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**A New Developmentalist Welfare State Model in the
Making?**

Chile in Latin America

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Abstract

During the 20th Century, the Chilean State presided over the modernization of the country, largely through two successive and violently conflicting strategies, which in a certain sense seem to conform a unity as well. During the process as a whole, the country underwent its painful transition from its old, traditional, agrarian self, and modern social actors were born in a labour of a century. Out of it, the country seems to be once again at the crossroads of yet another momentous shift in its State-led development strategy. However, the emerging State strategy seems to demand a closer engagement with similar and contemporary processes that seem to be taking place throughout Latin America.

During most of the past century, the Chilean State, through its developmentalist economic and social policies, became the main actor in both the industrialization of the country and the promotion of its momentous social change. Such a State role climaxed in the late 1960s and early 1970s, when it led the deep reforms and revolutionary transformations that took place then, which changed the traditional agrarian structure of the country in a quite radical manner. These changes proved irreversible in the end, and the turbulent events that made them possible, seem to be the key to understand the country's subsequent political and economic evolution, as well as the role of the State thereafter.

The strategy of the Chilean State changed abruptly after the ruthless 1973 military coup, which put an end both to revolutionary agitation and democracy in the country. The succeeding three decades are more or less evenly divided, between a 17-year military dictatorship headed by Pinochet, and a slow transition to democracy that has been going on since 1990 and up to the present day.

The role of the State in economic and social policy was dismantled with a vengeance during the dictatorship, while State action continued to enforce rapid social and economic change, although this time quite unilaterally in the benefit of the emerging entrepreneurial class. The efforts attempted by the ensuing democratically elected governments to recover the damage done to State institutions, although highly visible in areas such as infrastructure and others, have been seriously hampered by both the lack of fully democratic institutions, as well as the persistent prevalence of Neoliberal ideology within academic and technocratic cadres as a whole.

This situation seems to be ending, as public opinion quickly shifts away from the trends that have prevailed up to now, and issues previously confined to critical voices are starting to become mainstream State policies. The quite startling advances that have taken place in human rights issues since Pinochet's detention in London, have encouraged this new direction of affairs, as it has timidly begun to expand within the realms of economic and social policies. A new national development strategy seems to be in the making in Chile, where strong and renewed State-led economic and social policies could play a central role.

State roles similar to the above described, were evidenced throughout Latin America during the past century, in more or less contemporary times, in the backdrop of the region's huge and ongoing tectonic transition, away from its traditional agrarian past, and towards its increasingly modern contemporary socio-economic structures. Its forms varied broadly from country to country, in dependence to the wide differences that may be appreciated in Latin America, both in the stage and pace of the transition process, as well as the diverse historical patterns followed by different countries and regions.

Nevertheless, what has been defined as *Latin American Developmentalist Welfare State*, appeared in most Latin American countries in the wake of the 1930 crisis, and peaked towards the 1970s and 1980s. Similarly, the developmentalist strategy gave way to what has been called the *Washington Consensus* set of State policies, during the 1990s, in most Latin American countries.

At the present, as well, an unambiguous shift of direction, away from Neoliberalism, seems to be taking place in key Latin American countries. A new development strategy, centred in what has been called *Neo Latin American Developmentalist Welfare State*, may be in the making, which now seems to envision a larger, more integrated, Latin American space for its full development.

Holding the rudder through the Great Tectonic Change: The Developmentalist Welfare State in Chile (1925-1973)

The *Developmentalist Welfare State* (DWS) was born in Chile in Sept 11, 1925, when a rather progressive military government took power, enacted the country's first social legislation, and created the basic economic institutions of the modern Chilean State. This kind of State-led strategy, which explicitly pursued both economic development and social progress, would build up throughout the following decades, supported by democratic governments of diverse political denomination, and up to its revolutionary climax during the government of Salvador Allende (1970-1973). This State strategy was brought to a violent end in Sept 11, 1973, by an extreme right military coup, headed by Pinochet.

The DWS needed to engage in diverse economic activities simply because contemporary civil society was not capable of assuming these tasks by itself. This had been the case since the second half of the XIX century, when the State had to build national railways and telegraph networks. Meanwhile, in contemporary developed countries, as is well known, these industries had been the flagship of nascent capitalism; they were invented by emerging industrial bourgeoisies and built by then growing modern proletariat. However, these modern social actors simply did not exist significantly in Chile at the time. Instead, traditional landowners, merchants, and bankers, dominated the local elite, while most of the population were peasants. Foreign capital was a relevant actor as well, but it operated in Chile mainly in mining enclaves, where labour relations kept a close resemblance to those existing in contemporary *latifundia*, from where the enclave workers had been recently uprooted. By the second decade of the century, the nascent DWS was agonizingly aware of the backwardness of the economy, and the ignorance and misery of the population, which by then showed one of the worst sanitary indicators in

the world. Hence, from the start the DWS engaged in ambitious social legislation and educational and health policies.

