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And Economic Restructuring:
Chile, 1973-1988

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**CAPITALIST COALITIONS, THE STATE AND
ECONOMIC RESTRUCTURING: CHILE, 1973-1988**

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CAPITALIST COALITIONS, THE STATE AND
NEOLIBERAL ECONOMIC RESTRUCTURING: CHILE, 1973-1988

After the breakdown of democracy in the early 1970s, Chile became best known for the draconian neoliberal policies of economic stabilization and restructuring that followed under General Pinochet. Those policies were responsible for Chile's violent shift from a highly protected industrializing economy to an open, free-market economy based on agro-extractive exports--fruit, timber and fish. Most studies favored statist and ideological explanations for that rapid change.¹ They pointed out that Chile's military regime, and especially General Pinochet, shielded highly ideological civilian ministers from the resistance of industrialists and traditional grain-growing landowners--the presumed dominant factions of the upper class.

This article challenges that interpretation. State strength and ideological considerations alone were not sufficient to account for the shift from import substitution industrialization (ISI) to an open, free market economy. A disaggregation of capitalists and landowners showed that shifting capitalist coalitions (with varying power resources) were also necessary for the formulation and implementation of Chile's draconian

¹ For examples of the statist-ideological explanation see, Alejandro Foxley, Latin American Experiments in Neoconservative Economics (Berkeley: University of California Press, 1983); Guillermo Campero, Los gremios empresariales en el período 1970-1983 (Santiago: ILET, 1984); Tomás Moulián and Pilar Vergara, "Las fases del desarrollo político chileno entre 1973-1978," Estudios Cieplan, no. 9, 1980.

neoliberal policies. A comparison across three distinct policy periods in authoritarian Chile--which controlled for type of government--strongly suggested that when coalitions changed so did policy.

Reopening the debate over that brutal policy shift seemed interesting because the Chilean case lent itself to a broader exploration of the relationship between state and society in explanations of economic change. The central features of the statist approach--centralization of authority, insulation of technocrats from pressure groups, ideological homogeneity among top policy-makers--were stronger in Chile than in comparable cases such as Argentina, Uruguay and Brazil.² As a result, Chile offered a valuable initial test of the sufficiency of those factors for explanations of economic transformation.

A number of key assumptions of statist and ideological arguments merit challenge, in particular as they are applied to Latin America. To begin with, at any given time there are competing ideologically-anchored policy alternatives. The deeper issue turns on the factors that influence the triumph of one over another. A second question involves the choice to focus almost exclusively on ISI manufacturers and traditional landowners as the only upper class groups worth consideration. A further

² For classic statements of the statist and ideological approaches see, Theda Skocpol, States and Social Revolutions (Cambridge: Cambridge University Press, 1979); Stephen Krasner, Defending the National Interest (Princeton: Princeton University Press, 1978); Judith Goldstein, "The Political Economy of Trade: Institutions of Protection," American Political Science Review, 80, 1, 1986.

disaggregation of business and landowning groups allows for more fluid and varied coalitions. Lastly, linear conceptions of power between social groups and the state--analyses that focus on conflicts between individual social actors and the state--are inadequate to determine societal influence in economic policymaking. Relational images of power, where power also depends on the ability of class-based social groups to enter into alliances and coalitions against others, are more fruitful.³

Another questionable feature of the statist approach is its reliance on the links between organized business and the state to determine the degree of insulation of civilian economic ministers from societal pressure.⁴ Some of the earlier literature on authoritarianism recognized that the military selected influential persons to direct government economic agencies because they presumably spoke for important business and landowning constituencies.⁵ But subsequent work rarely explored the class-based background of highly ideological ministers of economic affairs. And when it did, it failed to systematically tie those individuals to larger coalitions of capitalists and

³ For a discussion of this view of power see, Gosta Esping Anderson, The Three Worlds of Welfare Capitalism (Princeton: Princeton University Press, 1990).

⁴ For studies that focus on organized business see, Guillermo Campero, Los gremios empresariales; and Philippe C. Schmitter, Interest Conflict and Political Change in Brazil (Stanford: Stanford University Press, 1971).

⁵ For the classic statement see, Juan J. Linz, "An Authoritarian Regime: Spain," in Erik Allardt and Stein Rokkan, eds., Mass Politics: Studies in Political Sociology (New York: The Free Press, 1970).

landowners both inside and outside of business organizations.⁶ Most current research has also neglected to explicate the role of such coalitions in formulating and shaping policy agendas, or to determine their impact on economic policymaking.

Nevertheless, to formulate the debate in terms of state autonomy v. societal forces seems unproductive. Each is undetermining.⁷ This article addresses the need to examine the relationship between state, societal and international factors in the analysis of economic change. It explores how international economic and domestic factors influence the formation, unraveling and relative power capabilities of policy coalitions--all within the context of an exclusionary authoritarian regime.

SOCIAL GROUPS, POLICY PREFERENCES AND POWER RESOURCES

Showing that shifting social coalitions also influence economic policy outcomes in labor repressive authoritarian regimes requires an examination of several interrelated questions. Which are the relevant social groups? What

⁶ Guillermo O'Donnell, Bureaucratic Authoritarianism: Argentina, 1966-1973, in Comparative Perspective (Berkeley: University of California Press, 1988), p. 72. For a study that does link capitalist coalitions to the state see, Sylvia Maxfield, Governing Capital: International Finance and Mexican Politics (Ithaca: Cornell University Press, 1990).

⁷ Scholars who have argued the point include, Peter A. Gourevitch, Politics in Hard Times: Comparative Responses to international Economic Crisis (Ithaca: Cornell University Press, 1986); John Zysman, Governments, Markets and Growth: Financial Systems and the Politics of industrial Change (Ithaca: Cornell University Press, 1983).

influences coalition formation and unraveling? Why does one coalition triumph over another?

With respect to the first question, a disaggregation of class-based social groups allows one to uncover more fluid and varied coalitions. Traditional industrial and landowning groups are not the only relevant upper class actors in the story of economic change from ISI to an open economy in labor repressive authoritarian regimes. One way to disaggregate social groups is to classify them according to their location in the international economy--whether they produce for domestic or international markets.⁸ For Latin America, the choice seems warranted given the nature of the two major developmental strategies in contestation since the 1930s: protected industrialization, and open economies seeking to exploit their comparative advantages (usually in agricultural and extractive industries).

Disaggregation according to location in the international division of labor yielded the following groups for the Southern Cone: manufacturers and landowners that produce for domestic or international markets; financiers largely connected to international or domestic-market oriented enterprises, or sources of investment funds; and internationally oriented large-scale extractive and commercial interests.

⁸ For this approach to the disaggregation of class-based groups see, Peter Gourevitch, Politics in Hard Times: Comparative Responses to International Economic Crisis (Ithaca: Cornell University Press, 1986).

Restricting attention to these groups is not accidental. Regime type--the system of intermediation between state and society--also influences which social groups participate in coalition building.⁹ Labor repressive authoritarian regimes, such as Chile's, tend to bar all but large-scale capitalist and landowners from the politics of economic policymaking.

In shifts from ISI to open economies one of the central conflicts between capitalist and landowning groups turns on the issue of trade. Thus, producers for domestic markets who are uncompetitive in world markets should favor protection. By the same token, groups tied to internationally competitive sectors tend to support more open economies. Explicit and tacit coalitions form among groups with complementary interests.

Establishing coalitions and their relationship to the state before policy is adopted strengthens the hypothesis that capitalist coalitions are a necessary factor in the analysis of economic change in exclusionary authoritarian regimes.¹⁰ It shows that they play important roles in policy agenda setting and formulation. It also suggests that dominant coalitions are crucial for policy implementation as well. They must possess the

⁹ For this view of political regimes see, Fernando Henrique Cardoso, "On the Characterization of Authoritarian Regimes in Latin America," in David Collier, ed., The New Authoritarianism in Latin America (Princeton: Princeton University Press, 1979).

¹⁰ For the distinction between inclusionary and exclusionary regimes see, Alfred Stepan, The State and Society: Peru in Comparative Perspective (Princeton: Princeton University Press, 1978).

economic capacity to help propel a project. Such coalitions may need state or foreign help, but without them the policy may fail.

