

# Dilemmas of economic and political modernisation in Chile: a jaguar that wants to be a puma

MARIO SZNAJDER

This article deals with the problems of Chile's transformation into an economic success within the political framework of limited democracy. Feline images are used to point to the similarities between Chile, South Korea, Singapore and Taiwan, or between the Latin American jaguar and the East Asian tigers.

A comparison of some of the social and economic data of the felines shows some similarities and striking differences, and constitutes the first part of this work. Without entering into historical developmental comparisons, a rough description of the process through which Chile—the jaguar—adopts the economic policies which make it comparable with the East Asian countries—the tigers—follows. A closer examination of the nature and main features of the Chilean jaguar constitutes the third section of the analysis. The last part of the article deals with the relationship between the economic feline features of Chile and its political character, or whether the authoritarian enclaves left behind by the military dictatorship should be dismantled, and their relation to the economic performance of the Jaguar. If dismantling is possible, Chile may in future become a democratic puma.

## Jaguar and tigers compared

A comparison between the Chilean jaguar and the East Asian tigers suggests some similarities and many differences between these types of felines (see Table 1).

In the range of similarities we can place life expectancy at birth—all in the range of 70 years—while the age structure is different. Chile's population is younger than those of its East Asian counterparts, while the age segment which constitutes the labour force—15–64 years—is relatively smaller. Perhaps this fact is related to the relative size of the labour force, which in Chile, compared to the general population, is smaller (33.75%) than in Taiwan (36%), South Korea (44.44%) or Singapore (57.6%). The percentage of the female labour force is similar in all the cases, ranging from a low 29% in Chile to 34% in South Korea. If we compare the size of the labour force *vis à vis* the age group from which it comes, and we take only the two extremes, Chile and Singapore,

TABLE 1  
The jaguar and the tigers

	<i>Chile</i>	<i>South Korea</i>	<i>Singapore</i>	<i>Taiwan</i>
Population	14 161 000	45 553 000	2 890 000	21 500 000
Area	756 950 sq km	98 480 sq km	636 sq km	35 980 sq km
Age structure				
0-14	29%	24%	23%	24%
15-64	64%	71%	70%	68%
65+	7%	5%	7%	8%
Growth rate	1.49%	1.04%	1.06%	0.93%
Infant mortality	1.43%	2.09%	0.57%	0.56%
Life expectancy	74.88 years	70.89 years	76.16 years	75.47 years
Literacy	94%	96%	89%	86%
Total labour force	4 728 000	20 000 000	1 649 000	7 900 000
% in services	38.3%	52%	33.5%	37.6%
% in commerce				
and manufacturing	33.8%	+ mining: 27%	25.6%	53%
% in mining	2.3%	-	-	-
% in agriculture	19.2%	21%	+ other 11.4%	15.6%
% in construction	6.4%	-	6.6%	-
GNP at current prices (1994)	\$50.05 billion	\$366.48 billion	\$65.8 billion	\$244 billion
GDP purchasing power parity (PPP) (est 1994)	\$97.7 billion	\$508.3 billion	\$57 billion	\$257 billion
GDP growth (1995)	8.3%	9.5%	10.1%	6.0%
GNP (1994-PPP) per capita (1994)	\$7.010	\$11.270	\$19.940	\$12.070
per capita (1994)	\$3.560	\$8.220	\$23.360	\$11.604
Budget revenues	\$10.9 bn	\$63 bn	\$11.9 bn	\$30.3 bn
Expenditures	\$10.9 bn	\$63 bn	\$10.5 bn	\$30.1 bn
Inflation rate	8.2% (1995)	4.5% (1995)	3.6% (1994)	5.2% (1994)
Unemployment rate	4.9% (1995)	1.9% (1995)	2.6% (1994)	1.6% (1994)
Exports	\$16.0 bn	\$125.2 bn	\$96.4 bn	\$ 93.0 bn
Imports	\$14.7 bn	\$136.0 bn	\$102.4 bn	\$85.1 bn
External debt	\$21.0 bn	\$72.7 bn	\$20 million	\$620 million
External debt per capita	\$1.482	\$1.596	\$69	\$29
Industrial production (% of GDP)	34%	45%	28%	40%
Agriculture (% of GDP)	7%	8%	of minor importance	4%
Electricity consumption per capita	1.499 kWh	2.847 kWh	5.590 kWh	4.789 kWh
Railroads	7.766 km	6.840 km	38.6 km	4.600 km
Highways	79.566 km	63.200 km	2.883 km	20.041 km
Ports	11	9	1	5
Merchant marine	510 000 GRT	6 196 796 GRT	11 167 596 GRT	5 635 682 GRT
Airports	390	114	10	41
Telephones per capita	1 × 20 inhabitants	1 × 3 inhabitants	1 × 2 inhabitants	1 × 3 inhabitants
Defence Expenditure (1995)	\$1.17 billion	\$14.36 billion	\$2.91 billion	\$9.93 billion
Defence expenditure as % of budget	10.7%	22.79%	22.71%	32.99%