The 1930 crisis, was the first great painful contraction in the childbirth of modern Chilean workforce, as tens of thousands of workers expelled from the closing nitrate mines flooded the country's then small cities, mainly Santiago, and became available for hiring by nascent private industrialists – some of the latter recent immigrants, no few of them coming from the Arab countries. The crisis liquidated the traditional export-based economy, and enforced a new State-led development strategy, which later on was to be proclaimed by ECLAC as the *import substitution* or *inward oriented* development model. Meanwhile, in the late 1930s, *Popular Front* governments reinforced and made even more explicit their commitment to *welfare developmentalism*. During the following decades, the Chilean DWS would persistently enhance its twin commitment to both economic development and social change, while at the same time becoming increasingly confrontational with the traditional landowner-dominated elite.

Meanwhile, peasant migration to the cities increased in speed, and social agitation slowly started to gain momentum as new urban dwellers, including industrial workers and State employees and students, among others, gained in organization assertiveness and influence. Peasants, now increasingly under the sway of DWS-promoted educational and sanitary programs, and labour legislation, had finally started to wake up from their secular siesta. Popular political parties continuously gained influence, even through periods of proscription, notably the Chilean Communist party, which had been founded by workers in the nitrate mines during the first decades of the century and had instantly become a national organization when the 1930 crisis disseminated its seasoned worker base throughout the country.

The DWS experience reached its climax under the advanced reformist government of President Frei Montalva (1964-1970), a Christian-Democrat, and Socialist President Salvador Allende (1970-1973). In 1965, under the odd fellow influence of the Cuban revolution and US-sponsored *Alliance for Progress*, and with overwhelming internal support, a large parliamentary majority approved an advanced agrarian reform law. The Allende government made it effective, expropriating practically all the useful farmland during the first two years of its mandate – forever liquidating the traditional landowner oligarchy, which had been decaying slowly for years. In parallel, the Allende government also managed to gain unanimous parliamentary approval to a law that nationalized all mining resources, and the US companies that exploited them. All these quite extraordinary feats were made possible in the backdrop of widespread political agitation, which assumed the form of an outright revolution during the Allende years, when peasants finally joined massively into urban-led popular mobilizations.

At the same time, both the Frei and Allende governments culminated the building of the DWS period, expanding the public systems of education, health, housing, and social security, at record rates. The economy grew as well, at an increasingly rapid pace throughout the whole DWS period, culminating during the 1958 -1971 economic cycle, which showed the fastest GDP growth in the century, unsurpassed until the 1990s.

Similar DWS experiences took place contemporarily throughout Latin America, over the backdrop of massive peasant migration and accelerated socio-economic transition. Everywhere, the leading role was played by the State, its military and civil bureaucracies, supported by emerging urban social actors, with peasants in the background.

Nevertheless, forms varied widely from country to country, mostly in dependence to the relative advance of different countries and regions in the transition process, and especially, upon the widely differing historical developments and patterns of the different Latin American countries and regions.

Almost the whole range of socio-economic formations that have been recorded in history may be found even today in Latin America, from the primitive aboriginal Amazonians to the professional elites of the bustling Latin American mega cities. Throughout a continent where traditional peasants still constitute about half of the population in no few countries, and about one quarter overall – 42% according to recent WB figures which apply the same criterion of advanced countries for this measurement. Latin American countries and regions within the largest countries vary widely in their degree of urbanization and socio-economic organization.

On the other hand, at least four very different historical development patterns have been described in Latin America. One of these is the *classic colonial* pattern, which developed in the lands of the ancient American empires, along the Andes from Mexico, to Peru and Bolivia. Another is the pattern followed by *early modernizing* countries and regions, mainly in Río de la Plata, based on massive immigration in late 19th and early 20th centuries. Another is the *slave-based plantation economy*, which developed mainly in Brazil and Cuba, as well as the Caribbean. Finally, the *poor colonies in the margins of the ancient empires*, pattern found in counties such as Costa Rica and Chile.

