created by CORFO (Alvarez, 1993).

For awhile under the dictatorship it seemed that CORFO’s mission was to assist the sell-off 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 funding and development of new firms that were geared toward the export market in the resourced 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. *Fundación Chile* began in 1976, with the assistance of a prominent economist (Raúl Saez) who had headed CORFO for many years. Like many of the military leaders, Saez was contemptuous of the pretensions and ignorance of the Chicago School neoliberals. With CORFO under attack by this cadre, Saez 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.

A fourth major area of government intervention—in addition to the policy-triangle of CORFO-*Fundación Chile*-ProChile—has been the facilitation of a private mining sector boom from the 1980s, stimulated by the essentially tax-free operation of the mines. The tax rate was an all but invisible 8 tenth's of one percent of sales in 2002. From 1992-2002, 8 of the top 10 private mining companies paid no taxes, in spite of the fact that Chile has the most profitable copper mining companies in the world.

(Meanwhile the poor pay a value-added tax of 19 percent on their consumption, including food and medicine.)

What all this adds up to should not be too surprising—Chile’s economy was set on a path in the 1930s. In spite of a brutal military dictatorship that sought the total restructuring of the economy and the elimination of the state’s guiding role in the economy, the state sector was a crucial and necessary ingredient in Chile’s efforts to build an export-led economy. Thus, at its core, although neoliberals occasionally imposed their ideas regarding the financial variables of the economic system, the restructuring of the economy was led by a *stealth government development policy* which seemed to easily penetrate the befogged radar-detection-system of the hapless Chicago-school economists. (It should be remembered that even in the financial sphere, the *Chicago boys* were forced by real circumstances to retreat, engineering protective tariffs in the 1980s, and accepting capital controls on imported short-term hot money .) **Thus, while the Chile myth portrays Chile as a neoliberal success story, the reality is that Chile’s transformation was *not* neoliberal at its core—that is, within the system of production.**

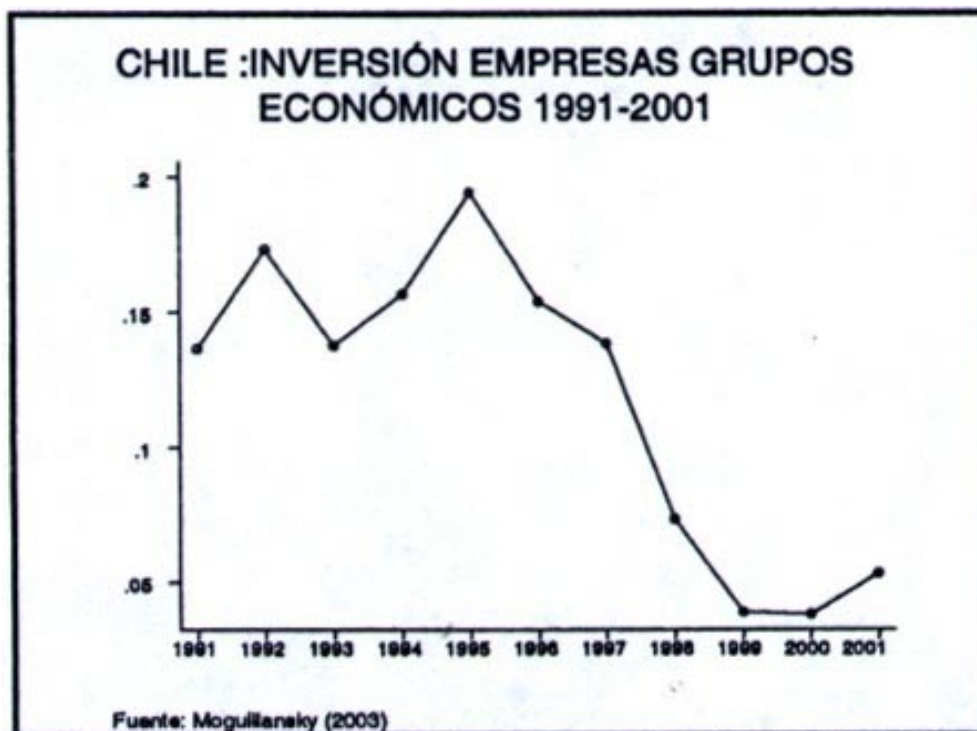
IV. 1997-2003: SLOWDOWN, OR END OF AN ERA?