*Sources:*

The Economist Intelligence Unit (EIU) *Country Report, Chile*, 1st Quarter 1996; EIU, *Country Report, South Korea*, 1st Quarter 1996; *Taiwan Statistical Data Book*, Taipei: Council for Economic Planning and Development, 1995; *The World Factbook 1995*, Washington, DC: CIA, 1995; *The World Bank Atlas*, Washington, DC: World Bank, 1996; *The Far East and Australasia*, London: Europa Publications, 1995; *The Military Balance 1995-1996*, London: International Institute for Strategic Studies, 1995; and *Latin American Special Reports*, June 1996, SR-96-03.

the difference becomes clearer. In the jaguar only 52% of the 15–64-year age group are part of the labour force, in the tiger, 81%.

The percentages of the labour forces' distribution between service, commerce and manufacturing, mining and agriculture (including forestry and fishing) are not dissimilar. The ascendancy of South Korea in the area of services in Table 1 is explained by the inclusion of commerce—18.3%—in this category. While construction percentages are similar between Chile and Singapore—6.4% for the former, 6.6% for the latter—the figure for South Korea is more than double—13.5%. Singapore's exceptional geographical circumstances explains the low percentage of its population occupied in agriculture and other related occupations—11.4%—and the minor importance of this sector to the economy of that country. The jaguar and the other tigers still show relatively high percentages of the population working in agriculture—between 15.6% for Taiwan and 21% for South Korea, with 19.2% for Chile—who contribute little to the respective GDPs. This point is especially important for the case of Chile because one of the strong points commonly quoted about the jaguar's performance is exports diversification. In Chile, raw agricultural and fishing products play a major role having contributed in 1995 to 9.03% of total exports, while processed agricultural and fishing products play a larger role. In the case of the tigers, the role of agriculture in the export sector is non-existent or minimal.

The growth figures are also interesting to compare. While Chile seems to fare better than Taiwan, we must keep in mind that in 1994 the jaguar's GDP growth was 4.2%. In spite of this fact, figures for the last decade show that Chile's GDP has grown slightly less in percentage terms but similar to the East Asian tigers.

The jaguar and the tigers share an important common denominator. All exhibit balanced budgets, in some cases even with a small surplus, and well managed external debts. In the latter area there is a strong similarity between Chile and South Korea. Both have large absolute and per capita external debts, while the second category show similar figures—US\$1482 for Chile and \$1569 for South Korea.

The percentages industrial production contributes to the respective GDPs are apparently similar, with the exception of Singapore which possesses an economy in which services make a major contribution. But this fact does not resist a closer examination, since in Chile much of the industrial sector processes the produce of the mining, agricultural, fishing and forestry sectors for export. Thus, when we examine the constitution of Chile's exports in 1994 we find the following results:

- fish and preparations: 7.8%;
- fruit and vegetables: 10.3%;
- animal foodstuffs: 4.1%;
- wood and cork: 4.2%;
- pulp: 6.3%;
- metalliferous ore and scrap: 12.8%;
- chemicals: 4.6%;
- copper: 27.8%.<sup>1</sup>;

Although in each of the above mentioned sectors there is a certain industrial

input, the role of industrial exports and services in Chile is considerably smaller than in the East Asian tigers. The weak link in the jaguar's model of development has been industry. Manufactures in Chile today account for almost the same share of GDP as in 1985: about 15%, a very low percentage when compared with that of the East Asian tigers.

Chile has an infant mortality rate lower than in South Korea but much higher than those of Taiwan and Singapore.