From another point of view, landmark political events make wide differences as well. For example, Mexico at the earliest and Cuba at the latest, initiated their DWS experiences with revolutionary upheavals, and Chile culminated its own in the same way. Meanwhile, Brazil initiated its DWS experience under a progressive military regime, and reached its climax under a conservative military dictatorship.

Nevertheless, the LADWS paradigm was subject to intense criticism throughout the region as the 20th century entered its final decades. These criticisms came both from the left and from the right – the ones demanding an even faster engagement in social change, while the latter its replacement for a model friendlier to business. In the end, the LADWS experience was probably a victim to its own success, in creating a new economic structure and new social actors that could now sustain and support the new development strategy that would replace it everywhere, and was to be proclaimed as the *Latin America Washington Consensus*, during the 1990s.

The Chilean Pioneering Neoliberal Experience (1973-200?)

The strategy of the Chilean State changed abruptly after the ruthless 1973 military coup, which put an end both to revolutionary agitation and democracy in the country. In the

Chilean case, the main features of the Neoliberal period, its early start, its extreme nature, and its dynamic and highly volatile economic performance, all seem to be a direct consequence of the revolutionary climax of the preceding DWS experience, and its radical achievements.

The succeeding three decades are more or less evenly divided, between a 17-year military dictatorship headed by Pinochet, and a slow transition to democracy that has been going on since 1990 and up to the present day.

Certainly, there are quite obvious and sharp differences between the dictatorship and the transition period, in all sorts of matters, some of which will be emphasized below. Nevertheless, the transition period has maintained the basic lineages of the Neoliberal period, mainly a unilateral emphasis in securing a business friendly economic environment in the short run, as well as management of public affairs mostly in the interest of the entrepreneurial class and the minority high-income segments of the population.

Consequently, it seems justified to consider both periods as being a part of the same long run, and ongoing, State development strategy that the country has been experiencing since the last decades of the 20th century.

Years of Extremes: State role under the Pinochet dictatorship (1973-1989)

The 1973 military coup took place in a moment when political confrontation had reached its maximum, and the revolutionary upheaval, which had already been going on for some years in a row, had already attained its main goals. Everyday life had become increasingly difficult and chaotic at times, due mainly to the intentional sabotage of the economy by the rightist opposition, who controlled the judiciary and parliament, and direct US intervention. The Allende government had become increasingly incapable of controlling the situation, in part out of its indecision to enforce discipline over some extremist supporters, who made a minor contribution to the ungovernable situation pursued by the opposition against Allende. In short, hate against the Popular Unity, viciously incited daily by the predominantly anti-Allende media, had become widespread in the opposition to his government. The latter now encompassed growing numbers of frightened, and revolution exhausted middle classes.

No wonder that in such a climate, those most willing to act ruthlessly against the supporters of the Allende government attained prominence within the military. It is to no surprise either, that DWS ideology that had been predominant within the military in Chile, as elsewhere in Latin America, gave way to quite its opposite. This became handy, in the form of a new development project, which a group of young US educated economists had been preparing for years. It is no mystery either, that these young economists, who became the renowned “Chicago Boys,” most of them sons of the old landowners, embraced the anti-State and anti-worker, extremist, aspects of the ideology of Milton Friedman, under whom they had studied.

Thus, Neoliberalism in its most extreme and cruel forms, was embraced with religious fervour by the core of the young Chilean bourgeoisie, the vindictive offspring of the old landowners and the Pinochet counter-revolution, whose economic aggressiveness has run hand in hand with its mercilessness towards workers, and its anarchistic ideas regarding the role of the State. This attitude of the Chilean elite has timidly begun to change. However, not until very recently, and then, only tied to the political, moral, and physical, demise of the ex dictator, whom for decades they had hailed as their fatherly figure and unassailable hero. Things only started to change, really, when the aging and ailing ex-dictator was detained in London during a “visit” to a British arms manufacturer, of which he took advantage to undergo a minor operation in the London Clinic. His personal finances underwent a much more substantial healing during such visits, as the recently discovered multi-million dollar accounts held by the ex-dictator in Riggs Bank have proved. The demise of the dictator opened the way for an emboldened judiciary to process hundreds of the human rights abusers, starting with Pinochet himself and the leadership of his dreaded secret police.