Demonstrating the existence of such policy coalitions demands an examination of policy debates that take place before policy is adopted. Authoritarian regimes often exclude peak associations from policymaking in any meaningful way. When the latter protest government proposals and the authorities ignore them it may seem that state actors have virtually unlimited autonomy. However, upper class elites also articulate their economic interests by personalistic, ad hoc channels quite separate from business associations. Therefore, one fruitful avenue to uncover the relationship between state and societal actors is to examine the policy positions of the directors of conglomerates that have either internationalist or domestic market production profiles, as well as those of the peak associations.¹¹ If capitalists with close connections to the state mainly associate with one type of conglomerate, they probably embody an explicit or implicit coalition that controls vital economic assets.

These considerations, however, leave unanswered another crucial question. What factors contributed to the rise and demise of those coalitions? The catalyst for coalitional shifts may come from either international economic shocks, domestic economic and political crisis, or a combination of the two. Both

¹¹ Conglomerates usually control significant sectors of highly oligopolistic economies.

create situations in which old policies no longer sustain economic growth. Adjustment to new economic conditions strains the terms of the bargain that held the old coalition together.¹²

This raises a further question. Although economic crises may precipitate coalitional shifts, why does one coalition win over another? An analysis of the economic and political sources of power and the relationship between them may help. Here again, inquiry benefits from an examination of international and domestic factors. For developing nations, foreign savings are a significant component of development funds. As a result, social groups that can tap into them augment their relative economic power because they can contribute to their nation's economic growth and stability.

As Charles Lindblom and others point out, governments need to provide both. This brings up the issue of a coalition's relative political power, an area in which attention to domestic institutional factors offers the most insight.¹³ As a coalition gains in economic strength a government may place its representatives or agents in the executive branch. Control of key decision-making institutions biases institutional sources of power in favor of one coalition over another. This functional relationship builds networks between two power resources:

¹² For this perspective on the role of world economic crisis see, Peter Gourevitch, Politics in Hard Times.

¹³ Charles Lindblom, Politics and Markets (New York: Basic Books, 1977).

economic and political.¹⁴ Military leaders need the support of private economic agents to sustain development efforts.

Capitalist coalitions need state power to translate their economic preferences into policy. The one cannot dispense with the other.

A more instrumental approach to the relationship of state and society has deep implications for the debate over the interaction between capitalists, landowners and the state in exclusionary authoritarian regimes.¹⁵ The private interests that the state seeks to coopt or incorporate--individuals and firms--have a significance for economic policy outcomes that goes beyond their particularistic properties. They stand at the core of dominant economic policy coalitions. Without them, and the economic resources they command, state policy would either be different, or, at minimum, unsustainable.

Moreover, studies of policy change during periods of political crisis need to consider the impact of regime change and past economic policies on the relative strength of competing capitalist groups. For example, in democracy, capitalist groups may rely on alliances with labor against other capitalist groups. In authoritarianism they find themselves alone in naked intra-

¹⁴ For an elaboration of functional power sources and the importance of networks between them see, Michael Mann, The Sources of Social Power, Volume 1 (Cambridge: Cambridge University Press, 1986).

¹⁵ For the instrumentalist approach to the state see, Ralph Miliband, The State in Capitalist Society (New York: Basic Books, 1969).

class conflict, which weakens them. By the same token, agrarian reform or nationalization efforts might substantially weaken some sectors of the dominant class, providing opportunities for erstwhile more subordinate capitalist groups.

To summarize, international factors help to define class-based social groups by disaggregating them. This allows for more varied and fluid coalitions. External and domestic economic crises provide the catalyst for coalitional change. Both international and domestic factors have an impact on the relative power capabilities of social groups. Domestic institutional factors shape policy networks, that is, which groups participate in economic policy-making and under what conditions. As an economically strong rival coalition emerges, military leaders may boost its political power by giving its agents cabinet positions.

THE CASES

A comparison across three distinct policy periods in authoritarian Chile--gradual, radical and pragmatic neoliberal restructuring--demonstrates a need to include social coalitions in analyses of economic policy change.¹⁶ As the next sections show, in each policy period a distinctive capitalist coalition formulated policy and established privileged networks with state

¹⁶ For a useful overview of these periods see, Carlos Hurtado, De Balmaceda a Pinochet (Santiago: Ediciones Logo, 1988).

institutions and actors. When economic and political crises precipitated shifts in dominant coalition, policy changed.

From Import Substitution to Gradual Adjustment, 1973-1975.

The economic and political crisis unleashed by Unidad Popular's attempt to introduce socialism in Chile between 1971 and 1973 essentially destroyed the policy coalition that had supported import substitution industrialization (ISI) in democratic Chile. The core of the populist ISI coalition had consisted of manufacturers for domestic markets in tacit alliance with organized urban labor mediated by centrist middle class political parties. The socialist experiment, however, united capitalists, landowners, middle classes and their political party allies against labor, peasants and leftist parties.¹⁷

The coup coalition agreed that it opposed socialist policies, but it was not of a mind with respect to the economic development model that should follow. Throughout 1973, during both the preparations for and in the aftermath of Salvador Allende's overthrow, economic policy debates picked up where they

¹⁷ For representative samples of the extensive literature on those periods of Chilean history see, Brian Loveman, Chile: The Legacy of Hispanic Capitalism (New York: Oxford University Press, 1979) and Barbara Stallings, Class Conflict and Economic Development in Chile (Stanford: Stanford University Press, 1978).

had left off in the late 1960s: whether to continue with an economic development model that gave industry high protection, and gradually stabilize the economy; to slowly dismantle barriers to trade and stabilize the economy; or to introduce draconian economic stabilization and market liberalization.

The newly installed military government opted for the middle policy alternative--a gradual approach to import liberalization and stabilization. On January 10, 1974 the authorities decreed gradual tariff reductions: from an average rate of 94% to 60% in three years. Devaluations of a unified exchange rate offered additional protection. The gradualist approach would open Chile to regional markets (principally the Andean Common Market), allowing manufacturers to adjust to heightened competition.

What were the patterns of support for the various policy options in the chaotic months just before and after the coup in September 1973? In a climate of mass mobilization, sporadic violence and subsequent massive repression, economic policy debates continued more or less behind closed doors. In them, a significant inter-sectoral coalition supported the gradualist option. Backing for either continued high protection or drastic opening appeared scant. The business associations of manufacturers for domestic markets that could not compete with imports--metals, electronics and textiles--supported continued high levels of tariff protection. However, industry's peak association (Sociedad de Fomento Fabril, SFF) joined the

landowner's peak association (Sociedad Nacional de Agricultura, SNA),¹⁸ in support of a gradual reduction of tariffs, along with mine owners (Sociedad Nacional de Minería, SONAMI) and the large-scale commercial sector (Cámara Nacional de Comercio, CNC). As a result, the Confederation of Production and Commerce (CPC), the peak association's umbrella organization, threw its weight behind the gradualist approach.¹⁹

The main reason for the SFF's acceptance of a gradual reduction in protection for industry lay in the impact of domestic factors such as past policy and a change in type of government. To begin with, Allende's nationalization policy weakened industrialists economically and diverted attention from tariff policy. More importantly, a debilitated SFF now stood alone against other business and landowning groups that had long wanted to reduce high tariff barriers in order to increase

¹⁸ Domestic market producers in agriculture opposed high tariffs because they diverted investment to industry, but they demanded (and got) protection via price floors and ceilings.