Other economic indicators show clear differences between the jaguar and the tigers. Despite the progress Chile has made in fighting inflation, the rate for 1995 is much higher than that of Taiwan, South Korea and Singapore. In spite of having a relatively smaller labour force, the rate of unemployment in Chile almost doubles that of Singapore, and it is over double that of South Korea and Taiwan.

Other indicators, related to the size and sophistication of the respective infrastructures show further weaknesses of the jaguar. Electricity consumption per capita in Chile is nearly half that in South Korea, one third that in Taiwan and nearly one quarter that in Singapore, despite Chile's relative advantage in hydroelectric production. While economic growth is based on an export driven economy, the size of the jaguar's merchant marine is very small—one eleventh of that of Taiwan, one twelfth of that of South Korea and one twenty-second of that of Singapore. With a long and mountainous territory Chile possesses relatively few deep water ports—11 for a coastline of 6435 km, as compared to South Korea's nine for a coastline of 2413 km, Taiwan's five for a coastline of 1448 km and Singapore's one for a coastline of 193 km. Chile seems to be more of a flying jaguar, with 390 airports of different sizes and a new international terminal in Santiago, which was already too small for the needs of the country at the time of its inauguration.

With a modern network of communications that includes large microwave radio relay facilities and five satellite stations (three for internal communications, two for international links), Chile has one telephone for every 20 inhabitants, one-seventh of South Korean and Taiwanese rates and one-tenth of Singapore's. The manpower employed by the jaguar's armed forces is small when compared proportionally to those of the tigers. One Chilean in 143 currently serves in the armed forces, while in South Korea the figure is one in 71; in Taiwan one in 57 and in Singapore, one in 53. The percentage of the budget spent on defence is much lower in the jaguar than in the tigers, but the Chilean armed forces allocation of \$1 billion (10.7% of the government's expenditure in 1995) can not be legitimised on the basis of involvement in international conflicts or fighting guerrillas, since the jaguar has proven a very pacific one in the last decade. Still, within the limits of Chile's limited democracy, the democratically elected civilian government does not possess the power to curtail the autonomy of the military or reduce the country's defence budget. The dilemma of the jaguar in this arena is simple and related to its capacity to open its limited democracy and completely subordinate the military to the civilian government. Should it divert resources from defence to strengthen its infrastructural bones, or gain some weight by alleviating poverty—helping more the sector of its population still below the poverty line—or should it sharpen its teeth and claws in preparation

for a future confrontation with enemies from abroad or, most probably, with the foes of limited democracy from within?

### **Economic liberalisation and political limitations**

On its way to becoming a growing feline, Chile suffered a long military dictatorship that left marked imprints on its social, political and economic life. The military government of General Augusto Pinochet established a model of limited democracy whose economic side was characterised by the application of strong doses of neoliberal economic policies, and which favoured, from a social point of view, subsidiarity, elitism and a strong civil society of those able to organise in voluntary organisations. The political side of the model insured that Chile did not return to the pre-military coup model of democracy, characterised by mass mobilisation of the lower classes and attempts to reform or even revolutionise Chile's traditional structures of land holding, economic, social and political organisation.<sup>2</sup> More than 16 years of political demobilisation and a new institutional framework centred around the 1980 constitution, approved by a plebiscite carried out under military guidance and control, coupled with deep economic reforms to establish Chile's limited democracy. The military entered the centre of the national arena in 1993, to remain as guarantors of the new institutionality and of national security, after they surrendered power to democratically elected authorities in March 1990.

Chile's model of limited democracy confers veto power to minoritarian political forces—and to the military—through a complex system that includes a constitution that requires special majorities to reform, an electoral system that clearly favours minority elites, the promotion and budgetary autonomy of the armed forces, the existence of influential non-representative institutions such as the National Security Council, the Constitutional Court, a Supreme Court nominated by the military government and designated Senators, and an Amnesty Law covering the main period of opposition persecution by the military.<sup>3</sup>

