

The Chilean Neoliberal Model Enters into Crisis

by
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According to the major macroeconomic indexes, in 1997 Chile completed a decade of notable dynamism. The rate of growth of the gross domestic product (GDP) was around 7 percent annually, and exports grew at an even higher rate. The proportion of gross investment reached previously unheard-of levels. A constant oversupply of foreign currency, an increase in U.S. dollar reserves, and a revaluation of the Chilean peso (none of which had occurred since World War II) were all the results of a favorable but unstable commercial balance and the unprecedented influx of foreign capital. The fiscal budget increased with a continual surplus, and inflation was reduced to single-digit figures. The period was labeled the “golden decade,” and the international financial press cited Chile as a model worthy of imitation.

The majority of Chileans, however, have declared their unhappiness, directly contradicting the idea of general prosperity contained in the 1998 *UNDP Report on Human Development*. There has been a loss of confidence in the free market because the benefits of “modernity” have been concentrated in a small minority who enjoy First World standards of living while the general population remains firmly ensconced in the Third World. Rapid wealth gain and unbridled consumerism have created an environment that foments increasing corruption and delinquency. Many people are trying to improve their situations through exhausting work schedules, with the result that Chile has one of the worst annual employment rates in the world, according to the International Labor Organization. The quality of urban life is worsening, with a corresponding deterioration in family and community life. Chileans feature in world statistics with high indexes of mental and psychological disorders and an increasing incidence of “modern” illnesses and their associated costs. There are shortages, delays, and marked educational inequalities. All these are objective elements of a general dissatisfaction with the economic model. Many people hope for important changes in economic and social policy.

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In spite of the high rate of growth achieved, the decade has not been exempt from constant instability due to the external vulnerability and internal contradictions of the neoliberal model. In July 1997, the Asian crisis erupted, and a corresponding abrupt downturn in the economy followed a few months later. Exports and reserves decreased while the trade deficit and foreign debt both grew. As a consequence, domestic sales and production fell and unemployment increased. In 1998 and 1999, the country entered into a cyclical recession, the worst in 15 years, and by mid-2000 the official rate of unemployment was still around 10 percent. Polls show that uncertainty and pessimism pervade the nation.

GLOBALIZATION AND ITS IMPACT IN CHILE

Three factors favored Chilean economic growth in the golden decade: the boom of the Asian-Pacific economies, ecological restrictions in the industrialized countries, and economic and political instability in many African and Latin American countries. The Asian locomotive was halted, environmental restrictions were enforced in the country, and new competitors appeared in the commodities markets. In business circles, many said that Chile was no longer the source of big profits that it used to be.

The pillaging of natural resources has dramatically affected the fishing industry, one of the most dynamic export sectors. Currently, the industry is effectively stagnant because of climate change and the imposition of an obligatory closed fishing season for various species. Widespread destruction caused by the reduction of native forests to wood chips and the contamination of the environment by the forestry industry are putting limitations on timber extraction. The big mining plants have not only accelerated the depletion of mineral deposits but also devastated the scarce water sources in the northern zone and contaminated catchment areas, the coast, and subsurface aquifers. Frequent droughts have drastically reduced hydroelectric production and the amount of irrigated land available for export crops. The free market in real estate has unleashed widespread land speculation and the anarchical expansion of cities and increased transport and land prices. The supply of energy has become dependent on foreign sources, rendering the productive capacity of the country vulnerable. Copper provides nearly half of all dollar revenue and illustrates the fate of Chile's raw materials: constant deterioration in purchase price in contrast with the prices of imported products. However, governmental policies promote the export of raw materials in growing quantities, without concern for the fact that they are *nonrenewable* resources or any

attention to the symptoms of world market saturation that are clearly evident, with years of advance warning about the collapse of the price of copper (Caputo, 1996).

To the problems in foreign markets can be added the negative effects of free access for foreign investment. The Chilean peso has experienced a continual revaluation encouraged by the Central Bank. Fruit, mineral, and manufacturing producers have experienced the paradox of exporting more tonnage yet receiving less income because of increased costs due to internal inflation. Their profit margins have been reduced. The peso's increasing value corresponds not to a structural commercial surplus or to the net incomes of financial services but to the overabundance of foreign capital attracted by high interest rates, the lack of fiscal control on the legal origin of this inflow, and the high profitability of numerous private companies. Foreign investors and Chilean debtors (for whom the appreciation of the peso is "convenient") are more important to the Chilean government and Central Bank than the Chilean exporters and national producers who are harmed by such economic policies. However, the decline of export incomes due to the crisis of external markets and heavy pressure from national enterprises favored a halt to revaluation at the beginning of 2000.