¹⁹ For the minority policy position within the SFF I relied on personal interviews with Gustavo Ramdohr, former director of the metal sector's association, and Orlando Sáenz, president of the SFF at the time. These and all other interviews took place in Santiago de Chile between July 1988 and June 1989. For the policy position of the SNA see, El Campesino, November 1973 and January-February, 1974; for the CNC see, Memorias Anuales, 1973 and 1974; I derived SONAMI's position from a personal interviews with Manlio Fantini, a member of SONAMI's elected board and Carlos Rodríguez, SONAMI's director of planning. For the SFF's stance see, El Mercurio, December 15, 1973 and January 9, 1974, as well as SFF president Orlando Sáenz's speech in Informativo SFF, February-March, 1974. For the CPC's policy position I relied on personal interviews with Manuel Valdés, organizer of the Second CPC Convention in December 1973, and media accounts of the convention in El Mercurio, Ercilla, and El Campesino.

investment in their own sectors. After all, in the democratic period manufacturers for domestic markets had tacitly relied on a non-business coalitional partner--organized labor, which benefitted from increased employment. Moreover, the SFF at times had been able to defend against government-sponsored tariff reform by threatening to incite labor unrest.²⁰ The Allende experience, and the labor-repressive military government that followed, destroyed those relationships. In other words, in the context of more or less unmediated relations with the state, the SFF found itself bereft of alliance partners against other business and landowning sectors, and with reduced economic power due to nationalization. These factors suggested that compromise with sectors that wanted to reduce protection, rather than confrontation, was the better course of action. After all, industrial development still remained the primary goal.²¹

The SFF's isolation in the CPC over the tariff question combined with another factor to further ease acceptance of gradual adjustment. The majority of SFF elected members operated in internationally competitive firms, or had multiple economic interests. Between 1973-1974, of a total of 31 elected members, 16 were occupied in internationally noncompetitive activities. That suggests that there should have been a spirited fight over the issue of protection within the SFF. However, of those 16, 12

²⁰ Personal interview with Sergio Molina, former Minister of Finance in the mid-1960s, Santiago de Chile, May, 1988.

²¹ El Informativo SFF, February-March, 1974.

had interests in competitive sectors (mostly food processing) that mitigated their need to vigorously support existing levels of protection. Six had interests in commerce, finance and agriculture. Four were executives of the Banco Hipotecario de Chile (BHC) internationalist conglomerate. Two worked for a Multinational Corporation (MNC).²²

Moreover, manufacturers for domestic markets whose economic interests were firmly planted in uncompetitive sectors, and who had votes in the SFF, were a minority within the organization. Their complaints and demands went largely unattended. When the issue gained a place on the SFF's agenda in the general council it was voted down.²³

After the coup d'état, then, an explicit coalition of business organizations operating through the CPC worked with the military government and its civilian advisors in the formulation of the gradualist policy.²⁴ However, it was but the outer,

²² These and all other prosopographical data on SFF members and government officials were culled from: SFF, Memorias, selected years; Colegio de Periodistas, Diccionario Biográfico (selected years), company annual reports, and Directorio de Ejecutivos y Empresas (selected years).

²³ Personal interview with Gustavo Ramdohr, former official of the metallurgical sector association, Asociación de Industrias Metalúrgicas, Santiago de Chile, 1988.

²⁴ in December 1973, the CPC held a convention to discuss policy recommendations. It supported privatization, price deregulation, the creation of private capital markets and gradual reduction in protection. During and after the convention private sector leaders met with government officials to discuss policy. Accounts of the convention are from El Mercurio, Ercilla, El Campesino, and a personal interview with Manuel Valdés, the principal organizer of the business summit, in 1989.

public side of a private, inner coalition that furnished many of the new military regime's civilian advisors. Gradualists controlled this coalition as well, and the network of relations between gradualists in the public and private coalitions reinforced their dominance over extreme protectionists and radical internationalists alike.

After the final destruction of democracy, direct access to powerholders (the military and well-placed civilian authorities) privileged some groups over others who did not enjoy those connections. The distribution of civilians in top economic policymaking ministries and advisory positions clearly reflected the dominance of gradualists within the policy coalition. That the military relied on gradualists was no accident. Gradualists had controlled both the business mobilization against Allende--led by the Monday Club--and the development of a post-coup economic program, The Brick, that the military commissioned before the coup.²⁵

The character of the business conglomerates that dominated the Monday Club and The Brick--the Edwards and the BHC groups--was the main indicator of the gradualists' control over the coup coalition. The Edwards group was a type of traditional conglomerate that had a concentration of assets in

²⁵ For the Monday Club and The Brick (El Ladrillo) see, Philip O'Brien, The Pinochet Decade (London: Latin America Bureau, 1983); Arturo Fontaine, Los economistas y el presidente Pinochet; Ascanio Cavallo, Manuel Salazar, and Oscar Sepúlveda, La historia oculta del régimen militar (Santiago: Editorial La Epoca, 1988).

noninternationally competitive sectors, but it also had sizeable investments in internationally competitive activities. As a result, it initially supported gradual adjustment because it could shift assets more easily. By contrast, the BHC group was a more internationalist conglomerate, particularly with respect to the financial component, its strongest sector. Of the Monday Club's seven regular members five were top executives of the Edwards conglomerate and two were from the BHC conglomerate. Of the Brick's ten regular members, six were evenly divided among the Edwards and BHC conglomerates. The other four were Christian Democrat economists and former Central Bank officials during the Frei administration (1964-1970).²⁶

INSERT TABLE 1

Many of the leading civilian authorities whom the military junta appointed in 1973 were linked to the Edwards conglomerate, which had stood at the core of both the Monday Club and the Brick.²⁷ For example, Fernando Léniz, who became Economics Minister in October 1973, was a prominent businessman with close

²⁶ The Christian Democrat's participation in The Brick reflected their position in the coup coalition. For their role in the breakdown of democracy see, Arturo Valenzuela, The Breakdown of Democratic Regimes: Chile (Baltimore: Johns Hopkins University Press, 1978).

²⁷ This does not mean that the persons who then occupied government posts were necessarily involved in the Monday Club and the Brick. Nevertheless, their appointment reflected the Edwards group's political power.

TABLE 1
MAJOR TRADITIONAL AND INTERNATIONAL CONGLOMERATES, 1970 AND 1977
CONCENTRATION OF COMPANIES BY ECONOMIC ACTIVITY

YEAR & NAME OF CONGLOMERATE	(1) TOTAL COMPANIES	(PERCENT)										
		(2) % DOM. MKT. INDUSTRIAL NON- COMPETITIVE*	(3) % DOM. MKT. INDUSTRIAL COMPETITIVE	(4) % DOM MKT. AG.	(5) % PRI- MARY PROD. EX.**	(6) % EX/IM TRADE	(7) % FINANCIAL INVEST.♦	(8) % REAL ESTATE	(9) % TOTAL DOM- ESTIC MKTS.	(10) % TOTAL INTER NAT'L MKTS.	(11) % TOTAL FIN/ SPECU- LATIVE*	(12) % TOTAL FIN/ SPEC. INT.
INTERNAT'L												
'74/Cruzat-L.	11	9.0	27.2	--	36.4	--	27.2	--	36.2	36.4	27.2	63.6
'77/Cruzat-L.	85	7.0	23.5	--	25.6	18.8	15.9	9.4	30.5	44.4	25.3	69.7
'74/BHC	18	16.7	5.5	--	11.0	--	66.7	--	22.2	11.0	66.7	77.7
'77/BHC	62	12.9	22.5	--	14.4	11.3	35.4	3.2	35.4	25.7	38.6	64.3
'70/Angelini	4	--	--	--	75.0	25.0	--	--	0	100.0	0	100.0
'77/Angelini	18	5.5	5.5	--	50.0	22.2	16.6	--	11.0	72.2	16.6	88.8
'70/Menéndez	8	--	--	--	25.0	62.5	12.5	--	0	87.5	12.5	100.0
'77/Menéndez	10	10.0	10.0	--	40.0	30.0	10.0	--	20.0	70.0	10.0	80.0
'77/Hochschild	12	8.3	16.6	--	41.6	25.0	8.3	--	24.9	66.6	8.3	74.9
FORMER TRADITIONAL												
'77/Edwards	34	--	26.4	--	2.9	2.9	52.9	14.7	26.4	5.8	67.6	73.4
'77/Matte	39	7.6	7.6	--	15.1	23.0	19.9	28.2	15.2	38.1	46.1	84.2
TRADITIONAL												
'70/Edwards	30	6.6	33.3	3.3	6.6	6.6	33.3	10.0	43.2	13.2	43.3	56.5
'70/Matte	26	34.5	19.2	7.6	7.6	15.3	19.2	3.8	53.7	22.9	23.0	45.9
'70/Lúksic	16	20.5	43.7	--	24.2	6.2	--	--	68.7	31.1	0	31.1
'77/Lúksic	29	3.4	41.3	3.4	20.6	17.2	6.9	6.9	48.1	37.8	13.8	51.6
'77/Sáenz	15	13.3	46.6	--	--	--	26.6	13.3	59.9	--	39.9	39.9
'70/Lepe	4	50.0	50.0	--	--	--	--	--	100.0	0	0	0
'77/Lepe	11	36.3	45.4	--	--	9.0	9.0	--	81.7	9.0	9.0	18.0
'70/Yarur-B.	7	43.0	--	--	--	--	57.0	--	43.0	0	57.0	57.0
'77/Yarur-B.	9	44.4	22.2	--	--	11.1	22.2	--	66.6	11.1	22.2	33.3
'70/Briones	5	80.0	20.0	--	--	--	--	--	100.0	0	0	0
'77/Briones	7	14.3	57.1	--	--	14.3	14.3	--	71.4	14.3	14.3	28.6

Legend: Column (1): Number of firms the conglomerate controlled; (2) Non-internationally competitive industrial firms producing for domestic markets; (3) internationally competitive firms producing for domestic markets; (4) Domestic market agriculture; (5) Primary product exports; (6) Export/Import and trade related firms; (7) Financial and investment firms; (8) Real estate; (9) % total firms producing for domestic markets; (10) % total firms producing for international markets; (11) % total firms in the financial, investment or speculative sectors (real estate); (12) The same as column 11 plus % firms that produce for international markets.

