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**Explaining the Political Loyalties  
Of Businessmen And Landowners  
In Chile's Transition From  
Authoritarianism, 1983-91**

**Eduardo Silva**

## **EXPLAINING THE POLITICAL LOYALTIES OF BUSINESSMEN AND LANDOWNERS IN CHILE'S TRANSITION FROM AUTHORITARIANISM, 1983-91**

Chile is often portrayed as an exceptional case among recent transitions from authoritarian rule for a number of reasons, not all of them necessarily laudable. It was the last of the "new authoritarian" regimes to democratize; the transition followed the timetable and conditions set by the military more closely than elsewhere; the prognosis for economic and political stability seems optimistic relative to the rest of the region. Central to these examples of Chilean exceptionality is the fact that, unlike most other cases, Chile's business and landowning elites supported the military government to the end.

What induced Chilean upper classes to remain loyal to Pinochet in the face of his unswerving adherence to neoliberal policies that devastated them in 1983-84? Most studies argue that the Chilean bourgeoisie feared resurgent socialism more than Pinochet's steadfast imposition of structural economic change. This article will show that although that was a matter of concern, such views take the upper classes' rhetoric too much at face value. More important was the fact that Chile's business and landowning groups forged a cohesive alliance--the pragmatic neoliberal coalition--around a specific set of policy proposals in 1983, and that Pinochet responded favorably to its demands.

This paper argues that the pragmatic coalition's success had three important consequences for Chile's transition from authoritarianism between 1983 and 1988. First, the inclusion of all major capitalist groups in the economic policy coalition, their exclusive access to the policymaking process, and policy concessions on the part of the military

government cemented the relationship between capitalists and Pinochet for the plebiscite of 1988. As a result, no capitalist or landowning group was available for an alliance with the main opposition group seeking an end to Pinochet's dictatorship, Alianza Democrática (AD).

Second, the absence of a broad multi-class movement for political democratization significantly influenced the process of Chile's shift from an authoritarian to a democratic form of government.<sup>1</sup> It allowed the military government to adhere to the timetable and conditions for political liberalization set forth in the 1980 Constitution.<sup>2</sup> Moreover, the institutional conditions that ensured a "protected" democracy--one in which the military retained veto power over civilian authorities, and that built in a conservative bias to economic policymaking--remained intact.<sup>3</sup>

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<sup>1</sup> Political democratization takes place when an authoritarian regime gives way to a system that allows conflicting elites to alternate in power. Representative democracy requires fully competitive elections with universal participation. Voters should be able to choose by secret ballot among candidates that hold different views on public policy. Representative democracy also calls for guarantees such as freedom of political organization and expression, as well as institutions that keep policymakers responsive to the citizenry. Such institutions include, effective legislatures and political parties, as well as interest group organizations. For this definition see the introduction to Paul W. Drake and Eduardo Silva, eds., Elections and Democratization in Latin America, 1980-85 (San Diego: Center for Iberian and Latin American Studies; Center for U.S.-Mexican Studies; Institute of the Americas, 1986). Also see, Guillermo O'Donnell and Philippe C. Schmitter, Transitions from Authoritarian Rule: Tentative Conclusions about Uncertain Democracies (Baltimore: Johns Hopkins University Press, 1986).

<sup>2</sup> Political liberalization takes place when dictators expand political participation by easing up on repression and introducing some civil liberties. In contrast to political democratization, it does not involve increased competition for the transfer of power to contending groups. During a process of political liberalization semi-competitive elections may be held in order to authenticate an authoritarian regime domestically and internationally, but the government party invariably dominates such processes. See, Drake and Silva, eds., Elections and Democratization; and O'Donnell and Schmitter, Tentative Conclusions.

<sup>3</sup> Brian Loveman, "¿Misión Cumplida? Civil Military Relations and the Chilean Political Transition," Journal of Interamerican Studies and World Affairs, vol. 33, no. 3, 1991.

The pragmatic coalition's success, and AD's failure to build a broad multiclass coalition for political change, had a third consequence. Between 1985 and 1988, in its efforts to ally capitalist fears of democratization, AD moderated its economic policy platform even more than it had in 1984. As the plebiscite drew nearer it was increasingly manifest that capitalists' rejection of AD had more to do with its aversion to mild social democratic reformism than any real fear of revolutionary socialism. This suggests that when AD failed to draw capitalists into an explicit coalition for regime change it joined them in an implicit conservative compact to assure democratization. In other words, AD committed itself to the pragmatic neoliberal coalition's economic model in exchange for acquiescence to political change on the part of capitalists and landowners. This gave rise to a democratic founding coalition in which conservative forces hold the upper hand. Consequently, reformists will find it difficult to formulate and pass policies designed to address the issue of social equity in Chile.

## **BUSINESSMEN AND LANDOWNERS IN TRANSITIONS FROM AUTHORITARIANISM IN LATIN AMERICA**

A significant body of writing suggests that political change--especially reforms such as political liberalization and democratization--often begins with splits at the top.<sup>4</sup> Under what circumstances do cleavages among the elites turn into conflict? The literature on authoritarianism argues that the inclusion or exclusion of significant large-scale business and

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<sup>4</sup> Theda Skocpol, States and Social Revolutions: A Comparative Analysis of France, Russia and China (Cambridge: Cambridge University Press, 1979); O'Donnell and Schmitter, Tentative Conclusions; Gaetano Mosca, The Ruling Class (New York: McGraw Hill, 1938).

landowning groups in dominant economic policy coalitions colors their support for such regimes.<sup>5</sup> Where they are included in the policy coalition, have access to the policy-making process and can defend themselves against measures that threaten their fundamental interests--property and profits--upper class elites remain loyal to a regime.

Put another way, for businessmen and landowners, these factors measure an authoritarian regime's reliability.<sup>6</sup> This means that when the opposite holds true a regime is unreliable, and excluded capitalist and landowning groups may turn against it. Disgruntled members of the upper class may prefer a more democratic form of government because such regimes offer more points of access and influence in policy-making.<sup>7</sup> They also encourage more open and diverse sources of information which is often crucial to decision-making in business.

Nevertheless, the regime loyalties of capitalists and landowners also depend on economic performance.<sup>8</sup> Upper class groups shut out of policy-making may not oppose an

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<sup>5</sup> Douglas Chalmers and Craig Robinson, "Why Power Contenders Choose Liberalization," International Studies Quarterly, vol. 26, no. 1, 1982; Guillermo O'Donnell, "Tensions in the Bureaucratic-Authoritarian State and the Question of Democracy," in David Collier, ed., The New Authoritarianism in Latin America (Princeton: Princeton University Press, 1979).