Economic policies since the mid-1970s opened Chilean markets to competition, granted privileges to private initiative and capital and significantly reduced the role of the state in the economy. Budgetary restraint, reduction of the public sector, privatisation, low custom duties and taxation, free trade and financial flow transformed Chile into a small but aggressive feline—not yet a jaguar—at the end of the 1970s. The stabilisation and economic boom resulting from the first wave of neoliberal policies applied by the military government were flaunted to bring about plebiscitarian approval of the 1980 constitution, opening the way for the establishment of a model of limited democracy. This model, by sanctifying private property and initiative, was creating the protected environment in which the Chilean jaguar would grow. The 1982 economic crisis almost did away with the economic and political model, but Pinochet's and the military's stubbornness in holding power, and the calibration of the neoliberal economic policies to the country's realities, brought about a second economic boom beginning in 1985 and lasting, with minor ups and downs, until today.<sup>4</sup>

In 1988 the military government carried out an internationally controlled

plebiscite that rejected Pinochet's bid for the presidency of the country. This took place in a year in which Chile's GDP grew by more than 10%. The figure of Chile as a jaguar, or the Latin American replica of the East Asian tigers, was taking shape.

The transition to democracy did not bring about important changes on either side of the model. Chile's democracy was reinstalled in 1990 within the limits designed by the military government and preserving the economic policies that brought about the macro-economic success of the late 1980s. Although political and economic rhetoric were different, no major changes could be carried out on either side of the model. Furthermore, while social policies were enlarged and improved by providing larger funding through politically agreed tax increases, budgetary equilibrium was preserved, along with economic stability, and GDP continued to grow, strengthening the jaguar. Stability, growth, falling unemployment, a decreasing rate of inflation, rising wages and a steady flow of long-term investment permitted Chile's government also to claim victories on the social front. The number of those living below the poverty line decreased by one million and the second democratically elected president, Eduardo Frei also placed the eradication of poverty at the top of the country's list of priorities.

On the political front little could be done to change the nature of limited democracy in Chile. Reform of the municipal government system produced local elections for the first time in two decades. Labour legislation was liberalised. The legacy of human rights violations left by the military regime was dealt with within the limits imposed by the 1978 Amnesty Law. The government brought about the elaboration and publication of the Rettig Report, a detailed account and analysis of tortures, disappearances and assassinations carried out under the military government.<sup>5</sup> Only those not covered by the 1978 Amnesty Law were brought to trial for their crimes, while the armed and security forces refused to cooperate with the courts. The institutional enclaves were slightly reformed as a result of political negotiations during 1989, the transitional year, but basically remained as they were. Thus Chile's democracy has functioned since 1990 within the limits drawn up by Pinochet's government and with functioning authoritarian enclaves. This situation produced a series of crises between the government and the armed and security forces. Each crisis was temporarily solved through negotiations between the elected authorities and the heads of the army, especially Pinochet, who kept for himself the position of commander of the armed forces until 11 March 1998. The tutelary role and autonomy enjoyed by the armed forces of Chile and the lack of the elected authorities' power to reform the constitution and dismantle the authoritarian enclaves have transformed the image of the jaguar into one that combines neoliberal economic success with limited democracy.

### **The jaguar**

Chile's economic modernisation and high rates of growth are closely related to the economic policies of Pinochet's government, which opened the markets and reduced state intervention in the economy and the size of the state. Called 'the silent revolution', these policies, which accelerated in the second half of the