But, was (is) Chile a *success*? Chile slowly adopted many of the trappings of a democracy after 1989. The civilian governments of the *Concertación*, were in power when many of the *stealth* development policies burst into full bloom in the early 1990s. When the bloom faded in 1997, with per capita income rising only 3.4 percent between 1998 and 2002, while unemployment stayed above 9 percent, *Concertación* economist had no policy response. Some call this period a *slowdown*, while small business owners

refer to it as a *recession*, but *stagnation* might be a more accurate term. Export growth clearly stagnated—exports in 1997 in dollar terms were \$17 billion and virtually identical (\$17.4 billion) in 2002—as did per capita income.

While both the *Concertación* economist and those of the far right (who hold forth in numerous forums and are treated somewhat like media stars) have alternatively sought to explain Chile's bottoming out by way of the Asian Crisis of 1997, the US slump of 2001, the Argentine crack of 2000, and so on, at least one economist had predicted that for internal reasons, the Chilean economy had reached its own self-imposed limits. Graciela Moguillansky in *The End of a Cycle of Expansion?* argued that the large Chilean financial-resource-processing groups which dominate the economy had exploited and exhausted the easy resource processing opportunities handed to them by the government through policies and programs created decades ago. Grafica 3, below, demonstrates Moguillansky's hypothesis, strongly suggesting that the current stagnation is a function of a rentier orientation on the part of the industrial/financial grupos (Moguillansky 1999, Moguillansky 2000, Castillo y Alvarez 1998). (A direct measure of the role of the grupos is expressed in the fact that one percent of the firms accounted for 78.6 percent of all sales—excluding agriculture and finance—in 2001 [Agacino, 2003, 16].) Meanwhile, the core triangle [CORFO+*Fundación Chile*+ProChile] responsible for the *stealth development policy* is no longer receiving

GRAFICA 3: (SHARE OF GDP)



financial support sufficient to create many new forms of comparative advantage. In theory, the large forestry companies and others involved in resource-processing *could* expand/upgrade their exports, but Moguillansky's work demonstrated that these groups were risk-averse and rentier oriented. They had no intention of making the long term investments in machinery and equipment, personnel and technological research and development and marketing that would be necessary to develop, for example, a strong, dynamic furniture-making sector. The same criticism was raised by the vice-president of Chile's Institute of Mining engineers and by the Association of Metallurgy Industries which argued that Chile needed an industrial policy (state intervention) to move from a situation where only 1 percent of the copper produced was turned into processed and manufactured copper-based products. Both forestry and mining have great potential in terms of expansion into high-value-added activities. Both would demand the massive

participation of a trained, skilled industrial labor cadre—including workers and managers to make capital goods and intermediate inputs. Support for these sectors—quite logical from the standpoint of development economics—would entail the return of the working class to a central role in the production process. And, that would bring the unions of the working class back into the political arena—thereby bringing back the distributional/participatory struggles most feared by the financial/economic/political/religious/military elite of Chile. As Moguillansky 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 13th in terms of expenditures on research and development (R&D) by private firms.

Yet, in spite of all this, and because of the role of state intervention in the past, Chile *does* have a somewhat competitive manufacturing sector—metalworking exports in the manufacturing sector in 2002 were larger than processed food exports, nearly equal to fresh produce exports, and 50 percent larger than wine exports. Other manufactured exports include plastics, containers and textiles. With large investments, and a new government policy toward cooperative research in technological development for the industrial sector and massive labor training, Chile could develop high value-added manufacturing. High wages that would flow from strongly unionized manufacturing wages would dynamize the internal market. The Asian miracles have always complemented their export growth with the development of both manufacturing (heavy R&D), *and* the internal market. The Asian economies also have a more equal distribution of income (discussed further below).