<sup>6</sup> Robert Kaufman, "Liberalization and Democratization in South America: Perspectives from the 1970s," in Guillermo O'Donnell, Philippe C. Schmitter and Laurence Whitehead, eds. Transitions from Authoritarian Rule: Comparative Perspectives (Baltimore: Johns Hopkins University Press, 1986); Jeffery Frieden, "Winners and Losers in the Latin American Debt Crisis: The Political Implications," in Barbara Stallings and Robert Kaufman, eds., Debt and Democracy in Latin America (Boulder: Westview Press, 1989).

<sup>7</sup> Chalmers and Robinson, "Why Power Contenders Choose Liberalization."

<sup>8</sup> Frieden, "Winners and Losers in the Latin American Debt Crisis," and Chalmers and Robinson, "Why Power Contenders Choose Liberalization."

authoritarian regime during good economic times. But during prolonged, deep economic downturns they may cast about for alternatives. However, whether they do so or not may hinge on the character of emerging political party systems.<sup>9</sup> Capitalists are more likely to support political liberalization and democratization when leftist, socialist, and populist political parties are weak.

A considerable empirical literature supports such views. Research on Ecuador, Peru, Bolivia, and the Dominican Republic showed that business elites supported a shift from authoritarianism to more democratic rule because they believed they would have greater access to the economic policy-making process, under conditions in which the perceived threat from below was low.<sup>10</sup> Similar evidence exists for the cases of Argentina, Brazil, Mexico, and Venezuela.<sup>11</sup> Capitalists turned to democracy due to varying combinations of the

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<sup>9</sup> Robert Kaufman, "Liberalization and Democratization in Latin America"; Frieden, "Winners and Losers in the Latin American Debt Crisis;" and Edward C. Epstein, "Legitimacy, Institutionalization, and Opposition in Exclusionary Bureaucratic-Authoritarian Regimes: The Situation of the 1980s," Comparative Politics, vol. 17, no. 1, 1984.

<sup>10</sup> Catherine M. Conaghan, James Malloy and Luis Abugattas, "Business and the Boys: The Politics of Neoliberalism in the Central Andes," Latin American Research Review, vol. 25, no. 2, 1990; Catherine M. Conaghan and Rosario Espinal, "Unlikely Transitions to Uncertain Regimes? Democracy without Compromise in the Dominican Republic and Ecuador," Journal of Latin American Studies, vol. 22, no. 3, 1990.

<sup>11</sup> William C. Smith, Authoritarianism and the Crisis of Argentine Political Economy (Stanford: Stanford University Press, 1989); Fernando Henrique Cardoso, "Entrepreneurs and the Transition to Democracy in Brazil," in O'Donnell, et al., eds., Transitions from Authoritarian Rule: Comparative Perspectives; Sylvia Maxfield, "National Business, Debt-Led Growth, and Political Transition," in Stallings and Kaufman, eds., Debt and Democracy; René Millán, Los empresarios ante el estado y la sociedad (México: Siglo Veintiuno Editores, 1988); Frieden, "Winners and Losers," in Stallings and Kaufman, eds., Debt and Democracy.

following factors: their exclusion from economic policy-making, poor economic performance under authoritarianism, and low salience of the threat from below.

This brings the discussion back to the issue of Chilean exceptionality. Most studies argue that Chilean large-scale businessmen and landowners chafed under the same unfavorable conditions as their peers elsewhere in Latin America—they were excluded from economic policy-making and suffered deeply during severe economic crises. Given these assumptions they conclude that Chilean capitalists supported Pinochet because they feared resurgent socialism in the wake of the 1983-84 economic debacle. In other words, the main difference between Chile and the other cases lay in the degree of threat from below.

This article argues that the crucial difference between Chile and the other Latin American cases lay elsewhere. Chilean capitalists supported Pinochet because they were included rather than excluded from economic policy-making, under conditions in which the threat from below was far from overwhelming. Moreover, the Chilean bourgeoisie accepted Pinochet's defeat in the October 1988 plebiscite because the opposition committed itself to the retention of their economic model.

#### **BUSINESSMEN, LANDOWNERS, PRAGMATIC NEOLIBERALISM AND MASS MOBILIZATION: 1983-85.**

The Chilean military government was at its weakest during the economic crisis of 1983-85. It faced an entrepreneurial revolt against extreme free-market policies, and mass mobilization demanding democratization. During this crucial period, the opposition's attempt to wrestle control of the pace and nature of political change away from Pinochet failed because it was unable to form a cross-class coalition that included disgruntled capitalists.

Building such an alliance required turning a conflict between capitalists and the regime over economic policy into support for rapid democratization. But Pinochet foiled the opposition by regaining the bourgeoisie's undivided loyalty. To make the case, the following sections will outline the military regime's economic and political project; the economic policy differences between capitalists and the regime; how the opposition tried to capitalize on them, and what Pinochet did to patch them up.

### **Backdrop to Crisis**

After the overthrow of Allende and the demobilization of society, Chile's military government set two goals. It wanted to replace democratic with authoritarian politics and statist with free-market economic policies. To that end, Pinochet consolidated one man rule and sponsored a cadre of neoliberal technocrats--the so-called Chicago Boys because many of them studied neoclassical economics at the University of Chicago--to design and implement extreme laissez-faire economic policies.<sup>12</sup>

Pinochet insulated the Chicago Boys from the pressure of societal groups that protested economic restructuring, including businessmen and landowners.<sup>13</sup> It should be recognized, however, that those policies enjoyed considerable support from a limited number of conglomerates that expanded rapidly under the new economic policies. Those

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<sup>12</sup> Pamela Constable and Arturo Valenzuela, A Nation of Enemies: Chile Under Pinochet (New York: Norton and Company, 1991); Juan Gabriel Valdés, La escuela de Chicago: Operación Chile (Buenos Aires: Editorial Zeta, 1989); Sebastián Edwards and Alejandra Cox-Edwards, Monetarism and Liberalization: The Chilean Experiment (Cambridge: Ballinger Publishing Company, 1987).

<sup>13</sup> Guillermo Campero, Los gremios empresariales en el período 1970-1983: comportamiento sociopolítico y orientaciones ideológicas (Santiago: Instituto Latinoamericano de Estudios Transnacionales, 1984).

conglomerates concentrated their assets in economic sectors favored by economic restructuring: nontraditional exports, consumer imports, and foreign loan intermediation.<sup>14</sup> Between 1977 and 1981 the Chilean economy boomed, and by 1979 the peak associations of large-scale businessmen and landowners solidly supported Pinochet's economic and political model.