1970s and again in the second half of the 1980s, prioritised the role of the market in establishing prices and distribution priorities, encouraging private entrepreneurship and cutting down state intervention in the economy through the privatisation of national companies and services.<sup>6</sup> This was carried out by a group of highly trained technocrats, led, in the early 1970s by Sergio De Castro, who, before the military *coup d'état* of 11 September 1973, had elaborated a comprehensive economic plan under the name of 'El Ladrillo' (the brick).<sup>7</sup> In the second half of the 1980s, after the severe crisis of 1982–84, Hernán Buchi led the economic team of the years of the second boom, in which Chile began to see itself as a jaguar.<sup>8</sup> Both teams, described as technocrats, showed clear political loyalties to the military regime. Profoundly influenced by the teachings of Friedrich Hayek and Milton Friedman, they adapted them to the realities of Chile's military dictatorship, generating a special brand of economic neoliberalism practised in the politically thoroughly antiliberal environment of Pinochet's dictatorship.<sup>9</sup> Economic neoliberalism could be adopted in Chile after 1973, not only because of its efficient crisis-solving formulas but also because it combined well with the ideology of a 'limited democracy' that would preclude any future possibility of a repetition of the Allende phenomenon.<sup>10</sup> Later, the idea of adding a series of steps towards social modernisation enlarged the ideological project and, with the political reform around the 1980 constitution, established the path through which Chile experienced its transition from military government to limited democracy. The application of stern monetarist policies in order to reduce inflation in the 1970s hit the social programmes in Chile especially hard.<sup>11</sup> Organised labour was dismantled, strikes forbidden, workers' leaders persecuted and sometimes assassinated and the economic reforms, carried out in a highly authoritarian manner without any legislative or labour control, produced negative results from the point of view of the lower socioeconomic strata in Chile. Between 1970 and 1989 wages decreased by 8%. Family allowances in 1989 were 28.5% of what they had been in 1970 and the budgets for education, health and housing had dropped, by over 20% on average, when compared with those of 1970.<sup>12</sup> In spite of the application of capitalist development policies, the scenario was not rosy for large parts of the private sector, which, as a result of the opening of the Chilean economy, succumbed when confronted by cheaper imports previously absent from the country's markets.<sup>13</sup> Thus, the breeding of the jaguar implied not only disciplining labour but also of Chile's entrance into world wide globalisation trends—the internationalisation of its economy—in which the parts of the private sector formerly protected by the state within the framework of ISI policies suffered the impact of foreign competition and lost their captive markets. When Chile was hit by the debt crisis and international recession of the early 1980s, these phenomena provoked a wave of bankruptcies which hit the highly indebted banking system hard, causing a general crisis in 1982, which severely threatened the stability of the military government and put a brake on the plans for economic reform. This second economic crisis under the military government can not be attributed, as was done with the first in the mid-1970s, to the failures of socialism and Allende's government. Unemployment reached unexpected proportions after 1982 and a wave of protest shook the stability of the military government. A changing of the guard in the economic

leadership and the abandonment of a rigid rate of exchange combined with government backing to the financial sector and emergency public employment plans to confront the crisis. By 1985, and under the leadership of Hernán Buchi, Chile was recovering from the crisis and becoming a jaguar. The readapted formula included strong doses of privatisation, enhancing savings through private pension funds that backed the stock exchange with investment, prioritising exports and sectors in which Chile's relative advantages could produce future exports, creating incentives for export diversification, strong fiscal controls and budgetary equilibrium. All these created the conditions for further GDP growth. By 1988, the year of Pinochet's plebiscitarian bid for the presidency of a future Chilean limited democracy, Chile's yearly GDP growth was near 10% and in 1989 it exceeded that figure. It can be claimed that high percentages of the GDP growth of the Chilean Jaguar were directly related to the depth of the 1982 recession, at the beginning of which GDP suffered a 14% drop.<sup>14</sup>

Successful macroeconomic performance during the final years of the military government, supported by an extensive propaganda campaign and the personal prestige of the leader himself, were not enough to insure Pinochet's continuation in power. But the change in the political and economic model insured a transition under the conditions dictated by the military. Therefore, the tasks that confronted the democratised jaguar in 1990 were to be carried out within the framework of limited democracy.

Since economic stability and growth were perceived as the main factors for the consolidation of democracy in Chile, the economic model, providing for both, was left almost untouched. The economists of the government of re-democratised Chile, led by Alejandro Foxley and centred around the Christian Democrat CIEPLAN think tank, preserved former free market policies. A tax increase resulted from negotiations between Aylwin's government and the opposition and it allowed the fulfilment of promises to spend more on education and health and on social programmes in general.<sup>15</sup> Unemployment sank to 5% in 1992, staying around that figure until today. Real wages rose at a rate above 4% yearly, especially minimum wages, which in 1992 were 36% higher than in 1989. Social expenditure rose considerably and by 1992 it represented 66% of the budget, of which 45% was spent on pensions and welfare.<sup>16</sup> This led to the major success of Aylwin's socioeconomic policies: the reduction of the number of those living below the poverty line by one million, from five to four million people.<sup>17</sup>

Despite general progress in combating poverty, the redistribution figures in Table 2 show a different angle of the problem.

