CHILE: DEMOCRACY AND ECONOMIC DEVELOPMENT ANALYSIS

In 1973 after the coup d’état to the government of Salvador Allende, Chile suffered social, political and economical changes that would largely determine its current economic performance and social structure. With the arrival of Augusto Pinochet to the Government the world and specially Latin America witnessed one of the main economic dilemmas about development as a counterpart of peace at the world’s periphery.

Actually there are still debates about the origin of the Chilean development and the influence of the “first and second Chilean miracles” on the emergence of its productive structure. However, in order to analyze this country’s economic growth it is more than necessary to talk about the structural transformations experimented with Augusto’s Pinochet arrival by the distinction of several stages of the general transformation of an entire state.

With the implementation of neoliberal reforms in a first period that caused the well-known “first Chilean miracle”, the institutionalization of violence posed itself as a control mechanism towards politics, democracy and social liberties. During the second period and “second Chilean miracle” the government opted for heterodox measures to control the flaws that liberalization had had, with reinforcement on opposition’s control and a significant reduction of politics and popular consent regarding public choices. The unquestionable Chilean development caused by shock policies and economic shaping in detriment of social, cultural and political development gives way to a higher discussion about equity and liberty versus economic wealth and common wealth in modern states.

Traditional institutional economy proposed by Douglas North establishes that social and political institutions are fundamental for the construction of a market economy due to the close relation between institutions and economic development. However
Chile’s case stands a whole different picture in respect of this relation between institutions and economy; the progressive destruction of institutions in charge of the dictatorship created an economic system uncontrolled by social and political pressures with violence and repression as its main institutions.

The Chilean market's transformation and the economic approach

Economic background: from Allende’s socialism to the radical liberalism of Pinochet

Into the thirties, after the Great Depression, Chile experimented a significant fall on its exportations affecting its general economic performance which led to the establishment of the Import Substitution Industrialization model that caused economic stagnation, internal and external strangulation and decline in the domestic agricultural sector. Furthermore, the concentration of their exportation on traditional goods meant a constant instability on their balance of payments as well as excessive inflationary pressures that produced economic volatility and a general social inconformity.

Thus, in the years before the arrival of Pinochet to the government, the country had faced many reforms in order to control the inflation through economic shocks but without any stability and perdurability, what cause a productive underutilization and an institutional inefficiency reflected in the social divergence and the political instability. With Salvador Allende in the government, Chile faced major changes on its property structure due to the strong populist politic as well as a detriment of the public revenues and a wrong macroeconomic management.

Allende’s government reduced every public rate, froze the exchange rate, increased wages at the expense of monetary expansion and brought the international reserves to its minimum levels, at the same time that conducted nationalization processes, especially in economic sector like copper mining and banking system. This showed at first a slight growth of the GDP that made this measures to seem as successful but that was only the beginning of an economic catastrophe preceded by an unstable political and economic environment, a decrease on production, a marked price distortion and social mobilizations.

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In summary, Augusto Pinochet received a country with a serious underutilization of its resources, an hyperinflation of 700% with high levels of unemployment and serious flaws on its institution and its government.

**The economic reforms of the Pinochet’s government**

With the arrival of Augusto Pinochet, Chile confronted two main periods of transformation of two different economic natures making it a successful mix of traditional and progressive postures around it. The first stage took place in the period between 1973 and 1981 when Pinochet implemented an economic development policy framed on neoliberal postulates, promoting the market’s liberalization, privatization and deregulation. The Chicago Boys conducted this reform through what is known as an economic shock policy that led to a first negative impact on the social level and a posterior pull down of the productive forces. During the second stage between 1982 and 1990, the government adopted heterodox politics of intervention and regulation in specific markets, giving to the economic development a new and limited approach.