In Chile, economic development policy was reduced to creating the most favourable possible environment for business in the short run, in the framework of wide openness to foreign trade and investment, just in time to meet contemporary global trends in the same direction. On the other hand, in the wake of the coup, real average salaries were slashed roughly by half, and by two thirds in the case of teachers and other State employees. At the same time, unions were outlawed, and labour legislation was severely retrenched. Meanwhile, tens of thousands of Chileans, simple working people and peasants for the most part, and many of the country’s best labour and student leaders among them, were killed, disappeared, tortured, imprisoned, or exiled, by systematic State policy, during the dark Pinochet years. By the time the dictatorship ended, in the late 1980s, half of the Chilean population was below the poverty line, and about half of those were indigent.

Some of the institutions of the Chilean State itself – not the military, of course, which were elevated to the role of safeguards of the nation - were to become a victim as well, during the following decades. Notably, public social expenditures were slashed by half in the wake of the coup, and were kept very low during the dictatorship with the result of serious deterioration of the public social policy institutions. Except for public expenditures in pensions – after the privatization of the pension system in 1981, the fiscal surplus generated by the old pay-as-you-go system until then, turned into a huge deficit. Pensions and health, as well as education, were completely or partially privatized. Public companies were also mostly privatized, which had been created by the State during the DWS period and were dominant in most economic sectors, from electricity, transportation, and communications, to steel, cement, cellulose, and sugar, among many others. Banking and industrial complexes that had developed under the protections of the *import substitution* model and had been nationalized by Allende were also re privatized.

There was one notable exception in the privatization spree engaged by the military dictatorship, and this was non other than the largest company in Chile, and the only really large firm in the country by world standards: CODELCO, the copper giant that was formed out of the mining companies nationalized by Allende. CODELCO was not only kept within the public sphere by the military, they also doubled its size, and imposed

upon it a royalty of 10% of sales which still goes to the military, to be spent at their discretion - some hundreds of US\$ millions a year.

Nevertheless, although Pinochet's 1980 Constitution formally maintains Allende's 1971 mining resources nationalization clauses, the "Chicago Boys" devised a lease-for-life shortcut that effectively delivers property of minerals to private firms that extract them – at no charge at all. This huge subsidy to mining companies – they receive their top quality raw materials free, and are entitled to their full and substantial ground rent – enticed an avalanche of private, mainly foreign, investment in copper mining, which finally materialized during the 1990s, when the dictatorship was over. Only recently, this huge economic distortion – copper accounts for over 40% of Chilean exports –, introduced by irresponsible Neoliberal deregulation, has been reckoned by the Chilean State, which has presented parliament with a law that establishes a especial, though very moderate, surtax to capture part of mining ground rent. A large majority in the lower chamber of parliament has recently approved the law.

In the background, peasant migration reached breakneck speed during the Pinochet years, spilled over by the very peculiar manner in which Pinochet complied with the agrarian reform law. In effect, the old landowners sons were given back about one third of the land, in the form of relatively small *reservas* to which they were entitled by law. About other third, mostly mountainous territory was auctioned to forestry companies. Both new owners took good care of expelling all the peasants who lived in their newly recovered lands, and hired them now as outdoor labourers. Nevertheless, most of the expropriated lands, about 40% of them, were in fact given over to peasants, mainly to those who had remained loyal to the old landowners during the Allende years.

Meanwhile, in the wake of the coup, peasants who had visibly supported agrarian reform, and for a brief extraordinary moment during the Allende years had managed to recover for them the land where they had lived and worked upon for generations, were now simply thrown out to the roads, numbered in the hundreds of thousands. That is, when they managed to escape the death squadrons that roamed the countryside during those days, which are responsible for over half of the killed and disappeared. All the expelled peasants became available for hiring by the eager and now unleashed young bourgeoisie. These hideous and violent events would become the second great labour contraction out of which the modern Chilean workforce was finally born.

The Chilean bourgeoisie, on its part, got a huge boost out of the overall policies of the dictatorship. Not without enduring severe hardships on their part, as many private firms, including some of the largest, went broke and disappeared during the severe economic crises that took place, and most were forced to adapt to greatly increased foreign competition. Nevertheless, with overall policies acting in their favour – including the transferral to their hands of most state companies and funds from pension contributions – the Chilean bourgeoisie finally constituted itself into a full blown economic and social actor.

As a result of all the above, the Chilean economy acquired a strong volatility during the last three decades, during which it has undergone two long economic cycles and three

deep crises. The first economic cycle goes from the 1971 to 1981, and the second one from 1981 up to 1997, all years when the economy attained peak activity.

The first cycle includes the recession that started in 1973 and bottomed in 1975, and the second cycle ended in the violent crisis that started in 1982. Both crises, and especially the second, were the most severe since 1930. During the 1982 crisis, for example, all the banking system and the largest private conglomerates went bankrupt, and unemployment affected one out of three workers during over three years.