The figures show that the most favoured quintile is the fourth, while the most affected is the fifth. But they also show that the poorest quintile, the first, lost part of their share in the early years of democratic government, while those in the second quintile made a slight gain. The third quintile got a better share in 1992 than in 1989. If we take into consideration that those living below the poverty line at the end of the military government numbered five million, and that their number was reduced to four million as a result of the democratic government's policies, we can assume that most of them were in the first and second quintile, which together received 0.3% less income in 1992 than in 1989.



TABLE 2  
**World Bank data on income distribution in Chile, 1989 and 1992 (%)**

	1989	1992
First quintile	3.7	3.3
Second quintile	6.8	6.9
Third quintile	10.3	11.2
Fourth quintile	16.2	18.3
Fifth quintile	62.9	60.4

*Sources: World Development Report 1993 and 1995, Washington DC, IBDR*

If we assume that the fourth and the fifth quintiles are the richer, and examine how they fared together in the early years of democratisation, we will find that, while in 1989 they received 79.1% of the country's income, in 1992 they got 78.7%, 0.4% less than their combined income in 1989. The third quintile gained 0.9% of income in the same period. If we compare the performance of the first and second quintile between 1989 and 1992, we see that they lost 0.3% of their income. The combined income of the middle classes—the third and fourth quintiles—rose in the same period by 3.0%. The conclusion is that, while the combination of a free-market economy and focused social policies creates certain levels of redistribution, it favours the middle quintiles rather than the lowest. In spite of the sharp increases in social expenditure during the democratic period, the regressive distribution tendencies of the model still create a situation highly unfavourable for the poorest sections of the country, even without taking into consideration the relative weight of each percentage point for the different quintiles.

It may be argued that the reduction in the number of those living below the poverty line is a result of the above mentioned factors: falling unemployment, rising real wages and social expenditure, without implying any real reform of the social and economic models, as was perhaps expected from the democratic government. As explained before, Aylwin's government was only able to carry out minor institutional changes. Therefore, the process of adaptation by the democratic governing elite to the procedures of limited democracy while redressing the socioeconomic wrongs of the model, as applied under military rule, may paradoxically, have strengthened the jaguar. Nowadays it is a stronger feline than in the past because it not only keeps growing, but it also succeeds in strengthening some of its weaker parts, although not the weakest.

### **Towards a democratic puma?**

Two democratic national elections and a sixth year of democratic practice, even if within the limits imposed by the authoritarian enclaves inherited from the period of military government, have passed without major threats. The economic performance of the jaguar, even if slightly less successful than those of the tigers, has demonstrated that the Chilean development model works with no less success under a democratic government than it did under its authoritarian rulers.

1992, with an 11% growth in GDP, was the best year for Chile's economy in three decades.<sup>18</sup> In the light of this fact, Roberto Zahler, the chairperson of the Central Bank of Chile, described the feline paradigm in the following terms: 'Despite the excellent results obtained in 1992, the challenges for 1993 are substantial. I do not believe in miracles. Tigers are not born overnight, especially if they have a long history of being cats, with the culture, habits and outlook of cats. Chile needs a lot more effort to become a tiger. The pretentious self-indulgence and narcissism which Chileans sometimes show are at the very least mistaken and clumsy'.<sup>19</sup>

After the government took measures to cool what was perceived as an overheated economy, GDP grew 6.3% in 1993 and 4.2% in 1994, to reach an estimated growth rate of 8.3% in 1995. Internal investment is comparable to that of the tigers and a steady flow of foreign investment, approved by the government in order to avoid financial speculative investment in the country, has flowed into Chile with regularity during the last decade.<sup>20</sup> In 1996, despite the fall in the international price of copper, cellulose and other raw materials exported from Chile, the surplus of the balance of payments will be around the 800 million dollars mark—as against a surplus of 1 383 500 million dollars in 1995—inflation will decrease to 6.5% and economic growth is expected to reach 7%, according to the macro-economic analysis of the Central Bank of Chile and the declarations of Eduardo Aninat, the Minister of Finance of the country.<sup>21</sup>

The economic model seems to have consolidated and the question of whether limited democracy is a *sine qua non* for its survival becomes central. It is central because, although Chile's economy has been modernised during the period of military rule and continued to modernise during the democratic period, society, politics and culture have not experienced parallel processes. The social and political aspects of Pinochet's modernisation—rigid social structures in which change is produced through market mechanism regulations and authoritarian enclaves in the realm of politics—are incompatible with modern democracy and perhaps with a modern economy able to surpass the stage of raw-materials-export-led growth. Social needs—better levels of education, health, nourishment, housing and a better environment—may be seen as results of development but also as causes of future development. A better distribution of income may make Chile's economy less vulnerable to the fluctuations of raw materials prices in the international market—especially that of copper, which still constitutes almost a third of total exports—or to recession in its main markets, Japan, the USA, Brazil, Germany and the UK, by strengthening its internal markets.