The culmination of the military government's design for political change came in 1980, at the height of the economic boom, with the ratification a new constitution. The charter, according to the government, was approved by 67% of the voters. But the plebiscite was noncompetitive, and it provided no safeguards for opposition groups. The constitution extended Pinochet's authority to 1988, at which time there would be another noncompetitive plebiscite to decide whether he would continue to rule until at least 1997. The charter's permanent articles sought to impose a "protected" democracy, one in which the military would continue to exercise a tutelary role over civilian governments through a National Security Council.<sup>15</sup>

The arrogant triumphalism of Chilean authoritarians ended abruptly with the collapse of the domestic economy between 1982 and 1983. In one year GDP contracted by over 14%. As a result of this economic failure, the military government was at its weakest between 1983 and 1985. The conglomerates that had provided the core support for the

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<sup>14</sup> Fernando Dahse, El mapa de la extrema riqueza (Santiago: Editorial Aconcagua, 1979); Andrés Sanfuentes, "Los grupos económicos: Control y políticas," Colección Estudios Cieplan, no. 15, December, 1984.

<sup>15</sup> Paul Drake and Iván Jaksic, introduction to their edited volume, The Struggle for Democracy in Chile, 1982-1990 (Lincoln: University of Nebraska Press, 1991); Brian Loveman, "¿Misión Cumplida?".

regime's economic and social policies disintegrated; entrepreneurial groups turned against extreme neoliberal policies as they sought relief from ruin; and a mass mobilization movement of middle and lower class groups spearheaded by resurgent opposition political parties challenged Pinochet's rule.

### **Businessmen, the Opposition and Pinochet: 1983**

Up to 1983, Pinochet inflexibly supported radical neoliberal economic policies.<sup>16</sup> The government clung to low real exchange rates (indeed, a fixed rate between 1979-82), high interest rates, low across-the-board customs tariffs (10%) with little non-tariff protection, deflationary monetary policies, and a general disinterest in government sponsored debt relief or sectoral policies.<sup>17</sup> In addition to these characteristics, the policy-making process pointedly excluded organized business' peak associations.

During the boom years, firms and individuals could invest, consume and paper over difficulties by borrowing extensively. But when the flood of foreign lending dried up in 1982, economic hard times set in with a vengeance. GDP contracted over 14% in one year. The business peak associations responded to debt-induced bankruptcies, lack of credit due to restrictive monetary policies, stiff import competition, and an overvalued currency that stymied exports. By mid-1983, Chile's large-scale business and landowning groups had formed an explicit "pragmatic" neoliberal economic policy coalition that sponsored an

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<sup>16</sup> Their radicalness can be measured in terms of their degree of laissez-faireness and the zeal with which they were applied compared to other cases, such as Argentina and Uruguay.

<sup>17</sup> For a description of neoliberal policies during this period see, Alejandro Foxley, Latin American Experiments in Neoconservative Economics (Berkeley: University of California Press, 1983); and Joseph Ramos, Neoconservative Economics in the Southern Cone of Latin America, 1973-1983 (Baltimore: Johns Hopkins University Press, 1986).

alternative economic recovery program. The coalition was still neoliberal in that it favored market mechanisms over state regulation. But it was pragmatic in that it recognized that the state should play a larger role in the economy than it had.

The pragmatic neoliberal coalition had its origins in explicit bargaining among Chile's six major peak associations. These negotiations took place under the aegis of the Confederation of Production and Commerce (CPC), the peak associations' umbrella organization, which publicized its economic recovery program, "Recuperación económica: Análisis y proposiciones," in July, 1983. The document called for high real exchange rates to stimulate exports and protect against imports, higher across-the-board tariffs with protection against unfair competition, a reflationary monetary policy, low interest rates, debt relief, and sectoral policies (such as export promotion, construction projects, agricultural development). The CPC and its affiliates also demanded a more inclusive, institutionalized policy-making process. Pinochet largely ignored these pleas for help from an increasingly desperate business community.<sup>18</sup>

As the business community's critique of government economic policy gained intensity, working and middle class groups were growing increasingly restive as well. Their discontent erupted in May, 1983, when a national day of protest largely directed by the copper workers union succeeded beyond the wildest dreams of its organizers. The massive demonstration against Pinochet shook the regime to its core.

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<sup>18</sup> Eduardo Silva, "The Political Economy of Chile's Regime Transition: From Radical to Pragmatic Neoliberal Policies," in Drake and Jaksic, eds., The Struggle for Democracy in Chile.

A coalition of centrist and center-left parties dominated by the Christian Democrats quickly took control of the opposition movement--Alianza Democrática (AD)--and began staging monthly protests.<sup>19</sup> AD's goal was to turn the 1980 Constitution's limited political liberalization into full-fledged democratization. AD demanded free, competitive elections with full citizen participation and civil guarantees by 1985. That meant stripping Pinochet of his power, abrogating the perpetual state of emergency, rescinding restrictions on political party activity, allowing exiles to return, and an end to the political exclusion of Marxist parties.

Alianza Democrática realized that achieving a rapid and smooth transition to democratic rule required negotiation with the military and conservatives--but without Pinochet. AD also knew that to accomplish that goal it had to broaden the class base of the opposition movement that it controlled. It needed the support of one or more capitalist groups.

To that end, AD tried to turn the conflict over economic policy between capitalists and the military government into support for regime change. Throughout 1983, the Christian Democratic Party (PDC) and Alianza Democrática sought to build an implicit alliance with capitalists and conservative political parties, based on a moderate economic program largely tailored to the rising pragmatic business coalition's demands. The alliance attempt was implicit because AD sought backing on the basis of complementary interests over economic policy, rather than enter into direct negotiation with business associations.

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<sup>19</sup> Manuel Antonio Garretón, The Chilean Political Process, (Boston: Unwin Hyman, 1989; and Reconstruir la política: Transición y consolidación democrática en Chile (Santiago: Editorial Andante, 1987).

Seeking to diminish the bourgeoisie's anxiety over political change, AD quickly established its allegiance to capitalist development in early 1983. Within the context of a mixed economy, AD pledged to respect private property, as well as to continue prudent macroeconomic and foreign debt management. It supported sectoral economic policies, especially industrial policy and debt relief, rapid economic reactivation and a tougher negotiating position with the IMF to extract the resources necessary to reflate the economy without heavy inflation.<sup>20</sup> In other words, AD tried to assuage both the military and entrepreneurs that an early transition to democracy, with substantial revisions to the 1980 Constitution, would not mean a return to Unidad Popular-style socialism.

These factors constitute the first of two types of evidence that suggest that the threat of radical economic and social change in a process of democratization was somewhat overdrawn. After all, AD not only proposed a moderate economic platform, but its willingness to work with the military and conservative forces would have united the vast majority of political forces around a project of negotiated transition to democracy. That strategy could have effectively isolated the Marxist opposition movement--the Movimiento Democrático Popular (MDP).