* Competitiveness was established by industrial activity, not by individual firm, and the criteria were taken from Guillermo Campero and José Valenzuela, El Movimiento Sindical en el Régimen Militar Chileno.

** Includes fishing, forestry, export agriculture and mining.

♦ Includes banks, investment companies and insurance firms.

* Speculative activities in finance, investment and real estate contributed to the financial bubble produced by free-market policies.

Source: Fernando Dahse, El Mapa de la Extrema Riqueza (Santiago: Editorial Aconcagua, 1979).

ties to the Edwards and Matte conglomerates. Roberto Kelly, with links to the Edwards conglomerate, became director of the Oficina de Planificación Nacional (ODEPLAN), the government planning agency. Orlando Sáenz became coordinator for Chile's foreign debt renegotiation team. He had participated in the Monday Club, headed Edwards conglomerate firms, and was a powerful figure in the SFF, which under his direction led the private sector's struggle against Allende.

Under them, the radical Chicago Boys--who had studied neoclassical economics at the University of Chicago with Milton Friedman and Arnold Harberger--became important advisors in the Ministry of Economy and ODEPLAN, the planning agency. These men had connections to both the internationalist conglomerates (BHC) and more traditional ones (Edwards). Meanwhile, Christian Democratic technocrats, who also favored gradualism, were appointed to the Central Bank and the Budget Office. Most of these radical Chicago Boy and Christian Democrat appointees had participated in The Brick.

Not all leading appointees had such close ties to conglomerates involved in the Monday Club and The Brick, although they too reinforced the dominance of the gradualist coalition in government. For example, Raúl Sáez, who headed the military government's economic advisory team right after the coup--was respected in ISI business circles because he had been one of the first directors of the state's Development Corporation (CORFO). Aside from being a government holding company for many state

enterprises, CORFO had also provided seed money for joint ventures between the public and private sectors, as well as credit for industrial development.

As a result of these networks the leaders of the business and landowning associations--the outer, public gradualist coalition--found congenial counterparts at the highest level of government with whom to exchange views on economic policy. Major policy disagreements between big business and government officials did not, for the most part, exist. Moreover, the ministries were very receptive to businessmen who sought to iron out small differences or to gain some advantage.

From Gradual to Radical Neoliberal Adjustment, 1975-1982.

The gradualist period largely conformed to classical observations of authoritarianism in Latin America. Some of the major groups that supported the coup--middle classes and small and medium business--found to their dismay that government policy ignored their interests. Moreover, in tune with well-established interpretations of intersectoral relations in Latin America, large-scale capitalists and landowners managed to find an

accommodation over economic policy.²⁸ All would be able to adjust.

The initial accommodation did not last long. A lack of cohesiveness in the gradualist coalition contributed to the abrupt end of gradual adjustment in mid-1975. Between 1974 and 1978, Chilean capitalists and landowners--contrary to theoretical expectation--behaved in a most unaccommodative fashion. The radical internationalist groups (who had been marginalized in 1973) challenged the more moderate elements of the gradualist coalition and won. They supported the twin underpinnings of what was to become the radical neoliberal experiment: drastic deflation and rapid economic transformation via draconian reductions in protection for industry.²⁹ The new policy was radical in the draconian speed and thoroughness with which stabilization and market liberalization policies were applied, both in relation to the preceding period and in comparison to similar cases in Argentina and Uruguay. It was also radical in its brutality towards adversely affected economic sectors, including many capitalists and landowners.

²⁸ For this view of upper class behavior see, Charles H. Anderson, Politics and Economic Change in Latin America (New York: D. Van Nostrand Co., 1967); Philippe C. Schmitter, Interest Conflict and Political Change in Brazil; Maurice Zeitlin and Richard E. Ratcliff, Landlords and Capitalists: The Dominant Class of Chile (Princeton: Princeton University Press, 1988).

²⁹ For those policies see, Sebastian Edwards and Alejandra Cox Edwards, Monetarism and Liberalization: The Chilean Experiment (Cambridge: Ballinger, 1987).

The key question for this period was: what conditions allowed powerful, but heretofore marginalized, capitalist groups to dominate economic policymaking? Changes in two major power sources--economic and state institutional (or political)--as well as the network of relations between them, opened up a window of opportunity for the radical internationalists to prevail.

With respect to the economic sources of power, international and domestic factors combined to strengthen and embolden radical internationalists. External factors (oil price shocks, changes in the sources of external savings for investment from multilateral institutions to private commercial banks, and declining copper prices) aggravated balance of payments problems. This weakened ISI industrialists, the most interested in maintaining gradual adjustment to a more open economy. Their dependence on imported intermediate goods drained already insufficient hard currency reserves. Conversely, those factors strengthened financiers and commercial interests with access to funds from international banks, as well as agro-industrial extractive groups in timber, sea products and fruit. These groups contributed to foreign exchange reserves, thus, making them potentially more attractive to the military as support groups for long-term economic growth.

These international economic conditions, while important, were nevertheless too diffuse to explain the extraordinary triumph of radical internationalists. Past policies--specifically Unidad Popular's relatively widespread

nationalization of large-scale business and banking--had weakened ISI industrialists. They opened the opportunity for a reorganization of capital that was quite distinct from similar cases. After the overthrow of Allende, the privatization of firms, a deep recession in 1975-76, and financial system deregulation allowed internationally connected financiers (key radical internationalists) to inexpensively control leading Chilean firms.³⁰ By this process, radical internationalists built giant new international finance, export and import-oriented conglomerates. These internationalist conglomerates soon

³⁰ For an account of this process see, Fernando Dahse, El mapa de la extrema riqueza (Santiago: Editorial Aconcagua, 1979); Andrés Sanfuentes, "Los grupos económicos: Control y políticas," Estudios Cieplan, no. 15, 1984. Data from Dahse's study show that by 1977 the internationalist conglomerates controlled about 60% of the private sector's share of the financial system. This accounting includes former traditional conglomerates that quickly shifted to more internationalist profiles. They also controlled over 50% of the combined assets of Chile's largest 250 companies. Moreover, when financial sector reform was on the policy agenda the radical Chicago Boys who controlled the Central Bank had close business ties to the internationalist conglomerates. They invited executives from those conglomerates to participate in the discussions. By the same token, CORFO VP's also had close links to internationalist conglomerates, such as Cruzat-Larraín and Edwards. These data from, a personal interview with Juan Villarzú who was budget director at the time and Banco Central de Chile, Estudios monetarios III: Seminario de mercados de capitales (Santiago: n.p., 1974). For a further elaboration of these themes see, Eduardo Silva, "Capitalist Coalitions and Economic Policymaking in Authoritarian Chile," Ph.D. dissertation, University of California, San Diego, 1991. For a description of how the Chicago Boys took over key offices from more moderate persons see, Verónica Montecinos, "Economics and Power: Chilean Economists in Government, 1958-1985," Ph.D. dissertation, University of Pittsburgh, 1988; and Arturo Fontaine Aldunate, Los economistas y el presidente Pinochet (Santiago: Zig-Zag, 1988).

overshadowed more traditional conglomerates that had supported gradualism (see Table 1).