The reduced state still has important roles to play in the above mentioned areas because the market is not able to take care of them efficiently. Poverty is associated with social marginalisation, a widespread phenomenon all over Latin America which increases social tensions, not through the threat of revolution, but through a daily threat to individual security. This phenomenon has been partially dealt with by the strengthening of the internal security forces, but the problematic legacy of human rights violations makes forceful solutions to the problems of social marginalisation and rising crime more tricky in democratic terms, limited though there are. Thus a clear modernisation of the state's roles in these areas is necessary as a step towards political modernisation.<sup>22</sup>

In the case of Chile, coping with the ecological impact of the application of neoliberal policies is an ongoing and urgent need. It is difficult to imagine how this can be performed without regulation, social awareness and state intervention. The same is true for labour relations and, in general, it may be claimed that the state has the double role of ensuring the efficient performance of markets but at the same time curbing the social Darwinist dimension characteristic of neoliberal experiments of the Chilean type.<sup>23</sup> Chile's bid to become a full member of NAFTA and of MERCOSUR (Common Market at the Southern Cone) (composed by Brazil, Argentina, Uruguay and Paraguay)—the latter has already happened—adds further pressure to the need to redimension the relations between state and society. Economic integration and increased competitiveness require a better educated, healthier, well housed and environmentally aware population, able to articulate, as an autonomous civil society, its needs and capacities.

Since the economic model seems to be consolidated, and no effective alternative is on offer, sectors of the moderate right—eg the Renovación Nacional—may cooperate in dismantling the authoritarian enclaves and bringing Chile to a situation of open democracy.<sup>24</sup> This could happen as a result of the disintegration of the Concertación, the anti-Pinochet alliance that has governed democratic Chile since March 1990, and the formation of a political alliance between the main centre party (the Christian Democratic Party) and the main moderate right-wing party (Renovación Nacional). The logic of the disintegration of the governing coalition is related to the problems that Chilean socialists, moderate though they are, have in accepting the social consequences of the implementation of the neoliberal economic model. The logic of the formation of an alternative centre-right coalition would be the strengthening of the same economic model, taking into consideration its developmental virtues, and allowing for a less limited model of democracy. It is in a scenario of this kind that the oxymoronic nature of Chile's model of development—neoliberal economics with limited democracy—may evolve from an undefined jaguar into a democratic puma.

## Notes

The author wishes to acknowledge the financial support of the Harry S Truman Institute for the Advancement of Peace of the Hebrew University of Jerusalem.

<sup>1</sup> EIU, *Country Report. Chile*, p 31.

<sup>2</sup> M Sznajder, 'Sociedad civil y democracia limitada: una perspectiva comparada', *Papel Politico*, Vol 1, No 1, 1995, pp 23–27.

<sup>3</sup> M A Garretón, *The Chilean Political Process*, Boston, MA: Unwin Hyman, 1989, pp 208–209. Garretón coined the concept of 'authoritarian enclaves' to explain the role and function of the legacies of authoritarianism in Chile and elsewhere.

<sup>4</sup> J Fernando & M A Morris, 'Democracy in Chile. Transition and consolidation, 1987–2000', *Conflict Studies*, 279, March/April 1995, p 5.

<sup>5</sup> M Sznajder, 'Legitimidad y poder políticos frente a las herencias autoritarias: transición y consolidación democrática en América Latina', *E.I.A.L.*, Vol 1, No 4, 1993, p 47.

<sup>6</sup> J Lavin, *Chile Revolución Silenciosa*, Santiago: Zig Zag, 1987, p 21 ff.

<sup>7</sup> 'El Ladriño' *Bases de la política económica del gobierno militar chileno*, Santiago: Centro de Estudios Públicos, pp 11–12.