Despite the PDC's and AD's assurances, however, the opposition was unable to obtain capitalist support for redemocratization, that is, an early transition to democracy under less restrictive institutional conditions. To the opposition's dismay, beginning in late

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<sup>20</sup> Alejandro Foxley, "Algunas condiciones para una democratización estable: El caso de Chile," Colección Estudios Cieplan, no. 9, December 1982; Qué Pasa, no. 612, December 30, 1982, no. 613, January 6, 1983, no. 647, September 1, 1983; CIEPLAN, Reconstrucción económica para la democracia (Santiago: Editorial Aconcagua, 1983).

September 1983 the capitalist critique of government economic policy began to abate. This was significant because the split at the top of the military government in 1983 offered AD the only opportunity to win support from capitalists for rapid democratization. When the clash between capitalists and the military government diminished so did AD's prospects for early democratization.

The sequencing between the eruption of mass mobilization (May, 1983) and the abatement of the capitalist critique of government economic policy (September-October, 1983) reinforces the thesis that the threat from below was not sufficient to explain why dissident business and landowning groups returned to the authoritarian fold. After all, it was capital's critique of Pinochet's economic policy that fed AD's hopes of constructing a broad cross-class alliance against the dictatorship. Moreover, the rift between the General and the bourgeoisie had initially fueled and legitimized the opposition movement. Thus, if it was dread of the threat from below--which included "socialist" AD--that largely motivated capitalists to close ranks with the military government, they should have done so shortly after the eruption of mass mobilization.

Significantly, the CPC did not soften its confrontation with the military government until after the fifth national day of protest, almost half a year later. Not only that, but when mass mobilization began, instead of retreating, capitalists escalated their dispute with the regime. In July they presented their economic recovery plan to the government and lobbied hard for it both in private and in public. Ominously, the business and landowner coalition, out of frustration with the lack of response to their proposals by the government, issued

veiled threats that it might join the opposition.<sup>21</sup> Equally significant, in September 1983--just before and after the fifth protest--capitalists pressed Pinochet to replace the ministers of finance and economy with men who favored reflationary policies.

In short, although Chilean capitalists worried over the potential political consequences of mass mobilization; instead of downscaling their confrontation with the military government over economic policy, they escalated it. The business and landowning coalition must have had some confidence that if the regime fell a complete reversal of the neoliberal experiment would not follow. Otherwise, the strategy that they did pursue--hedging bets to extract concessions from both government and opposition--would have been far too risky. In other words, at the very least, capitalists felt that the threat from below was not severe enough to preclude their use of political unrest to gain negotiating leverage against Pinochet and the Chicago Boys.

What changed at the end of September and the beginning of October, 1983, that induced capitalists to abate their critique of government economic policy? In the face of both massive monthly demonstrations and the mobilization of medium and small entrepreneurs, the government needed to recapture the solid support of Chilean large-scale capitalists. The defection of a significant capitalist group to either of those protesting groups would have significantly increased the opposition's momentum. As a result, the military government

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<sup>21</sup> For example, when the CPC distributed its economic recovery plan to government ministers, the Society for Industrial Development (SFF) cautioned that although the private sector did not wish to break with the government it might be forced into opposition; see 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 its survival was at stake. The authorities should realize, continued Fontaine, that adherence to orthodox deflation would lead to perdition; see, Hoy, no. 311, July 6, 1983.

began to negotiate economic policy reforms along the lines suggested in Recuperación económica in return for less militant business critiques.<sup>22</sup> In other words, the threat of a multi-class opposition alliance that included capitalists enabled the pragmatic neoliberal coalition to translate its economic policy preferences into policy.

Government concessions to the pragmatic coalition began in August 1983, and were of two types. On the one hand, cabinet changes held out the promise of real negotiations in keeping with CPC proposals. On the other hand, the authorities also began to implement economic policy changes suggested in Recuperación económica. The first set of cabinet changes occurred in August. The appointment of Sergio O. Jarpa to Interior and Modesto Collados to Public Works held out the promise of policy modification for many groups, including capitalists, medium and small businessmen, and opposition groups. With respect to the interests of the pragmatic coalition, Jarpa strongly advocated an expansionary monetary policy to spur economic reactivation. To achieve that end, both Jarpa and the CPC favored the replacement of Finance Minister Cáceres with someone closer to the CPC. Jarpa also wanted to broaden political liberalization in order to defuse a potential uprising. He quickly began talks with Alianza Democrática in the hope of negotiating a political settlement between the opposition and the military.

From the CPC's perspective, Modesto Collados' appointment to the Ministry of Public Works was equally significant. As president of the Construction Chamber, he had been responsible for that organization's contribution to Recuperación económica. Thus, as a condition for his accepting the post, he demanded and received a commitment for increased

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<sup>22</sup> Qué Pasa, no. 654, 20 October, 1983, and no. 655, October 27, 1983.

spending in public works to help reactivate the economy.<sup>23</sup> Lastly, even Economy Minister Passicot--a Chicago Boy sympathizer--declared that his ministry would take on a more active role in the management of Chile's economy.<sup>24</sup>

Increased access to the policymaking process, another one of the pragmatic coalition's long-standing demands, amplified the promise of economic policy change. For example, although Pinochet did not remove Finance Minister Cáceres he agreed to more frequent meetings with the CPC leadership.<sup>25</sup> Moreover, Cáceres' incumbency in Finance was uncertain, which raised the pragmatic coalition's hopes for change. Pinochet ordered a "shadow cabinet," composed of men whose views were much closer to the CPC than Cáceres'--Luis Escobar and former Minister of Economy Manuel Martín--to accompany Cáceres to the United States on a debt renegotiation mission.<sup>26</sup> Escobar favored reflationary policies, and Martín, as previously seen, was closely connected to the groups that drafted Recuperación económica. It was commonly believed that one of them was being groomed for Cáceres' position. Of course, business leaders also had easy access to Jarpa himself. Moreover, in the middle of September 1983 the military government also agreed to establish an Economic and Social Council, a CPC demand since the middle of July, 1983.<sup>27</sup>

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<sup>23</sup> Personal interview with Pablo Araya (Cchc), May 1989.

<sup>24</sup> Qué Pasa, no. 655, October 27, 1983.

<sup>25</sup> CPC, Minutes of Executive Committee meeting no. 591, September 5, 1983.

<sup>26</sup> Hoy, no. 326, October 19, 1983.

<sup>27</sup> Hoy, no. 313, July 20, 1983 and Qué Pasa, no. 649, September 15, 1983.