In spite of the deindustrialization trend expressed in Cuadro 1, above, the depth of the downturn from 1982-85 forced the Chicago school economist to implement tariff support for the national economy in the 1980s (as mentioned above). The impact of this was to give national manufacturing industry some opportunity to recover. For those manufacturers who had managed to survive the indiscriminate opening of the economy after 1973, the new production environment was encouraging. Survival meant adaptation and restructuring, so these firms were able—with a much reduced cost structure and a much more technologically advanced production system—to expand. A further form of state intervention was the new policy of Codelco to buy from national suppliers, including from capital goods producers whenever such goods were available. As a consequence, in the 1985-1995 period the *fastest* growing sector of exports was manufacturing *not* based in natural resources—with growth of 127 percent. While non-resource based manufacturing exports remained small in 1995 in relation to total exports, 5 percent, they had soared from 2.2 percent (Díaz y Ramos 1998: 81). By 2002 Metal Manufacturing alone had reached 5.2 percent of total exports. These data indicate that Chile has a potential to build another growth model and devise a more technologically-driven approach regarding exports. Yet, in a broader context Chile's resource-based export strategy has meant that Chile's manufactured exports (including resource based manufactured exports) were only 21.8 percent of all exports in 1995 (Díaz y Ramos 1998: 81). In contrast, the *average* level of manufactured exports for developing nations, as a share of all exports (E_m/EX) was 65 percent—with the results heavily weighted by East Asian and Latin American countries (United Nations 2000: Tables A14-A15). Chile is far behind the leading developing nations that have restructured toward non-resource

manufacturing exports. Thus, while the fact that the deindustrialization trend was reversed in the 1980s is encouraging, it would be an error to place emphasis on the role of manufacturing exports outside of a comparative context.

The Free Trade Option?

For a brief moment in the 1997-2003 period some adventurous thinkers toyed with the idea of a whole new development approach for Chile—the times suggested that the neoliberal experiment had failed (and that its limited successes did not arise from neoliberalism). The discussion however was never strong and never open—perhaps because the neoliberal policy of converting the university systems to private sector businesses meant that virtually all economics departments would become bastions of mediocre Chicago-based economics. Meanwhile the right-wing press, dominated by *El Mercurio*, endlessly reiterated TINA (there is not alternative!).

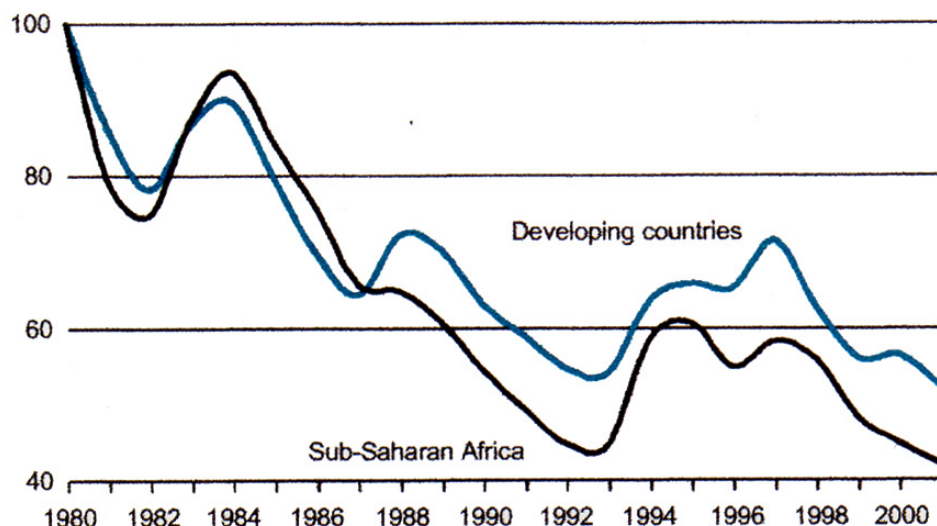
Rather than grapple with the need to realign economic policy and adapt a new model of development, *Concertación* determined that it would sign as many Free Trade Agreements (FTAs) as possible. Trade agreements would give Chile an edge over other nations and, it was argued, allow Chile's exports to surge, thereby pulling along the rest of the economy. In 2003 Chile was able to sign agreements with the two largest trading areas of the world—the EU and the US. For the moment Chile is once again basking in its own sense of self-satisfaction. Exports to Europe are up, along with copper prices, and Chile now happily awaits a further opening to the US market in 2004. The new trade agreements are expected to bring further direct foreign investment, but no one has attempted to quantify this. Chile has been so wide-open for so long to direct foreign investments, foreign investors have had the assurance of a pro-investor climate for so

long, it is really very difficult to imagine any surge of foreign investment from either Europe or the US as a result of these agreements.