<sup>8</sup> A Fontaine, *Los economistas y el presidente Pinochet*, Santiago: Zig Zag, 1988, pp 183–188.

<sup>9</sup> M Delano & H Traslaviña, *La herencia de los Chicago Boys*, Santiago: Ornitorrinco, 1989, pp 16–21.

<sup>10</sup> P Vergara, *Auge y caída del neoliberalismo en Chile*, Santiago: FLACSO, 1985, pp 11–13.

- <sup>11</sup> A Angell, 'Chile since 1958', in L Bethell, ed, *Chile since Independence*, Cambridge: Cambridge University Press, 1993, p 184.
- <sup>12</sup> R Ffrench-Davis, 'Economic development and equity in Chile: legacies and challenges in the return to democracy', *IDS Discussion Paper*, 1993, pp 13–14.
- <sup>13</sup> J Pearce, 'Chile: a divided society', in A Leftwich, ed, *Democracy and Development. Theory and Practice*, Cambridge: Polity Press, 1996, pp 180–181.
- <sup>14</sup> R Ffrench-Davis, 'Economic development and equity in Chile', pp 5–7.
- <sup>15</sup> D Hojman, 'Chile after Pinochet', *Bulletin of Latin American Research*, Vol 1, No 9, 1990, p 28, 31.
- <sup>16</sup> R Espíndola, 'Democracy and redistribution: the problems of governance in Chile', in D Hojman, ed, *Neoliberalism with a Human Face? The Politics and Economics of the Chilean Model*, Liverpool: University of Liverpool Institute of Latin American Studies, 1995, p 69.
- <sup>17</sup> D Hojman, 'Introduction', in *Neoliberalism with a Human Face*, p 9. Studies on social expenditure in Chile during the democratic period—1990–1993—indicate that, without considering social security, the distributive structure of social expenditure is slightly positive, reaching a Gini Index figure of 0.13 for the period under consideration. See, *Panorama Social de América Latina 1994*, Santiago de Chile, Naciones Unidas, Comisión Económica para América Latina y el Caribe, 1994, pp 63–68.
- <sup>18</sup> D Hojman, 'Rent-seeking in Chile: growth, distribution and poverty in a successful Third World economy', paper presented to the European Public Choice Society Meeting, Bar Ilan, Israel, 10–13 March 1996, p 19. In this work Hojman explains the shifts in income distribution as a result of rent-seeking.
- <sup>19</sup> R Zahler, 'Reunión con los profesionales de medios de comunicación', *Boletín del Banco Central de Chile*, December 1992, p 3185, quoted in Hojman, 'Introduction', pp 10–11.
- <sup>20</sup> *Country Report. Chile*, p 3. On this point it is useful to see the conclusions of Adam Przeworski *et al* about the conditions for the survival of democracies. Higher levels of development ensure democratic survival but the two main factors for democratic survival are: the generation of economic growth and the control of distributional pressures by allowing some inflation and reducing income inequality. As we have seen in this article, Chile has been more successful in ensuring growth than in distributing income. The dismantling of the institutional authoritarian enclaves seems to be a *sine qua non* to ensure the functioning of the second factor. A Przeworski, M Alvarez, J A Cheibub & F Limongi, 'What makes democracies endure?', *Journal of Democracy*, Vol 7, No 1, 1996, p 50.
- <sup>21</sup> 'Grandes logros de Chile en todos los planos económicos', *Aurora* (Santiago de Chile: EFE), 27 June 1996, p 9.
- <sup>22</sup> M A Garretón, *Hacia una nueva era política. Estudio sobre las democratizaciones*, Santiago y México: Fondo de Cultura Económica, 1995, pp 151–152. Here we also agree with the conclusions of Patricio Silva in P Silva, 'Modernization, consumerism and politics in Chile', in Hojman, *Neoliberalism with a Human Face*, p 129.
- <sup>23</sup> S Gill, 'Globalization, market civilization, and disciplinary neoliberalism', *Millennium*, Vol 3, No 24, 1995, pp 420–422.
- <sup>24</sup> See, 'Problems grow in concertación' and 'Reforms blocked by right wing split', in *Latin American Regional Reports—Southern Cone*, 30 May 1996, p 7.