Real concessions to the pragmatic neoliberal coalition gave credibility to the promise of policy change. In September 1983, the CPC concentrated its lobbying efforts on the issue of deficit spending.<sup>28</sup> It reiterated the demand, set forth in Recuperación económica, that such outlays reach 4% of GDP. A month later Cáceres complied. Deficit spending for 1984 would be around 5% of GDP.<sup>29</sup> The CPC also praised Cáceres for advances on another sensitive policy issue, lower real interest rates.<sup>30</sup> Overall, they fell from 35% in 1982 to 16% in 1983. In addition to these measures, the government quickly expanded housing and public works programs, as expected given Collados' appointment to the Ministry of Public Works.<sup>31</sup> Lastly, the CPC had advocated cutting taxes for business as a means to stimulate the economy since 1982. Finance Minister Cáceres committed himself to such reform and brought the business peak associations into the process of drafting a revised tax code.<sup>32</sup>

Although the CPC softened its critique of government economic policy once the authorities began to negotiate over economic policy change, it did not lift all pressure. Essentially, the CPC stopped demanding the resignations of Finance Minister Cáceres and

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<sup>28</sup> Hoy, no. 321, September 14, 1983.

<sup>29</sup> Qué Pasa, no. 655, October 27, 1983; and Hoy, no. 328, November 2, 1983.

<sup>30</sup> CPC, minutes of Executive Committee meeting no. 591, September 5, 1983.

<sup>31</sup> Qué Pasa, no. 655, October 27, 1983. Personal interviews with CPC officials, reinforced the conclusion that the government was progressively implementing the CPC's economic program.

<sup>32</sup> Qué Pasa, no. 649, September 15, 1983, reported that the Tax Reform bill was virtually ready to clear the Legislative Commission in charge of economic affairs. Business associations had ample access to the policymaking process through the legislative commissions. CNC, memorandum to Finance Minister Cáceres, no. 265/83, Nov. 4, 1983.

Economy Minister Passicot.<sup>33</sup> But it continued to press for a purge of Chicago Boys who held middle level positions in ministries and government agencies. It was generally feared that they would try to impede reform implementation.<sup>34</sup> Furthermore, the CPC persistently lobbied for economic policy changes outlined in Recuperación económica not yet addressed by the government.<sup>35</sup> For example, the CPC pressed for a broader internal debt renegotiation bill at lower than market interest rates (5% over UF, an inflation adjusted measure of value). Moreover, business consistently used the document as its lobbying base in meetings with government officials. Thus, if after September 1983 business seemed less strident in the public presentation of its demands, its actual commitment and pursuit of them did not abate. And, as will be seen, the military government continued to make concessions on the basis of that document's recommendations in order to recapture a solid social base and to defuse the political opposition to the regime.

For capitalists, then, negotiation proved to be a fruitful alternative to confrontation, especially under conditions in which Pinochet needed to build a stable base of support to keep political liberalization within the narrow bounds of the 1980 Constitution. Capitalists renewed their unconditional support for the regime once the broadly inclusive pragmatic coalition triumphed. Its elevation to dominant coalition status occurred when the military government began to adopt its policy recommendations and placed its representatives in key

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<sup>33</sup> Qué Pasa, 655, October 27, 1983.

<sup>34</sup> Hoy, no. 321, September 14, 1983; and Qué Pasa, no. 650, September 22, 1983.

<sup>35</sup> Hoy, no. 321, September 14, 1983; and Qué Pasa, no. 655, October 27, 1983.

state ministries. Access to the economic policymaking process to the exclusion of all other social groups cemented its dominant position.

### **The Social Pact Option: 1984**

By October of 1983 AD had lost the edge in its efforts to promote rapid and substantial political liberalization.<sup>36</sup> Pinochet had broken off the "dialogue" with AD and capitalists had returned to the fold. Thus, in 1984, after the failure of the "implicit" alliance strategy, AD attempted to form an explicit social pact between capital and labor in order to win capital over, or at least to keep it from opposing a transition.<sup>37</sup> The opposition hoped that such a pact--Concertación Social--would allay the fears of capitalists over their fate in a democratic regime. To this end, the PDC sponsored a series of workshops in late 1984.<sup>38</sup> Capitalists expressed a concern over property rights and they wanted ironclad commitments against expropriation and competition by state enterprises. They also worried about changes in the labor code that might strengthen the labor movement.<sup>39</sup> Workers essentially wanted

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<sup>36</sup> Qué Pasa, no. 653, October 13, 1983; Hoy, 326, October 19, 1983, no. 328, November 2, 1983.

<sup>37</sup> Proyecto alternativo (Santiago: Editorial Aconcagua, 1984), vol 2, pp. 211-212.

<sup>38</sup> Centro de Estudios del Desarrollo, Concertación social y democracia (Santiago: CED, 1985).

<sup>39</sup> In Concertación social, see the contributions of Fernando Léniz, "El difícil consenso económico," Víctor Manuel Ojeda, "Los problemas de la economía y la relación empresarios-trabajadores," Andrés Feliú, "El punto de vista de los empresarios," and commentary by Ricardo Claro.

changes in the labor code to facilitate collective bargaining, better working conditions and higher wages.<sup>40</sup>

Chilean capitalists, however, had a strong incentive to reject the concertación project. Throughout 1984, the pragmatic neoliberal coalition consolidated its dominance as evidenced by a cumulative set of economic policy concessions. For example, an expansionary economic policy was clearly in place as measured by deficit spending, reduction in unemployment, and lower interest rates. A more satisfactory debt rescheduling scheme had been introduced. Moreover, the pragmatic coalition's access to, and participation in, the economic policy-making process had increased significantly. The economic ministries as of April 1984 were headed by "their" ministers (from Alessandri days), purges of Chicago boys in administrative positions continued, they participated in the creation of the Plan Trienal, and the Economic and Social Council had begun to function. These were significant gains compared to the situation up to mid-1983.<sup>41</sup> They gave the pragmatic coalition's leaders sufficient strength and security to reject participation in a social pact with labor.<sup>42</sup>

By 1985, capitalists had largely weathered the economic crisis, which was now under control, and had a more or less stable relationship with the military government. As a

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<sup>40</sup> In Concertación social, see contributions by, Guillermo Pérez, "Sindicalismo y redemocratización: Posibilidades y alcances de la concertación social," Luis Eduardo Thayer, "Relaciones del trabajo en una institucionalidad democrática: Un enfoque jurídico," José Ruiz di Giorgio and José Ruiz dos Santos, "Concertación social: Cambio posible y necesario," Eugenio Díaz, "La concertación desde una perspectiva sindical de izquierda."

<sup>41</sup> For the situation up to mid-1983 see, Silva, "The Political Economy of Chile's Regime Transition."

<sup>42</sup> In a personal interview, Gustavo Ramdohr (ASIMET and ASEXMA), who participated in the concertación dialogues, shared this view of capital's refusal to enter into such pacts.

result, the pragmatic neoliberal coalition began to maneuver to extract economic policy concessions from Alianza Democrática. In other words, the new dominant capitalist coalition sought to make the pragmatic neoliberal economic model an "untouchable" item in the future regime.