Chile is one of the few countries to have abandoned selective measures with regard to imports. There are no import quotas or customs surcharges, nor is there any antidumping legislation. In spite of the considerable trade deficit of 1997 and 1998, the authorities reduced the general tariff rate to the lowest levels in the continent. Importers have vigorously increased their participation in the internal market, given the revaluation of the peso and the low tariffs. However, the national manufacturing industry is virtually at a standstill. Between 1991 and 1997, the closure of numerous textile and clothing industries meant the loss of 20,000 jobs. In the case of the toy industry, in barely two decades, multinationals such as Mattel, with their toys from Asia, have displaced national producers, capturing 75 percent of the internal market.

The results of the Chilean primary export strategy can be appreciated in the following figures: after 24 years of spectacular increases in the physical volume exported, Chilean participation in terms of "value" in world trade has decreased from .44 percent in 1970 to .27 percent in 1994. Conversely, Asian countries such as South Korea, Indonesia, and Thailand, which had a smaller market share, all achieved increases between five to eight times greater than Chile's (Campero and Meller, 1996). The explanation is simple: the Asians export more technologically advanced products, while Chile is being stripped of its natural resources.

THE DISTRIBUTION OF GROWTH

Prior to 1973, Chile had more social equity in spite of a lower productive capacity. Poverty was limited to 17 percent of the total population. In the 1990s the percentage of people classed as “poor” had diminished with respect to the 1980s, but in 1996 poverty was still affecting 3.3 million inhabitants or 25 percent of the population. Up until 1997, salaries and wages increased in real terms, the minimum wage improved, and unemployment decreased. Access to housing became easier, the minimum pension was reinstated, and social spending increased. However, between 1991 and 1996, the participation of the “poor” in the national distribution (in this case, the first quintile of the low-income group) declined, and a similar pattern occurred in the remaining “modest” sector (constituting up to 60 percent of the population) (Instituto Nacional de Estadísticas, 1996). It seems clear that efforts concerning public social expenditure were clearly insufficient, incapable of counteracting the rigid mechanisms of an economic model that leads to the concentration of wealth.

According to the World Bank, Chile is one of the 7 countries with the worst income distribution among 65 studied: a minority of 20 percent receives 62 percent of the income. In Latin America, only Brazil has a worse record. The degree of inequality in Chile is greater than in the Asian “tigers” of similar economic level and dynamism (Cademartori, 1998). Half a million Chileans receive the equivalent of the total received by 10 million of their fellows. As a consequence, the average yearly per capita income of US\$5,400 in 1997 does not represent the average Chilean, as 70 percent of the population earn less than this amount.

Gross inequality in the distribution of income begins at the company level. There is evidence that the benefits and rapid capitalization enjoyed by executives and stockholders are not shared by workers. The proportion that wage earners receive is clearly below that in countries with a higher or similar level of development and lower than it was before 1973. While the “operating surplus” of business is rising steeply above the increase of the GDP, the opposite is happening with regard to workers’ earnings. The lag of wage and salary adjustments in relation to productivity is apparent in a comparison of labor costs and the productivity of skilled work in Chile and the United States. Contrary to the neoliberal school of thought, productivity alone cannot explain the differences in salary levels between the two countries. In a general sense, the organizational strength or otherwise of labor unions and the comparative power of the employers are decisive elements. In fact, the labor code

introduced by the dictatorship, which eliminated a majority of the rights and benefits obtained by workers in previously democratic times, still prevails.

A notorious lag is observed in the evolution of the minimum wage that directly or indirectly governs the earnings of a quarter of Chilean workers, many of whom have to work 12 hours a day in order to earn this amount (Cademartori, 1998). Since 1990 it has been increased annually by law but so gradually that it was only in 1997 that it exceeded the previous highest level. At the same time, considering the effective cost of a family shopping cart of basic products, the value fixed by law for 1999 covers only about 60 percent of a family's needs.