Thus, if the new FTAs are to be the next short-term fix for Chile's unraveling economic model, the impact will have to come through more trade opportunities. Chile has an edge in trade with the EU and the US because one part of its exports (only 5.6 percent of all exports) constitute fresh produce largely grown and harvested during the winter months in Europe and the US. This edge, however, is tenuous—other southern nations can grow and transport these crops. Chile may be a few years ahead of its competitors, but it has nothing unique to offer. Another successful niche has been aquaculture—particularly farmed salmon. Salmon production and prices are up for the moment and Chile has a huge coastline well adapted to fishing.

In short, Chile has developed some important niche markets where luxury products such as salmon, avocados and asparagus, will enjoy strong demand as incomes rise in the rich nations. It is better to sell these exports than beans, but such was the market for coffee in the 19th century. The coffee market crashed in a mass of global overproduction in the 1930s. There is no reason to believe that Chile's "nontraditional" exports (wood products, fish, high-end produce and wine) will be immune to the falling terms of trade that have cursed Latin America for centuries. In more general terms, Grafica 4 shows the unmistakable overall trend of rapidly declining resource prices from developing nations.

GRAFICA 4: PRECIOS DE PRODUCTOS BASICOS (NO-MANUFACTUREROS)
DESDE PAISES EN VIAS DE DESARROLLO



Fuente: World Bank, *Global Development Finance, 2002*

www.worldbank.org/prospects/gdf2002/

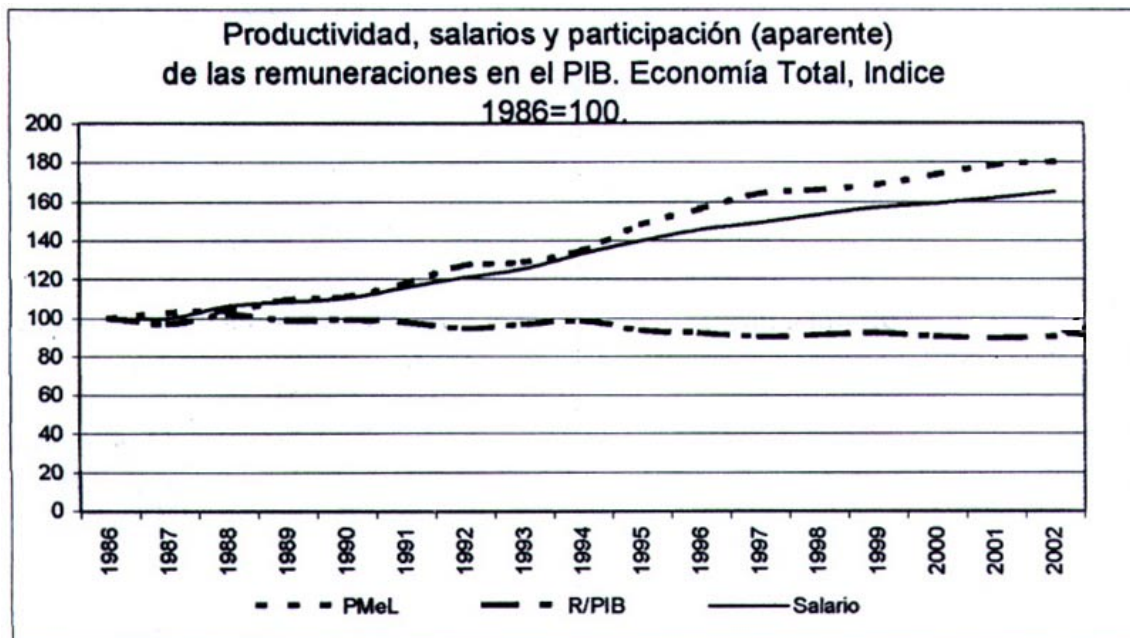
There is, of course, another side to FTAs. The US, for example, did not sign the FTA out of a spirit of goodwill for a small, but free-trader, nation. While Chile's pundits foresee great growth for exports, there is virtual silence regarding surging US imports. Which parts of the production system will be knocked-out by US trade competition? Direcon, the governmental agency in charge of negotiating the US FTA has conducted some studies of its possible effect. The results are predicted to be positive for Chile, but small. Between 2004 and 2010, when the stimulus to the trade agreement is expected to end, Chile's GDP growth might rise between $\frac{1}{2}$ and 1 percentage point per year, states Direcon. Since 1997 Chile's growth has slowed to 2.3 percent per year. Thus, in the most optimistic scenario, the US trade agreement could lift the growth rate for a six year period to 3.3 percent. If the EU FTA had a similar impact (since the EU market is of similar size) Chile could project, at best, a 4.3 percent growth rate—but it might well be