The economic weakness of ISI industrialists emboldened radical internationalists, operating in a context of growing economic opportunity, to confront the gradualists as early as mid-1974. Nevertheless, the extremists' economic strength did not suffice for their victory. Parallel changes in state organization (sparked by a power struggle in the military junta) opened up chances for the establishment of new networks between economic and state power sources.

Between 1974 and 1978, General Pinochet gained ascendancy within the military junta and personalized his power. As his star rose, he formed increasingly tight links with the Chicago Boys.³¹ The Chicago Boys, however, were not just a caste-like group of neoliberal technocrats. Many of the key figures had close ties to ever more powerful radical internationalist conglomerates that were gaining coherence through their corporate acquisitions policy. By embracing the Chicago Boys, Pinochet formed an alliance with ideologues and conglomerates that controlled the most dynamic sectors of the economy, which gave them the ability to sustain radical neoliberal policies.

³¹ For Pinochet's rise to power see, Arturo Valenzuela, "The Military in Power: The Consolidation of One Man Rule in Chile," in Paul W. Drake and Iván Jaksic, eds., The Struggle for Democracy in Chile, 1982-88 (Lincoln: University of Nebraska Press, forthcoming). In addition to Valenzuela see, O'Brien, The Pinochet Decade; Cavallo, et al., La historia oculta; and Fonatine, El presidente Pinochet.

The internationalist conglomerates' first victory came in April 1975 with the appointment of Sergio de Castro to the Ministry of Economy, Pablo Baraona as president of the Central Bank, and Francisco Soza as Vice President of CORFO. All had close business and/or personal ties to either the Cruzat-Larraín or BHC conglomerates. Cauas, a Chicago Boy who sponsored drastic deflation and later developed business ties to Cruzat Larraín, continued as Minister of Finance.

INSERT TABLE 2

Radical neoliberal policies followed quickly on the heels of the new appointments. Drastic deflation, a downward revision and acceleration of tariff reductions and rapid privatization began in April through July, 1975. As more Chicago Boys and their sympathizers gained office in the next years, and as the internationalist conglomerates expanded (see Tables 1 and 2), more neoliberal policies followed. By 1979 Chile had a flat tariff rate of 10% and a fixed exchange rate of 39 pesos to the dollar. Moreover, the Edwards conglomerate, which had been a traditional type, became more international in profile, forged close business ties with Cruzat-Larraín, and supported radical neoliberal policies in El Mercurio editorials. Chile's leading conservative newspaper was also an Edwards group company.

Pinochet and the radical internationalists served each other well. The radical internationalists had been in sharp conflict

TABLE 2
ECONOMIC INTERESTS OF KEY MINISTERS, 1975-87

INSTITUTION	NAME	TENURE	ASSOCIATION MEMBER	CONGLOMERATE AFFILIATION & TYPE									
				RI	RFT	I	FT	MNC	N	F	CB		
FINANCE	Cauas	07/74-12/76		C-L	x*								
	de Castro	12/76-04/82	---	C-L	x					x	x		
	de la Cuadra	04/82-08/82	---	Aetna				x		x	x		
	Lüders	08/82-02/83	---	BHC	x						x	x	
	Cáceres	02/83-04/84		IO						x	x		
	Escobar	04/84-02/85							x		x		
Büchi	02/85-												
ECONOMY	de Castro	04/75-12/76		C-L	x								
	Baraona	12/76-12/78	SNA/SFF	C-L	x						x	x	
	Kelly	12/78-12/79		BHC	x						x		
	Federici	12/79-12-80		C-L	x								
	Ramos	12-80-04/82	Army										
	Danús	04/82-08/82	Army	Edw		x							
	Lüders	08/82-02/83		BHC	x						x	x	
	Martín	04/83-08/83		L				x			x		
	Passicot	08/83-04/84											
	Collados	04/84-07/85									x		
	Déllano	07/85-07/87						x			x		
	CENTRAL BANK Presidents	Baraona	1975-1976	SNA/SFF	C-L	x							
Bardón		1976-1981		BC							x	x	
de la Cuadra		1981-1982		Aetna				x			x	x	
Kast		1982-1982										x	
Cáceres		1982-1983		IO						x	x		
Errázuriz		1983-1984		BHC	x						x		
Ibáñez		1985-1985										x	
Seguel		1985-											
Vice Pres.		Bardón	1975-1976		BC							x	x
		de la Cuadra	1976-1981		Aetna				x			x	x
	Errázuriz	1981-1981		BHC	x						x		
	de la Barra	1981-1982											
	Tapia	1982-1983		Matte				x			x	x	
	Ossa	1983-1984											
	Ruiz	1984-1985						x					
Serrano	1985-												
VP CORFO	Soza	04/75-10/75		C-L	x								
	Danús	10/75-07/79	Army	Edw		x							
	Ramos	08/79-12/80	Army										
	Varela	12/80-03/81	Army	C-L	x								
	Ramírez	03/81-08/83	Army										
	Pérez	08/83-12/83	Army										
	Hormazábal	12/83-	Army										
BUDGET	Méndez	1975-1981										x	
	Costábal	1981-1984		C-L	x			x		x		x	
	Fuenzalida	1984-1985		L & Matte									
	Selume	1985-						x			x		
AGRICULTURE	Police Generals to Márquez	04/78-04/78-12/80		C-L	x							x	
	Toro	12/80-12/81	Police										
	Prado	12/81-											

Legend: Conglomerates: C-L, Cruzat-Larraín; BHC, Javier Vial group; Edw, Edwards; IO, Ibáñez Ojeda; L, Luksic; BC, Banco Concepción; RI, Radical Internationalist; RFT; Radical Former Traditional; FT, Former Traditional; MNC, Multinational Corp.; N, Neutral (not Internationalist or Traditional, has competitive enterprises, mainly in food); F, has interests in a financial institution; CB, Chicago Boy.

Sources: Colegio de Periodistas, Diccionario Biográfico, selected years; Company annual reports, Banco Central, Instituciones Financieras, selected years; Hoy, no. 346, March 7, 1984; Fernando Dahse, El Mapa de la Extrema Riqueza.

Cauas shows up as president of top C-L financial institutions beginning in 1978.

with the moderate groups of the gradualist coalition since the 1960s.³² Radical internationalists needed Pinochet in order to impose their extreme neoliberal policies. By the same token, Pinochet needed the radicals to consolidate his power. They opposed more traditionalist economic interests that favored a more corporatist political regime.

As a result, a tight network formed between the radical internationalists, with their increasing economic power, and Pinochet with his expanding sources of political power. This network displaced the one that the gradualists had formed with the broader military movement and junta in 1973. With Pinochet and the radical coalition's triumph, a highly centralized authoritarian regime allowed the Chicago Boys to impose their policy option and ignore pressure from business peak associations that defended the more gradual approach.

From Radical to Pragmatic Neoliberal Policies, 1983-1988

In the previous two periods, domestic economic and political crises influenced the building and unraveling of capitalist coalitions in a much more immediate way than changing international economic conditions. In 1982 the situation reversed dramatically. External economic crisis provided the

³² The first big public outburst of this conflict occurred during Jorge Alessandri's 1970 presidential campaign. Sergio de Castro, a campaign advisor, wanted to develop a radical neoliberal economic platform. Cooler heads prevailed.

catalyst for coalitional shifts that led to the replacement of radical neoliberalism with a more pragmatic neoliberalism between 1983 and 1988. The pragmatic neoliberal model tolerated reflationary policies and economic restructuring was no longer at the expense of the industrial sector.³³ In other words, pump priming and industrial policy became part of the policy package.

This section will consider two questions. First, how external economic shocks affected the unraveling of the dominant radical coalition and the formation of a rival pragmatic coalition. Second, how the radical coalition's economic weakness, coupled with the threat of a broader interclass coalition between the pragmatic coalition and middle classes, induced Pinochet to abandon radical neoliberal policies. In other words the pragmatic coalition shaped policy agendas but required political power to implement policy. Pinochet needed policy coalitions capable of sustaining economic growth to remain in power.