### **THE TRIUMPH OF PRAGMATIC NEOLIBERALISM AND THE OPPOSITION'S RESPONSE, 1986-88.**

During this period the pragmatic coalition sought to consolidate its gains. The military government had largely adopted the economic model that it favored and had given it exclusive access to the policymaking process. The creation of the Comisiones Nacionales in the Ministry of Economy in 1986 further enhanced the role of capitalists in economic policymaking. Moreover, economic recovery and sustained growth solidified the terms of the bargain that held the pragmatic neoliberal coalition together. All capitalist and landowning partners prospered.

As a result of these successes, in 1986 capitalists began a campaign to project the pragmatic neoliberal model into the future. They opposed not only socialism, but any government regulation or action that vitiated the current economic model. The SFF spearheaded the public debate. Throughout 1986 it bluntly stated that the pragmatic neoliberal model represented their, and of course, Chile's, best interests. Any alteration could only lead to disaster. The SFF demanded absolute respect for private property. Capitalists opposed renewed state participation in production, as well as joint ventures between state and private entrepreneurs. In other words, they rejected AD's version of a mixed economy and ardently supported privatization to reduce public sector competition.

Moreover, Chile should maintain an open and free economy both internationally and internally. This meant low across-the-board tariffs with high real exchange rates, protection against unfair competition, and no controls on prices or foreign exchange. Tax structures and labor market arrangements should remain unaltered.<sup>43</sup>

Between 1987 and October 1988, the date of the plebiscite, the CPC, the National Landowners' Society (SNA) and the National Merchants' Chamber (CNC) echoed the SFF's pronouncements, and declared their allegiance for Pinochet in the transition process.<sup>44</sup> With the formation of so-called Civic Committees (Comités Cívicos) in 1987 capitalists began to campaign for the regime in the coming plebiscite. The CPC publicly declared its support for Pinochet in the beginning of 1988.<sup>45</sup>

In response to the unwavering position that capitalists took with respect to the projection of their economic model, Alianza Democrática turned to ever more conservative economic policy pronouncements. The opposition also shifted its stance because the economic model was working and enjoying international prestige. AD hoped to assure capitalists and right-wing political parties that it did not represent a threat to established order, that it was a legitimate participant in what should be a negotiated transition to democracy. Under Chilean circumstances that meant bargaining over the terms of the 1988

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<sup>43</sup> SFF, Revista Industria, vol. LXXXIX, nos. 1, 2, 3 and 5, 1986. Also see, SFF, Memoria, for the periods 1985-86, and 1986-87; Qué Pasa, no. 785, April 24, 1986.

<sup>44</sup> El Campesino, no. 6, June, 1987, and no. 11, November 1987, Cámara Nacional de Comercio, Informe económico anual, 1988 (Santiago: Cámara de Comercio de Santiago, 1988). For the SNA's position on agrarian reform see, El Campesino, no. 1-2, and no. 11, 1986. For the CPC's support of the SNA see, El Campesino, no. 8, 1987.

<sup>45</sup> El Campesino, no. 1-2, January-February, 1988; and no. 5, May 1988.

plebiscite and various antidemocratic clauses of the 1980 Constitution. In short, AD gambled that its moderate economic posture would induce a negotiated transition from Pinochet's authoritarian regime to a more democratic regime than that contemplated by the 1980 Constitution. The opposition concentrated on political democratization rather than economic change.

Although AD had consistently supported a moderate economic program, as late as September 1985 it still favored more state participation in production than that which capitalists desired.<sup>46</sup> But with the relative economic success of the pragmatic economic model, as well as the solidification of the pragmatic capitalist coalition, AD softened its position on state enterprise. By 1988, the opposition continued to praise a mixed economy, however, redefined as industrial policy (targeting growth industries, supplying tax incentives for investments, allocating special credits, etc.). It no longer mentioned state enterprise.<sup>47</sup> Thus, the opposition limited itself to a discussion of distributional issues within the limits of the neoliberal model.<sup>48</sup>

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<sup>46</sup> "Acuerdo nacional para la transición a la plena democracia," Hoy, no. 424, September 2, 1985.

<sup>47</sup> Estrategia, October 17, 1988; and La Epoca, December 26, 1988. Also see, Ernesto Tironi, Es posible reducir la pobreza en Chile (Santiago: Editorial Zig-Zag, 1989), especially Chapters Two and Five; Felipe Larraín, "Desarrollo económico para Chile en democracia," in Felipe Larraín, ed., Desarrollo económico en democracia (Santiago: Ediciones Universidad Católica de Chile, 1988).

<sup>48</sup> Ernesto Tironi, "Democracia y mejoramiento de remuneraciones"; Alvaro García, "Crecimiento equitativo: Políticas de empleo e ingresos"; Sergio Molina, "El compromiso de Chile: Construir un orden social justo," all in Centro de Estudios del Desarrollo, Materiales para Discusión, nos., 178, 191, 200, July, September and November 1987, respectively.

As a consequence of these further concessions on the part of the opposition, by early 1987 capitalists admitted that they no longer feared for their property rights. Instead, they recognized that probably not much would change regardless of who won the plebiscite.<sup>49</sup> Their only real concern was that government intervention in markets might lead to economic instability.<sup>50</sup> In fact, however, the CPC opposed even moderate economic reformism in the interests of social justice.<sup>51</sup> Given their satisfaction with Pinochet's adoption of the pragmatic neoliberal model, and their inclusion in the policy-making process, capitalists clung to Pinochet during the plebiscite because he shielded them from even the mildest economic change.

#### **PRAGMATIC NEOLIBERALISM, CAPITALIST REGIME ALLEGIANCES AND CHILE'S TRANSITION TO DEMOCRACY, 1983-91.**

The rise of the pragmatic neoliberal coalition, its consolidation, and the relative success of its economic model had several important consequences for Chile's political transition. First, the formation of the pragmatic neoliberal coalition robbed the opposition movement, led by AD, of a major capitalist and/or landowning ally, and it strengthened the military government's core social base. This gave the regime the fortitude to resist opposition demands for a more rapid transition to full political democracy. Pinochet and his

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<sup>49</sup> Qué Pasa, no. 833, March 26, 1987.

<sup>50</sup> Interviews with Jaime Alé (SFF), Humberto Prieto (CNC), Sergio de la Cuadra (Minister of Finance, 1982). Also see, El Campesino, no. 11, November 1988; Cámara Nacional de Comercio, Informe Económico Anual, 1988, pp. 8-11; SFF, Revista Industria, vol. XCI, no. 4, September 1988, pp. 6-8.