only 3.3 percent. (Direcon claims US imports will essentially *compliment* Chile's expansion—providing machinery and equipment that will permit more exports.) Still, all this is just toying with economic models which purport to explain the complex dynamics of a FTA. (Remember the US- Mexico FTA debate, where the models predicted balanced trade, but where the US has experienced a continual, sizeable deficit since 1994? Carlos Salinas also claimed US exports to Mexico would *compliment* Mexico's production drive. With tens of thousands of their small and medium-sized businesses now bankrupt, Mexicans have not forgotten this pro-FTA falsehood.)

Back in the real world of knock-them-down-drag-them-out economics, if Chile keeps an edge in its non-mineral exports it will only do so through keeping labor values down. If growth does pick up modestly for a few years, the benefits of that growth will not flow to the mass of Chileans. Chile has the third most unequal distribution in Latin America (behind Brazil and Guatemala). The top 20 percent received 57.5 percent of the annual income (the top 10 percent received 42.5 percent) in 2000. But tax evasion is widespread with an estimated 23 percent of total income not being reported—presumably virtually all unreported income flowing to the top 20 percent. The distribution of income, more unequal than it was in the 1960s, is not an artifact—it is a result of policy. One part of the policy is to keep income taxes low—the average income tax rate on the top 10 percent is a mere 2.5 percent. The other part of the policy is to keep wages low to give Chile an edge in non-mineral exports. But, of course, this also means that wages must be low throughout the economy, and these structural characteristics of the export-led model yield, *as a direct result*, the highly unequal distribution of income. Grafica 5

demonstrates the growing gap between productivity and wages, as well as the 9.5 percent decline in the ratio R/PIB (wage and salary remuneration as a share of GDP).

GRAFICA 5: CHILE



Fuente: (Agacino 2003: 17)

Although the data in Grafica 5 indicate a trend to *exclude* workers from the growth model, Chile's *Concertación* governing bloc has been devoted to expanding transfer/redistribution schemes (from the middle of the income spectrum as well as the top). These programs have dropped the poverty rate from 45 percent in 1987 to 21 percent in 2000. Certainly this is a laudable accomplishment, but it fails to address the sources of inequality and the near-poverty status of workers embedded in the neoliberal strategy.

The unfortunate aspect of the two new FTAs is that they will probably prolong the life of the export-led model a bit longer. Rather than facing the embedded limitations and injustices of the export-led model the *Concertación* government may have momentarily sidestepped the issue Chile has to face. What next after export-led policies? Chile could

be influenced by Brazil and Argentina and other Latin American nations that are now critical of the status quo and of US plans to build a Latin American Free Trade area (the proposed FTAA). Will a Socialist-led government make common cause with the US in its hegemonic project to build the FTAA? Without a critical dialogue it is hard to imagine Chile turning away from its free-trader orientation. Even a devastating economic crisis might not be sufficient, if no critical vision can be put forward. The legacy of the dark days of the dictatorship linger, the economics departments (with one or two small exceptions) all speak with one, free trade voice, the independent research centers are silent and the government and the press laud the idea of more and greater export possibilities. Silence is consent. Dissent is still largely an unpracticed art. This is exactly what the dictatorship sought to achieve.

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