By 1980, high levels of international liquidity had drawn skeptical business and landowning groups to the extreme neoliberal coalition that had the radical internationalist conglomerates at the core. A flood of foreign savings during

³³ For a further elaboration of the pragmatic neoliberal model see, Eduardo Silva, "The Political Economy of Chile's Transition to Democracy: From Radical to Pragmatic Neoliberal Policies," in Drake and Jaksic, eds., The Struggle for Democracy in Chile. Also see, Laurence Whitehead, "The Adjustment Process in Chile: A Comparative Perspective," in Rosemary Thorp and Laurence Whitehead, eds., Latin American Debt and the Adjustment Crisis (Pittsburgh: University of Pittsburgh Press, 1987).

that period fed an economic boom that helped to sustain social groups excluded from the policy process. Easy credit allowed producers for domestic markets to overcome the negative effects of a 10% flat tariff rate. They borrowed to expand, diversify or survive in an atmosphere of prosperity. The middle class, as never before, borrowed cheap dollars and consumed goods and services that had been the preserve of upper classes.³⁴

The international debt crisis of the early 1980s ripped asunder the broader coalition that radical internationalists had managed to form with most sectors of capital and landowners.³⁵ In 1982, the debt crisis contributed to a collapse of the Chilean financial system, the economy plunged as production stopped (GDP fell 14%), unemployment soared to over 25%.³⁶

The economic debacle had two immediate effects. First, the radical conglomerates that stood at the core of the coalition both contributed to the economic crisis and fell victim to it. The directors of these financial institution-led economic groups had built their empires on highly leveraged buy-outs and were dependent on ample international liquidity for their operations.

³⁴ For an overview of these processes see, Alejandro Foxley, Latin American Experiments with Neoconservative Economics. Firm behavior was gleaned from personal interviews with executives and selected company annual reports.

³⁵ For the Latin American debt crisis see, Barbara Stallings and Robert Kaufman, eds., Debt and Democracy in Latin America (Boulder: Westview Press, 1989); William L. Canak, ed., Lost Promises: Debt, Austerity and Development in Latin America (Boulder: Westview Press, 1989).

³⁶ For the 1982-84 economic crisis see, Sebastian Edwards and Alejandra Cox Edwards, Monetarism and Liberalization.

When the flow of foreign savings dried up they ran into cash flow problems and raised interest rates to usurious levels in order to capture domestic savings. After cabinet shuffles and failed government attempts to lower interest rates, in January 1983, Minister of Finance Rolf Lüders placed the radical conglomerate's leading financial institutions in receivership, or liquidated them.³⁷ Since many of the major firms and holding companies of those conglomerates could not meet their debt schedules the government wound up in control of them too, although it left their management in private hands.

Second, the end of the foreign debt-led boom demonstrated just how thin the ideological commitment to radical neoliberalism was among most upper class elites. During the boom business and landowning peak associations extolled the virtues of the radical free market model.³⁸ Beset by economic hard times, however, and in the wake of the collapse of the radical conglomerates, the peak associations--under the umbrella of the Confederation of Production and Commerce (CPC)--turned to the task of developing an alternative economic model.

By 1983 the business and landowning associations affiliated with the CPC had formed a cohesive pragmatic neoliberal coalition

³⁷ Sergio de la Cuadra and Salvador Valdés, "Myths and Facts about Instability in Financial Liberalization in Chile: 1974-1983," in Philip L. Brock, ed., If Texas were Chile: Financial Risk and Regulation in Commodity Exporting Economies (San Francisco: ICS Press, forthcoming).

³⁸ The annual reports of the SFF, SNA, and CNC, and SFF/SNA publications such as Informativo SFF and El Campesino, were remarkably uncritical between 1979-1981.

and formulated a detailed and highly publicized economic recovery program.³⁹ The pragmatic coalition supported high real exchange rates, low across-the-board tariffs with protection against unfair competition, a reflationary monetary policy, low interest rates, debt relief, sectoral policies (such as export promotion, construction projects, agricultural development), and a more inclusive, institutionalized policymaking process.

Explicit bargaining between sectoral peak associations cemented the pragmatic neoliberal coalition. Internationalists (although not radical ones) dominated with industrialists producing for domestic markets (who had regained control of the SFF) in a subordinate, but not excluded, position. It was the gradualist coalition reversed. Internationalists in commerce (CNC), mining (SONAMI), finance (Asociación de Bancos e Instituciones Financieras, ABIF), landowners (SNA) and the SFF, all, supported high real exchange rates--they encouraged exports and discouraged imports. Likewise, all wanted low interest rates, debt relief and changes in the policymaking process. In addition, the SFF had wanted differentiated tariff schedules with a maximum of 35% ad valorem. But once again it was outvoted in the CPC by the internationalists and the SNA who wanted to keep

³⁹ Confederación de la Producción y Comercio, "Recuperación económica: Análisis y proposiciones," Santiago de Chile, July 1983, and related documents presented by member associations. For its genesis see, Guillermo Campero, Los gremios empresariales.

low (15-20%) across-the-board rates.⁴⁰ As in the past, the SFF had no coalitional partners, and, thus, had to content itself with protection against unfair competition.

In 1983, Pinochet only grudgingly gave in to some of the pragmatic coalition's demands. He acquiesced to minor concessions, hoping that the proper mix would split the new alliance.⁴¹ Between 1984 and 1985, however, the government adopted the bulk of the CPC's economic program, and virtually all of it by 1988.⁴² Where discrepancies existed in targets, these may be put down to the fact that the program had been a platform for negotiation with the regime, not an ultimatum for capitulation.

Pinochet might largely have continued to ignore the pragmatic coalition had it not been for escalating political protest against his rule by middle and lower class sectors and their political party allies. By the end of 1983, the largest opposition grouping had formed Alianza Democrática, a coalition

⁴⁰ With respect to the tariff issue, the SFF designated a study commission in January-February of 1982. It issued a recommendation in favor of differentiated tariffs in October, see SFF, "Informe final de la comisión SFF para estudiar una alternativa al sistema arancelario," October 20, 1982. In a March 22, 1982 memorandum that defined the business definition of the social market system, the CPC explicitly supported low, across-the-board tariffs. In November, 1982, the SNA flatly declared itself against differentiated tariffs, see Minutes of CPC Executive Committee meeting no 577, November 25, 1982. SONAMI had gone on record against such tariffs in August, see Estrategia, August 16-22, 1982. The Finance and Construction associations were at best ambivalent.

⁴¹ This was the significance behind the Cáceres-Martín economic team.

⁴² For a more detailed account see, Eduardo Silva, "The Political Economy of Chile's Transition to Democracy."

of centrist and center-left parties dominated by Christian Democrats. They had begun staging monthly protests beginning in May 1983 and emphasized negotiation with the military and conservatives---but not Pinochet--in order to effect a rapid transition to democratic rule.⁴³

Alianza Democrática (AD) attempted to draw members of the pragmatic coalition--especially industrialists producing for domestic markets--to its side. It repeatedly stressed respect for private property, a mixed economy with ample room for private enterprise, and industrialization.⁴⁴ Meanwhile, sectors of the pragmatic coalition, out of frustration with the lack of response to their proposals by the government, issued veiled threats that they might join the opposition.⁴⁵

⁴³ For the composition and evolution of mass mobilization and its impact on the regime see, Manuel Antonio Garretón, Reconstruir la política: Transición y consolidación democrática en Chile (Santiago: Editorial Andante, 1987; and "The Political Opposition and the Party System under the Military Regime," in Drake and Jaksic, eds., The Struggle for Democracy in Chile.

⁴⁴ For AD's essentially conciliatory economic policy stance see, Alejandro Foxley, "Algunas Condiciones para una Democratización Estable: El Caso de Chile," Estudios Cieplan, no. 9, 1982; Cieplan, Reconstrucción económica para la democracia (Santiago: Editorial Aconcagua, 1983); and the Christian Democratic Party's Proyecto Alternativo (Santiago: Editorial Aconcagua, 1984), especially volume 2.

⁴⁵ For example, when the CPC distributed its economic recovery plan to government ministers the SFF cautioned that although the private sector did not wish to break with the government it might be forced into opposition (Qué Pasa, no. 639, July 7, 1983). In the same spirit, Jorge Fontaine, president of the CPC, declared that business only sought confrontation with governments when the survival of the free enterprise system was at stake. The authorities should recognize that adherence to orthodox deflation would lead to perdition (Hoy, no. 311, July 6, 1983).