On the first period economic policy was guided by the neoliberal postures that promoted price liberalization, indiscriminate opening to imports, financial market’s and capital flows liberalization, and the imposition of a progressive taxes scheme\(^2\). These measures were within the reduction of the state’s context, in order to encourage massive privatizations as well as the returning of lands and properties that were expropriated during Allende’s government. With the guidance of the “Chicago Boys” and Milton Friedman as one of its leaders, the free market and pure liberalism were established in Chile so as to achieve economic stability and effective control of the hyperinflation that was being faced\(^3\). It is important to note that the economic substance of the reform was also enforced by the repression of individual liberties and syndical rights that limited social and political development significantly.

The new economic structure proved to be effective and improve the utilization of productive resources along with the systematization of the productive process as a result of the private management of production, a notable increase in public and

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private investment and a fast decline in inflation⁴. However, inflation levels remained around 300% limiting growth in aggregate demand causing the introduction of different shock policies in detriment of social equity; the success of these measures led to a period denominated by Friedman as the “First Chilean Miracle”.

Paradoxically, the economic bonanza completed with the fiscal surplus achieved by a fixed exchange rate and a high level of external debt led to the institutionalization of an authoritarian regime through a plebiscite in 1980. Even though the government used violence as weapon of social containment and human right’s violations were a reality, most of the population still supported the regimen for its effective economic management that brought inflation to international levels by 1982⁵. Nevertheless the extreme liberalization of the Chilean economy failed due to the excessive indebtedness that cause the exchange rate’s drawback followed by a significant drop in exports, an extreme external dependency and a current account deficit.

As a contention plan for the crisis, Pinochet’s government proposed and structural change on their economic policy in order to contain de debt and promote productivity by an interventionist approach. Prices control and exchange rate control came with measures to encourage exports and industrial development. Although neoliberalism was still the main doctrine, the implementation of pure liberalism policies was know guided by the heterodox scheme that highlighted the need to control some aspects of the economy in the interest of achieving market’s sustainability and end economic efficiency. This period was leaded by a second generation of the Chicago Boys that believe that the market was not as efficient by itself as Adam Smith’s theory established; for the contraire, policymaking came with a pragmatic touch that defended measures such as devaluation, tariff protection, subsides to exportations and financial system’s regulations among others, affecting the State’s revenue that came to a state of deficit⁶.

On the other hand, a big portion of these measures where taken for benefit of the upper classes (especially taxes related ones) affecting radically income distribution as well as equity levels. Around 1987 economic recovery started and with international aid by the International Monetary Fund and the Inter-American Development Bank, achieving a notable increase on demand, an expansion of the

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⁴ By 1974 the inflation had fallen to 370%
productive base, an stable inflation rate, an increase on exports and National income that at last showed economic growth and industrial development at its maximum levels; the “Second Chilean miracle” was there.

**The social and political transformation**

As good as the economic performance under the government of Pinochet was, the social and political one was the complete opposite. In justification of the economic transformation, the government established a regime of fear, repression and violence. When a dictatorship is established, the regimen takes control under the law, the people and their minds\(^7\) with an especial emphasis on the imposition of terror.

First of all, it is essential to note that the Chicago Boys role on the regime was not only played at the economic arena but also at the political one; through the State’s reduction they embossed a State which functions were referred to political and social control since the free market required an authoritarian regimen that assured that society was govern by the market, even though if that was meant to be forced\(^8\). Within the framework of the Condor Operation in Latin America through which the United States was trying to prevent a communist expansion in the region, the Chilean dictatorship had the military support necessary to repress opposition and set up terror.

With the creation of the DINA\(^9\) the government institutionalized terror and violence emblematized by tortures, murderers, disappearances among every kind of human right’s violations\(^10\) founding a protected dictatorship\(^11\) to safeguard the economic project. The massive destruction of the social and political institutions gave Pinochet the liberty of operating politically without obstacles on a way described by the administration as an efficient way to get thing done even though that meant sacrificing social welfare and development. Actually there is a registration of 2.094 people killed, 1.102 people disappeared, 104.00 tortured, 1 million people detained

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\(^9\) National Direction of Intelligence

\(^10\) The principla targets of the dictatorship were oppositors, unionists, militians and communists.

and abused and around 500,000 violations to human rights during the whole dictatorship period\textsuperscript{12}.