THE INCREASING CONCENTRATION OF WEALTH

The process of wealth concentration initiated by the dictatorship was accentuated, especially in the higher echelons, in the following two decades. The assets of the three main financial holdings, Angellini, Luksic, and Matte, which in 1973 were on the order of US\$650 million, multiplied to US\$7,700 million in 1996. In the postdictatorship period, capital accumulation by the major national economic groups has increased faster than the GDP (Riffo and Ruiz, 1997). Some 7,300 companies of a total of 480,000 (less than 2 percent of the total) concentrated 76 percent of all sales (Corporación de Fomento a la Producción, 1994). Official calculations show that between 1990 and 1993, the market share of micro-, small-, and medium-sized businesses diminished. In the most diverse markets, as a result of competition, new monopolies or oligopolies are forming, for example, in transport, communications, electricity, retail trade, finance, and pensions. The Superintendency of Corporate Companies has recognized the existence of fifteen conglomerates. Accusations of monopoly practices and abuses against small shareholders proliferate, but the public powers refuse to impose effective antimonopoly legislation. On the contrary, they eliminate regulations and authorize the concentration of economic power through privatizations and mergers.

TOWARD THE "TRANSNATIONAL" REPUBLIC

Chilean legislation concerning foreign investment has become among the most permissive in the world. There are no quantitative limits or investment restrictions; the origin of investment funds is never investigated, and any

piece of Chilean territory, even in border areas, can be acquired. There is no legislation for promoting the transfer of technologies or employment creation. According to a still valid decree of Pinochet, any mineral deposit can be transferred to foreign capital as a "full concession" for an "indefinite and irrevocable period that cannot be modified." This obligates the government to pay even for unexploited reserves in the event of expropriation. According to lawyers, this decree violates the constitution, which states that subsurface mineral wealth belongs to the state in "absolute, exclusive, nontransferable, and imprescriptible ownership."

Chile has foreign capital from all over the world, with 50 of the 80 largest companies of the country belonging to multinationals (Rozas and Marín, 1988). These companies have obtained concessions to the richest deposits of copper, molybdenum, lithium, gold, and silver and have appropriated virgin forests, huge pine and eucalyptus plantations, agricultural and cattle-raising lands, and the electric power industry. They dominate timber, fruit, and vegetable exports, control established and mobile electronic communications, and have penetrated both the public and the cable television market; they dictate the market rules in the music, cinema, video, and book-publishing industries and occupy positions of increasing importance in banks, pension funds, and insurance companies. Numerous Chilean commercial and manufacturing enterprises pay transnationals for the use of their franchises and trademarks. Such trade can be illustrated by the case of McDonald's, which, without risking any capital whatsoever, captures 18 percent of gross sales for the use of its trademark and technical supervision. Multinationals' financial investments include bonds issued by national economic groups, stock certificates of Chilean companies, and foreign investment funds. A preliminary calculation of the total invested by transnational capital in Chile produces the figure of US\$60,000 million, corresponding to 33 percent of all existing assets and 90 percent of the annual GDP (Cademartori, 1998).

A portion of the net earnings that multinational capital takes out of Chile consists of profits and interest remittances, totaling US\$1,088 million in 1994, US\$1,600 million in 1996, and US\$1,881 million in 1999. These figures are equivalent to the total income of two and a half million Chileans classed as "poor." It is also important to add that the profits are not distributed but reinvested in the same business. Yet another portion of multinationals' earnings comes from imports and the payment of royalties and the like. The earnings of North American multinationals in Chile have been extraordinary. In a few years, profitability has exceeded 30 percent over net worth, more than double the world level and three times the average for Latin America (Caputo and Lara, 1995).

THE STATE'S ABANDONMENT OF ITS SOCIOECONOMIC FUNCTIONS

Contrary to the promises they made, the two administrations of the Concertación de Partidos por la Democracia (Agreement of Political Parties for Democracy)—that of Patricio Aylwin (1990–1993) and Eduardo Frei (1994–1999)—have weakened instead of strengthening “the guiding role of the state.” Consequently, the privatizations begun by Pinochet have continued, with mineral deposits, shipping, and air and rail transport companies all being put up for sale. Private investment has been authorized in potable water supply, ports, freeways, airports, tunnels, and underground parking structures. Similar privatization attempts are being made with hospitals, public schools, and prisons and with the introduction of a user-pays policy for central-city zones. Each new privatization awakens resistance; for example, intense public discussion recently delayed a decision on the privatization of state sanitation companies and ports. Sale procedures that have signified substantial losses for the state’s net worth have been questioned. There is disillusionment among workers whose compensation funds have been replaced by stocks of unstable value. In addition, there is opposition to massive reductions of personnel and the loss of social benefits that new industry owners impose. Strikes and protests such as those connected with the increase in freeway tolls and in rates for public services result. Mergers, shady business deals, and struggles for control among the hegemonic groups occur behind the minority shareholders’ backs. The recent electricity supply crisis revealed the machinations of the privatized companies and the inadequacy of the over-seeing institutions, to the detriment of both farmers and consumers.