Pinochet responded by appointing Ministers of Finance and Economy, Luis Escobar and Modesto Collados, that clearly represented the interests of the pragmatic coalition in April 1984. Escobar, an internationalist who would not neglect the interests of producers for domestic markets, was widely recognized in business circles as a person sympathetic to the CPC's economic recovery program. He had extensive ties to international finance and to Chilean manufactures for domestic markets (through the Banco de Fomento de Valparaíso, a regional industrial development bank). He also had been the Chilean representative to the International Monetary Fund (IMF) and World Bank. He favored an expansionary monetary policy, differentiated tariffs, and greater deficit spending. Meanwhile, Collados had been president of the Construction Chamber when the CPC elaborated its recovery program, and Minister of Public Works prior to April 1984.⁴⁶ He supported an expansionary monetary policy, proposed the development of a Triennial Plan that emphasized construction and public works, protection for agriculture, and a solution to the financial crisis. He opposed differentiated tariffs.

The Escobar-Collados team extended the pragmatic coalition's network to the state and crowded the radicals out--at least at

⁴⁶ He was president of the Construction Chamber when the CPC developed its economic recovery program. As Minister of Public Works he had labored to implement a government construction program which the Construction Chamber had elaborated in 1983 (Interview with Pablo Araya, professional staff, Cámara Chilena de Cosntrucción, CChC).

the top levels. The continuation of Jorge Prado in Agriculture and Samuel Lira in mining further bolstered the new coalition's political power. Prado, vice president of the SNA at the time of his appointment, had primary interests in agricultural exports and secondary investments in agricultural production for domestic markets. Lira was a prominent member of the mine owner's association, SONAMI.

Furthermore, Escobar and Collados modified the policy process in ways that reinforced the nexus between ministers of state and the pragmatic coalition. The business peak associations' access to policy-makers and participation in policymaking became more routinized. To begin with, Collados included them in the formulation of his Triennial Plan where they formed an integral part of the program's sectoral commissions. This allowed the peak associations to work with government officials in turning the sectoral proposals of the CPC's economic recovery program into state policy.

Collados opened up a second avenue of participation in May 1984, the Social and Economic Council (SEC). An advisory body to the President (Pinochet), the SEC brought together representatives of the private, public and labor sectors to discuss policy recommendations and demands. Its economic commissions--dominated by business peak association leaders--gave

private sector representatives of the pragmatic coalition another vehicle of participation in the policymaking process.⁴⁷

Unfortunately, the new economic team also mirrored the pragmatic coalition's tensions, and that proved to be Escobar's undoing. He supported the SFF's position on a differentiated tariff schedule, which led him into a direct conflict with Collados and the dominant sector of pragmatic coalition. Pinochet sided with Collados. When Escobar tried to selectively raise tariffs through other means Pinochet dismissed him in February 1985.

Nevertheless, the ministers that followed Escobar, and eventually Collados, maintained the network between the pragmatic coalition and state institutions. Some appointments, such as that of Hernán Büchi in Finance, may have even strengthened it. The pragmatic coalition had suffered its worst tensions when the ministers of Finance and Economy reproduced the strains between its dominant and subordinate faction over the trade issue. Büchi, by contrast, was a neutral figure. He appeared to have no direct private economic interests, was a career bureaucrat under Pinochet, favored internationalist groups yet did not dismiss domestic market producers. His appointment, then represented a balance of the interests in the pragmatic coalition and helped to soothe its rivalries.

⁴⁷ Augusto Z. Lecaros, "Representación de los intereses de la sociedad en el estado y los consejos económicos y sociales," M.A. Thesis, Instituto de Ciencia Política, Pontificia Universidad Católica, 1989.

Meanwhile, ministers in subordinate economic cabinet positions continued to reflect the pragmatic coalition's composition. As before, they were businessmen with major international economic interests, but who also had a stake in domestic market production. Thus, their economic interests replicated the balance between the pragmatic coalition's two major factions. Prado and Lira remained in charge of the Ministries of Agriculture and Mining. Juan Délano, who replaced Collados in the Ministry of Economy, had been vice president of the National Chamber of Commerce at the time of his appointment. He had supported low, across-the-board tariffs, but was not against selective protection for industry against unfair competition.

Between 1985 and 1988, further changes in the policymaking process expanded and institutionalized the pragmatic coalition's links to state economic policymaking institutions. In early 1986, Délano created standing National Commissions for Commerce and Industry within the Ministry of Economy. They gave the CPC and its member associations a place on government policymaking working groups.⁴⁸ Business and landowning peak associations also gained increasing access to the junta's Legislative Commissions, which formalized the division of labor among the

⁴⁸ Interviews with Gustavo Ramdohr, president of the Nontraditional Exporters' Association (ASEXMA); Jorge Fonatine, former president of the CPC; Jaime Alé, director of planning of the SFF; Lee Ward, director of the National Commission for External Commerce; minutes of the meetings of the Commission's Subcommission for Draw-back Legislation.

branches of the military and Carabineros. The Constitution of 1980 had created the Legislative Commissions in order to establish a "legislative process" for the transition to a protected democracy. "Legislative bills" circulated among peak associations with ample time for these to make observations and amendments, in a word, to lobby. Business leaders, as well as junta members could introduce "legislation."⁴⁹

These networks allowed the pragmatic coalition to consolidate its gains and influence policy formulation in two additional areas between 1985 and 1988. To begin with, the SFF had long wanted a policy of export promotion for industry, which it finally received. Secondly, all coalition members demanded rapid privatization of firms that the government had taken over when it placed bankrupt financial firms in receivership. Privatization began slowly in 1985 and steadily picked up pace to 1988. From the pragmatic coalition's point of view, the process had the virtue of strengthening its economic base because of the way in which it concentrated assets in surviving conglomerates. Export sectors tended to dominate in most of these conglomerates, but a healthy component of their assets were also in the domestic market sector.

⁴⁹ Interview with Jaime Alé, SFF director of planning.

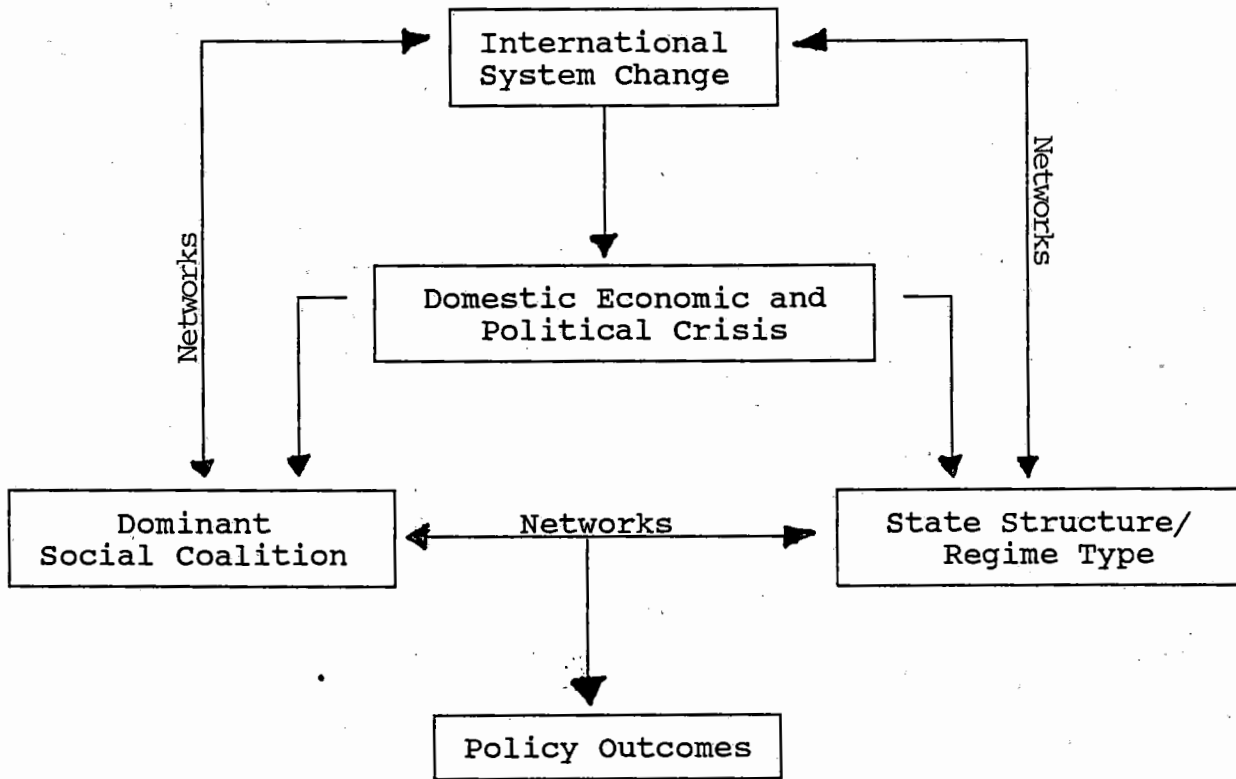
**International and Domestic Crisis and the Relationship between
Capitalist Coalitions, the State, and Economic Policy in
Authoritarian Regimes**