<sup>51</sup> This was evident in a statement loaded with neoliberal code-words that appeared in El Campesino, no. 1-2, January-February, 1988.

supporters could bide their time and insist on a political transition within the institutional confines of the 1980 constitution: Plebiscite in 1989 with Pinochet virtually assured of his candidacy, full elections in 1990 or 1997 depending on the outcome of the plebiscite, electoral laws designed without opposition participation (with all of the consequent opportunity for gerrymandering) and full application of the pragmatic neoliberal economic model in defiance of social equity.<sup>52</sup>

The consolidation of the pragmatic neoliberal coalition and the successes of its economic model between 1986 and 1988 had a second major effect. They induced the opposition to further moderate its economic program. The Concertación de Partidos por el NO explicitly emphasized its acceptance of the pragmatic neoliberal economic model, and that distributional issues would be addressed within its confines. The Concertación further demonstrated its commitment to moderation by stressing social and political reconciliation in a deeply divided and traumatized polity, rather than revenge for the abuses of 16 years of arbitrary rule.<sup>53</sup>

These concessions helped to assure a smooth political transition as stipulated by the 1980 Constitution. Since the projection of pragmatic neoliberalism was no longer at issue,

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<sup>52</sup> The pro-Pinochet campaign for the October 1988 plebiscite (Si) reflected officialdom's resurgent triumphalism. Its campaign advertisements stridently extolled economic gains since 1984 and compared Chile's relatively stable and growing economy to the economic disarray of fledgling democracies in neighboring Argentina, Perú and Bolivia. Their ads also revealed a heavy-handed effort to equate the anti-Pinochet position (the NO position) with the violence and chaos of the Allende years.

<sup>53</sup> "The Chilean Plebiscite: A First Step Toward Redemocratization," Report by the International Commission of the Latin American Studies Association to Observe the Chilean Plebiscite, LASA Forum, vol. 19, no. 4, 1989, pp. 18-36.

the opposition minimized the risk that the transition process might be reversed.<sup>54</sup> In 1988, this allowed the opposition to press for a clean election, assure recognition for its victory, and to set the stage for negotiated constitutional change with conservative political parties after the plebiscite.

Events bore out the Concertación's hopes. Although it had little impact on political party, electoral districting, and Congressional representation rules (majoritarian vs. proportional), it did establish the right to monitor counting procedures at voting booths.<sup>55</sup> Moreover, during the ballot count on the night October 5, when many worried that Pinochet might attempt to invalidate what appeared to be an opposition victory, conservative political party leaders from Renovación Nacional--the largest conservative party--and Junta members Matthei and Stange conceded that the Concertación seemed to be winning. Thus, they undercut any intention Pinochet might have had to annul the plebiscite's results.<sup>56</sup> The No campaign won by a comfortable margin: 54.7% of the vote to 43% for the Sí.<sup>57</sup> Presidential and congressional elections were scheduled for December 14, 1989 and the transfer of office was set for March 11, 1990.

These results set the stage for Chile's first presidential election since 1970. Christian Democratic Party president Patricio Aylwin ran for the Concertación, former Pinochet

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<sup>54</sup> The opposition's strategic choice was consistent with the prescriptions advocated by O'Donnell and Schmitter in Tentative Conclusions.

<sup>55</sup> "The Chilean Plebiscite, A First Step Toward Redemocratization," pp. 26-26.

<sup>56</sup> For events during the night of October 5 see, Qué Pasa, no. 914, November 13, 1988; Ascanio Cávallo et al., La historia oculta del régimen militar, Chapter 53.

<sup>57</sup> "The Chilean Plebiscite," pp. 29-31.

Minister of Finance Hernán Büchi for the conservatives (Democracia y Progreso), and banker-businessman-populist Francisco Javier Errázuriz campaigned on an independent ticket. Aylwin received 55.2% of the vote to Büchi's 29.4% and Errázuriz's 15.4%. Of the Senate's 38 elected seats Concertación parties won 22 and Democracia y Progreso got 16.<sup>58</sup> In the Chamber of Deputies Aylwin's coalition garnered 69 seats to the conservative alliance's 48. The leftist Lista Partido Amplio de Izquierda Socialista (PAIS) obtained two seats and independents received one.<sup>59</sup> The Concertación essentially conducted the presidential campaign on the same platform as the No crusade,<sup>60</sup> while Democracia y Progreso emphasized a neoliberal/libertarian platform.<sup>61</sup>

The Concertación's concessions to the pragmatic neoliberal coalition had a third important consequence. It led to the forging of a democratic founding coalition in which

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<sup>58</sup> The Senate also has nine designated seats. One is reserved for former presidents of the republic for life, and the others are nominated by the outgoing president for one term.

<sup>59</sup> La Epoca, December 16, 1989; and Stephen Brager, "The Chilean Elections of 1989: An Account, an Analysis and a Forecast for the Future," (University of California, San Diego, unpublished manuscript).

<sup>60</sup> Interview with Sergio Bitar in Qué Pasa, no. 954, July 20 1989; Interview with Patricio Aylwin in Hoy, no. 626, July 17, 1989, Business Latin America, July 10, 1989; Business Latin America, August 14, 1989.

<sup>61</sup> Büchi emphasized that his candidacy symbolized Chile's liberation from the deleterious political style of the past that had been responsible for the collapse of democracy: political freedom without economic freedom. His platform, Democracia y Progreso, stressed four points. First, power decentralization--a weaker presidency and more autonomy for administrative regions. Second, under his presidency Chile would become an "opportunity society" with more employment, better wages, health and housing, zero inflation and low taxation. The third point addressed "education for liberty," with subsidies for the poor. Fourth, Chile should strengthen economic ties to its neighbors. (Qué Pasa, nos. 954, July 20, 1989; 959, August 24, 1989; 964, September 28, 1989.)

conservatives held the upper hand.<sup>62</sup> In the 1980s, the democratic opposition essentially exchanged broad economic reform for political democratization. At the core of the pact stood the fact that reformist political parties--representing the middle class and some labor sectors--explicitly committed themselves to pragmatic neoliberalism. In return, businessmen, landowners and conservative political parties accepted limited political change.

Stretching the narrow limits of this constraining political bargain has proved difficult for reformists. Two factors allow conservatives to dominate the founding coalition. First, questions of social equity are subordinate to the relatively unfettered play of market forces, the emphasis is on social reform within the confines of the pragmatic neoliberal model.<sup>63</sup> Second, Chile's transition from authoritarianism took place within the confines of the 1980 Constitution, a charter with numerous features designed to protect conservative interests from reformists. Since it is still the law of the land, the structure of current political institutions are not fully democratic, and they leave reformist Christian and social democrats at a disadvantage.<sup>64</sup> To begin with, the staunchly conservative military has significant autonomy from civilian control. As a result, civilian governments must continuously gauge the armed

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<sup>62</sup> For a discussion of the importance of such coalitions and the limitations they set on policy see, Terry Karl, "Petroleum and Political Pacts: The Transition to Democracy in Venezuela," in Guillermo O'Donnell, Philippe C. Schmitter and Laurence Whitehead, Transitions from Authoritarian Rule: Latin America (Baltimore: Johns Hopkins University Press, 1986).