With regard to taxation, the Aylwin government raised the value-added tax, which affects all of the most popular basic consumer items, from 16 percent to 18 percent. President Frei increased taxes on gasoline, cigarettes, and official seals and stamps and established other fees for the middle and lower classes—for instance, the semivoluntary payments made by parents and guardians toward schools’ operating budgets necessitated by government shortfalls in funding and the fees paid by homeowners of modest means for refuse collection. At the same time, the highest income tax rates were lowered on the pretext of “encouraging savings,” amounting to a loss for the Treasury of US\$150 million annually. Taxes on commercial patents, brands, and foreign consultancies were also lowered. Overall, the reforms tended to create a more unjust and regressive tax system and further skew the distribution of income between rich and poor. In addition, the amounts lost because of tax evasion exceeded the entire public health budget. Thousands of well-

off taxpayers were hiding their true income and being protected by a law that shielded the confidentiality of their income declarations.

Under pressure from the right wing and business, the Concertación limits investments in public enterprises and social services while giving in to the demands for subsidies of private companies. Exporters do not pay value-added tax; the most powerful lumber companies finance half of their plantations using government contributions, and a similar amount is received by landowners for investments in the extraction of underground water and imported materials. Private educational institutions and health care companies also benefit from subsidies. Even General Motors receives a subsidy for the assembly of utility vehicles in a northern border zone. Business people can deduct the costs of training, undistributed profits, and the purchase of new-issue stocks from their taxes. Thousands of millions of dollars in subsidies have been granted to the most powerful banking groups to compensate them for bankruptcy collapses. While worshippers of the free market justify subsidies when large private interests are concerned, they oppose them for small business owners or public enterprises that compete with major businesses. Another taboo area is the budget of the Chilean armed forces, which according to the Comisión Económica para América Latina (Economic Commission for Latin America—CEPAL) is among the most expensive in the continent in relation to GDP. In addition to a series of privileges, the armed forces annually receive 10 percent of the profits of the state Corporación del Cobre (Chilean Copper Corporation—CODELCO), with which they finance a sophisticated arms program.

BALANCE SHEET OF THE CHILEAN NEOLIBERAL MODEL

In summary, the Chilean economic model leads to the degradation of Chile's natural resources and promotes greater national dependence on foreign interests. The country has been weakened by the recurrent financial crises symptomatic of globalization, which generate segregation and intolerable inequality. Justifiably described as predatory, dependent, and exclusive, the model condemns Chileans to defenselessness. According to its prescriptions, rather than avoiding or counteracting the effects of external upheavals we must passively accept them and sacrifice ourselves for the sake of maintaining the system, even at an unjustified social and human cost.

Political and economic stability is being affected by social conflicts due to the old and new contradictions that are part of the cyclical and structural crisis. Pinochet's London detention and the loss of his immunity decided by the

Chilean Supreme Court have revealed serious pending human rights problems and polarized the political situation. Teachers, doctors, students, intellectuals, environmentalists, indigenous peoples, farmers, truck owners, regions, and unions, one after the other, have expressed their dissatisfaction with the prevailing economic model, particularly during the recession years. Polls in 1994–1999 revealed a constant decay of public support for the Frei administration. The 1999 presidential campaign showed all candidates promising change in economic and social policies. The ballot outcome confirmed that the third Concertación government has a weak majority. It has demanded that President Lagos introduce democratic changes in the economic, social, and political system, and these changes are being resisted by neoliberalism's supporters. The majority of Chileans, included some Lavin voters, want justice for victims of human right abuses, subordination of the military to civil power, a move toward a more democratic constitution, and real advances on economic inequities.

The neoliberal discourse presents the suppression of the economic and social functions of the nation-state as an irreversible global tendency, a symbol of modernity and new areas of freedom. According to the Heritage Foundation Chile, Chile is "the freest country in Latin America." Yet the extensive application of the Chilean model demonstrates, on the contrary, that repressive and authoritarian institutions prevail. There has been a return to old forms of exploitation, with areas of popular participation being taken away from civil society and citizens' rights and freedoms being restricted. Real power is in the hands of the transnationals and the monopolies that dominate the media, finance electoral campaigns, and exercise a decisive influence on governments and political and military hierarchies. Baldly stated, neoliberalism is incompatible with democracy.

The response to neoliberalism requires the recovery of political power for citizens and for the majority. What is needed is a new kind of state that is democratic, transparent, and accountable but has the necessary resources and power to defend the nation and its subordinated classes and groups, that promotes the nation's various cultures, threatened by neoliberal globalization, and that organizes the economy in the service of all citizens and not just a minority.

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