The comparison across three policy periods in Pinochet's Chile--gradual, radical and pragmatic adjustment--showed that distinct capitalist and landowning coalitions helped shape policy agenda setting and formulation for each option. When coalitions changed, so did policy. Clearly, regime type--authoritarianism--and the nature of military rule were crucial to outcomes as well. Shifting coalitions of businessmen and agriculturalists needed political sources of power. Pinochet needed the collaboration of economic actors capable of advancing his quest for socio-economic transformation and personal power. These mutual interests resulted in the formation of networks between the two. Those networks changed as policy coalitions gained and lost economic power and as Pinochet's political fortunes rose and fell.

With respect to the dynamics of coalitional change the framework that emerges from this case study is necessarily tentative, but highly suggestive. It implies that variation in the type and severity of economic change at the world level, together with differences in the degree of domestic economic and political crises, affect coalitional possibilities among class-based social groups. This, in turn, modifies networks between social coalitions and state institutions and actors.

FIGURE 1

Relationship between International System Change,
Domestic Economic and Political Crisis,
Social Coalition, State Structure and Policy Outcome



INSERT FIGURE 1

The Chilean case suggests that when international economic change is secular and diffuse--as was largely the case in the 1960s and early 1970s--external factors play more of a background role in the alteration of accommodations among business and landowning groups. If such change combines with deep domestic economic and political crises one may expect coalitional shifts and policy change, but not 180 degree turns.

To illustrate the point, in Chile a Marxist government unleashed a violent political and economic crisis. In the aftermath of the coup d'état, sharpening intra-upper class conflict led to an emphasis on gradual tariff reduction. Relatively extensive nationalization during the Allende period, which had weakened the industrial sector, contributed to that intra-class friction. However, gradual change at the international level in the 1960s and early 1970s influenced adherence to a developmental model based on industrialization.

By comparison, in the mid 1960s, Brazil and Argentina experienced a change to military authoritarian rule in a similar, although somewhat more benign, international setting. As a result, they too emphasized industrialization. However, Brazil and Argentina's economic development strategy did not include opening their economies to trade.⁵⁰ This framework suggests

⁵⁰ For economic policies in Argentina and Brazil during this period see, William C. Smith, Authoritarianism and the Crisis of Argentine Political Economy (Stanford: Stanford University Press,

that that difference was partially due to the absence of a prior policy of extensive nationalization. That had two effects. First, it stymied the outbreak of intra-class conflict at levels that influenced a policy of gradual opening in Chile. Second, industry was stronger because it was secure in its property and the world system reinforced continuation of industrial policy.

If the international economic system changes rapidly it will have a greater effect on the fortunes of incumbent coalitions. The consequences may be even more severe if external shock is accompanied by violent social upheaval and political change. In Chile, in the mid 1970s, oil price shocks and changes in sources of foreign savings to international commercial banks that were recycling petrodollars coincided with a period of great economic and political turbulence. These events sharpened conflict between radical internationalists and gradualists, as defined by their situation in the domestic and international structure of production. The fight over tariff reduction, shock treatment stabilization, and financial system liberalization was also a struggle among Chilean capitalists and landowners over which sectors would benefit the most from future economic growth. Both the radical internationalists and Pinochet yearned to break away from the gradualist coalition. Pinochet wanted to install personal military rule. The radical internationalists with access to the new sources of foreign savings wanted to reap the

1989); Thomas Skidmore, The Politics of Military Rule in Brazil (New York: Oxford University Press, 1988).

benefit of rapid economic change, and no doubt felt that it was for the good of the nation. These mutual interests, in the context of a rapidly changing world economy and strife within the junta, set the stage for the creation of networks between Pinochet, Chicago Boys, and radical internationalist conglomerates. This alliance of state and economic power expressed the essence of the neoliberal model: the military's reliance on the domestic partners of international finance.

In 1982, the sudden lack of high levels of international liquidity destroyed the economic power of the radical neoliberal coalition and contributed to the emergence of the pragmatic neoliberal coalition. In this new international context, domestic economic and political crisis persuaded Pinochet to forge new networks with this new coalition. However, in the absence of dramatic changes in the military regime the general internationalist thrust of the economic development model remained. Manufacturers for domestic markets still had no allies for a project that included higher levels of protection.

Partial but suggestive data on Brazil, Argentina and Uruguay underscore these relationships between international and domestic crisis and economic change.⁵¹ Like Chile, Argentina and

⁵¹ Howard Handelman, "Economic Policy and Elite Pressures," in Howard Handelman and Thomas G. Sanders, eds., Military Government and the Movement toward Democracy in South America (Bloomington: Indiana University Press, 1981); M.H.J. Finch, "The Military Regime and Dominant Class Interests in Uruguay, 1973-1982," in Philip O'Brien and Paul Cammack, eds., Generals in Retreat: The Crisis of Military Rule in Latin America (Manchester: Manchester University Press, 1985); William C. Smith, The Crisis of Argentine Political Economy; and

Uruguay experienced social conflict and political breakdown in the context of a sharp international change that favored private financial markets in the mid 1970s. As in Chile, newly installed military governments embraced neoliberal projects that included a substantial reduction in protection. They relied on the domestic partners of burgeoning international finance to overcome their economic crises and renew growth. In Brazil, by contrast, when world economic difficulties began to sharpen in the mid 1970s the military regime was well established and its economy was not in crisis. In the absence of domestic economic and political upheaval the networks between state and private sector actors remained stable and policy did not shift to neoliberalism. Increased international liquidity benefitted existing relationships.

The proposed analytical framework also suggests that, compared to Chile, lower and more incomplete reductions in levels of protection for industry in Argentina and Uruguay were influenced by two factors: differences in the supporting capitalist coalitions and their networks to state actors, and divergences in the structure of military rule. Chile had a highly personalized and centralized form of military rule. It combined with sharp intra-upper class conflict--triggered by relatively extensive nationalization under Allende--to produce Chile's extreme opening to the world economy. By contrast, in

"Hyperinflation, Macroeconomic Instability and Neoliberal Restructuring in Democratic Argentina," in Edward Epstein, ed., The New Democracy in Argentina (New York: Praeger, forthcoming).

Argentina and Uruguay military juntas ruled, and there was an absence of intra-capitalist conflict over the reapportionment of expropriated assets. This combination could have influenced the rise of informal networks between the state and the private sector that included Argentine and Uruguayan equivalents to Chile's traditional conglomerates. The military juntas may have valued them more because the lack of expropriation made them stronger than their Chilean counterparts.

In comparative perspective, then, socialist policies of nationalization and land reform heavily influenced Chile's violent shift from a closed to an open economy.⁵² They set in motion uncharacteristically severe conflict among businessmen and landowners. The other cases lacked that experience and their economic openings were shallower and their neoliberal policies less sustained. Of course, intra-class strife alone was not sufficient. It combined with a specific conjuncture of world economic and domestic political change.

In sum, differences in the severity of external shocks and domestic economic and political crisis have an impact on the nature of intra-capitalist and landowner conflicts. The deeper the international crisis, and the more intense the domestic economic and political upheaval, the greater the chances for more extreme intra-upper class conflict. It follows that in labor

⁵² This approach expands on previous notions of the relationship between the severity of the threat from below policy change in the Southern Cone. It argues that the policy content of the "threat from below" affects intra-upper class conflicts, and that those struggles influence policy outcomes.

repressive movements, this increases the opportunities for coalitions between narrow but powerful economic groups and politically ambitious military men. Thus, the greater the possibilities for variation in economic development models.