<sup>63</sup> For example, in addition to arms-length government intervention in the economy and support for free trade, the Aylwin administration has clearly committed itself to a policy of wage restraint, as prescribed by pragmatic neoliberalism. See, Felipe Larraín B., "The Economic Challenges of Democratic Development," in Drake and Jaksic, eds., The Struggle for Democracy in Chile.

<sup>64</sup> Loveman, "¿Misión Cumplida?".

forces' reaction to public policies. Moreover, the Senate is a right-wing bastion with the power to block or water down reformist laws. This is because the Senate has nine appointed seats and the selection rules heavily favor conservatives.<sup>65</sup> These institutional constraints clearly hampered Aylwin's attempt to pass legislation on tax and labor code reform--the cornerstones of his mild social reform project.

With respect to labor, the administration favored a wage policy that tied raises to productivity gains.<sup>66</sup> This, in theory, satisfied neoliberal demands for wage restraint to control inflation, and yet did not wholly abandon the government's pledge to address long postponed labor grievances. But achieving that goal required legislation to strengthen unions, a key labor movement demand.

The government proposed a bill that reformed three key aspects of the labor old code. First, the administration's proposals sought to make it more difficult and expensive to fire workers. The old code allowed employers to let workers go without showing cause and hire replacements for strikers. Second, the Aylwin-backed bill permitted unions to negotiate contracts by economic sector rather than on a company by company basis. Unions would gain the right to negotiate health benefits and job security clauses. Third, the draft legislation mandated that non-union employees would have to pay union fees if they

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<sup>65</sup> The military hold four of nine appointed Senate seats. Pinochet is guaranteed a lifelong Senate appointment as well, and the remaining appointed seats also tend to favor conservatives. For further details see, Loveman, "¿Misión Cumplida?", note no. 9.

<sup>66</sup> Larraín, "The Economic Challenges of Democratic Development."

benefitted from union negotiated contracts. This stopped short of the key Central Unica de Trabajadores demand of mandatory union enrollment.<sup>67</sup>

Chilean capitalists, represented by the Confederación de la Producción y Comercio (CPC) and conservative political parties such as Renovación Nacional, consistently opposed all of these measures. The appointed seats in the Senate provided conservative forces with a majority in that chamber of the legislature, which forced the administration to negotiate the labor reform bill point by point with RN.<sup>68</sup> As a result, the legislation bogged down.<sup>69</sup> Reforms that addressed the bare minimum of labor's agenda were gutted, and with them its capacity to capture and retain wages on the basis of increased productivity.

The fate of tax reform policy provides a second example of how the projection of authoritarian political institutions into the new democratic period hampers attention to social issues. In the interests of social equity, Aylwin's presidential campaign platform committed his administration to the improvement of education and health services, the provision of loans and technical assistance to start small businesses, the expansion of nutritional programs for infants and pregnant women, and the introduction of consumption programs for the indigent.<sup>70</sup>

Delivering on these promises required higher levels of government spending, which was why the Aylwin government introduced legislation to increase taxes on business.

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<sup>67</sup> Business Latin America, July 23, 1990.

<sup>68</sup> Interview with Luis Maira (president of Izquierda Cristiana), in Qué Pasa, no. 1021, November 5, 1990.

<sup>69</sup> Business Latin America, September 3, 1990.

<sup>70</sup> Larraín, "The Economic Challenges of Democratic Development."

Although the tax reform bill passed, Renovación Nacional managed keep the tax increase well within the bounds of what the CPC considered acceptable (from 10% to 15% of earnings). Once again, the reason for this was the fact that conservatives dominated the Senate on account of the appointed seats. The CPC, however, was not able to block the abolition of levies on estimated income for the agriculture, mining and transportation sectors in favor of actual earnings. And the government gained additional revenue by raising the regressive value added tax from 16% to 18%, and managed to transfer resources by cutting the military's budget.<sup>71</sup>

These partial and painstakingly negotiated advances in tax reform, however, are vulnerable to an additional legacy of the authoritarian period--an autonomous Central Bank. This institution reinforces the democratic founding coalition's commitment to pragmatic neoliberal economic policies: macro-economic stability over social amelioration.<sup>72</sup> The bank's policies drain resources potentially earmarked for social programs because it allocates a share of tax reform revenue to maintain a balanced budget and to fight inflation.<sup>73</sup> Ironically, while the administration uses tight monetary policy to demonstrate its commitment

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<sup>71</sup> Qué Pasa nos. 955, July 27, 1989 and 986, March 1, 1990; Business Latin America, "Business Outlooks" for June 4, 1990, and December 3, 1990.

<sup>72</sup> Business Latin America, March 26, 1990.

<sup>73</sup> For budget woes see, Business Latin America, "Business Outlooks" June 4, 1990 and December 3, 1990. For commitment to macro-economic stability see, Business Latin America, March 26, 1990. For recent inflation in Chile see, Business Latin America, November 12, 1990 and Latin America Regional Reports, August 9, 1990.

to the pragmatic neoliberal model, capitalists seem to think that even meager increases in social spending by the government are detrimental to the private sector.<sup>74</sup>

The evidence of the first years of Aylwin's government confirms the expectation that the Concertacion's tacit alliance with the pragmatic neoliberal coalition strongly diminished the possibilities for even mild economic reforms. The pragmatic neoliberal development model is based on a highly unequal distribution of wealth. A commitment to that economic model largely locks centrist political parties and moderate socialists into retaining skewed distributional patterns, albeit against their best intentions. Chile's current political institutions reinforce that tendency. Very mild adjustments and symbolic gestures, however, are still possible.

The founding democratic alliance, then, not only includes businessmen and landowners in the policy coalition, but gives them strong institutional means with which to defend their interests: a broad definition of property rights and profits. Under these circumstances, ceteris paribus, they should continue to support democratic rule. So far, they have demonstrated their general satisfaction by occasionally defending the Aylwin government when political forces impatient for economic and social reform attack it.<sup>75</sup> In other words, the emphasis on moderation and negotiation seems to augur well for political stability. However, whether that translates into more democratization remains to be seen. Deepening political democracy in Chile requires reducing military prerogatives, which the

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<sup>74</sup> An article by Hernán Büchi published in Qué Pasa no. 1021 Nov. 5, 1990 illustrates this point nicely.

<sup>75</sup> Jorge Desormeaux, "Me indigno cuando gente del anterior gobierno critica la prudencia de Foxley," La Epoca, January 20, 1991.

armed forces resist, and removing the 1980 constitution's authoritarian features, which may also prove difficult.<sup>76</sup>

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<sup>76</sup> Alfred Stepan, Rethinking Military Politics: Brazil and the Southern Cone (Princeton: Princeton University Press, 1988); Loveman, "¿Misión Cumplida?".