Additionally the international community stood distant of interventions hiding behind Westphalian sovereignty principle factor that can be seen as a tacit acceptation of the regime. Also the Condor Operation gave the liberty to operate without any interference and posed the United States as one of their main commercial and political allies.

The economic growth that Chile experimented during the dictatorship (1973-1989) came with strong social and political conflicts because of the constant repressions and human right’s violations in charge of the DINA. Additionally, the path to democracy was also hindered politically in military speaking due to the emergence of a strong opposition personalized by the MIR\textsuperscript{13} and the Patriotic Front Manuel Rodríguez as a response to the institutionalization of the violence as a way of govern.

Chile faced an institutional and jurisdictional deconstruction that left behind any kind of social interaction or participation on the transformation that was being held. The consequence of the regimen on Chile’s institutions was marked on its social structures that ended with a fractured society.

**Institutional perspective**

During Augusto Pinochet’s regime, Chile experimented economic changes that founded its bases for development and growth through a liberal approach on the market economy. Despite of flaws inherent to total liberalization and deregulation, the government found its way to remodel the liberal theory and assumed a more pragmatic posture with a slight of interventionism. The strengthening of economy meant a strong productive system towards industrialization, sustainability and efficacy.

The economic institutions and especially the market one were improved since its emergence on this period, creating an economic and industrial apparatus that determined the country’s future economic performance. Through the


\textsuperscript{13} Revolutionary Left Movement
establishment of a clear guideline for development the economic institutions acquired an independence from social ones.

On the other hand, social and political institutions were progressively deconstructed as violence and terror replaced them; the lack of social cohesion and political means was reflected on the general disintegration of the society. For the institutionalism, economic development relays on the social and political interactions that create a scheme of rules and parameters for the economic system’s consolidation. In this order of ideas, the Chilean case shows a different perspective of the role that social interactions play on development and how the jurisdictional frame affects it.

For John Commons, social interactions are necessary for the establishment of economic institutions in order to achieve development; these social interactions are referred to political consent and inclusion with the State as the supreme supervisor and mediator of these interactions. By the suppression of the State’s faculties (done by its reduction) the State passes from being a mediator to be the institution responsible for determining an economic model devoid of political and social background.

Thereby, once democracy was establish in Chile, the institutional construction of the State suffered a transformation focused on the social and political system, factor that determined the formation of social institutions in a frame of equity and liberty. Nevertheless the economic institutions and the economic system itself lasted even after Pinochet’s fall experiencing minor changes in terms of income distribution, productivity and national industrialization.

The interesting thing is how the social and political institutions had to adhere to the economic ones, experimenting a reverse development process; with democracy, the neoliberal system proposed by Pinochet expanded the scheme towards a more inclusive and equitable model in terms of legal and jurisdictional institutions as well as cultural and social ones. Are the people who make a State and its institutions must respond to that nature in order to conceive development not only as an economic matter but also as a political and social one.

**Final considerations**

After Pinochet’s fall Chile experimented an economic growth that still positions it today as one of the most developed countries at the region along with Brazil and Mexico. The economic model imposed by the dictatorship brought the basis for a
future development and the deployment of the productive forces, were its main flaws were related to income distribution and GDP’s volatility. Nevertheless, Patricio Aylwin’s government procured to have a continuity of Pinochet’s economic policies with a progressive inclusion of society into it.

The social deconstruction that Pinochet’s regime caused also was the impulse for a new integration with democracy; nationalism, shame and forgiveness brought the Chilean society together to organize itself and leave behind the terror and pain without prejudice to an economic scheme responsible for Chilean’s development. It is true that the dictatorship meant social disintegration of the state as a result of the terror and violence imposed by the regime, but it is also true that the economic performance of Chile could have been different if the “first and second miracles” haven’t happened. This particular case is one of the most discussed by the institutionalism whether if they support the heterodox view that defends social interactions as a main step to development and the ones that think economy as the organizer of social relations.

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