The 1971-1981 cycle showed very slow growth overall and the worst economic performance of the Chilean economy since the 1929 – 1946 economic cycle, which included the Great Depression. During the 1971-1981 economic cycle, worker productivity in fact decreased.

The second economic cycle of the period, 1981-1997, included the worst crisis since 1930, as said. But also, this cycle experienced the most prolonged growth spree of the Chilean economy, which lasted over ten years, from 1986 to 1997, when average growth neared 8% a year. The economy grew so fast during that period that the 1981-1997 cycle barely surpassed the record growth attained during the 1958-1971 economic cycle, during the peak of the DWS period.

The final word regarding the overall economic performance of the Neoliberal period versus its DWS predecessor remains to be said. In 1997, the Chilean economy entered yet another economic cycle, which started in the 1997 peak and has started with a very long recession that lasted until 2003. The economy regained a fast growth rate during 2004 and 2005. In any case, the Pinochet years as a whole, 1973-1989, show one of the worst growth performances of any government during the 20th century.

Within the possible: State role during the transition to democracy (1990-2005)

The Pinochet dictatorship ended in 1989, after a long and massive struggle that took place during the 1980s, in the wake of the deep economic crisis. Millions of Chileans held their own *intifada*, which they called *protestas nacionales*. A sophisticated communist led urban guerrilla, of whose actions the dictator barely escaped alive in 1986, accompanied *Protestas*. It turned pretty bloody at times, so much in fact, that in just one night during the peak of the protests, over 60 people were killed by the military in Santiago. In that climate, and under hard pressure from the US, Pinochet was forced into negotiating a way out with the moderate sectors of the democratic movement. Thus, the whole of the democratic opposition managed to oust the dictator through a democratic plebiscite that he lost, and elect successive democratic governments.

Nevertheless, at the same time, the pact of Pinochet with the moderates managed to isolate the communists and other radical democratic forces, and ensure the ex dictator another decade at the head of the army. Additionally, the Constitution he signed in 1980 is still in vigour, although with several modifications. Personalities and parties that are closely related to the old DWS have held the top State posts, as well as a majority of parliamentary seats. Nevertheless, the young Chilean bourgeoisie has assumed quite a

direct role over State and public matters. They exert a complete control over an economy where the State role has been significantly reduced, as well as over most of the media. In addition, through the rightist political parties, who are the largest minority and get over a third of the vote, they make use of Constitutional prerogatives to control almost half of parliament and exert effective veto power over all relevant State matters. Their lobbyists, some of them ex ministers of the democratic governments, move around at will and even hold paid government consulting jobs in parliament and government dependencies, including the *Moneda* palace.

In addition, Neoliberal ideology has maintained its hegemony not only over academy, but over government cadres and public policies as well, specially in the realms of economic and social policies, as well as over State management and modernization initiatives.

This state of affairs has survived during the long transition period that has lasted almost as long as the dictatorship it replaced. The transition arrangement has been grudgingly but widely supported by the Chilean population, which has maintained a low profile, and been notably moderate in its demands to recover from decades of economic and participative prostration.

Economic growth has played its role as well in the prolonged transition. During the three democratically elected governments since 1989, all of them of the centre-left *Concertación de Partidos por la Democracia* coalition, the economy grew at a very fast pace until 1997, and then entered a recession that lasted until 2003, as said. Nevertheless, the impressive economic growth of the 1990s allowed for almost everything in Chile to be multiplied by two, by three, or even by four, during this quite extraordinary period.

GDP increased by 80% between 1989 and 1997, measured by the 1986 based series, and again 25% between 1997 and 2004, measured by the new 1996 based series, and 6%-7% growth during 2005 would not be surprising. This means GDP will generously more than duplicate during the whole period (about 2.3 times from 1990 to 2005).

Public expenditure grew faster than GDP from 1989 to 2000, and slightly slower than GDP from 2000 to 2005, during the Lagos government, and the same happened with social public expenditure. As a result, the Chilean State almost tripled in size during the period (public expenditure will have increased 2.8 times from 1990 to 2005), although it remains around one fifth of GDP, which is quite low even by Latin American standards. Moreover, public spending in health more than tripled (3.4 times from 1990 to 2005) and education more than quadrupled (4.4 times from 1990 to 2005).

Infrastructure building has been impressive during the period, as paved roads, water reservoirs, railroads, metro lines, and urban highways, all of them more than doubled during this period, or were completely revamped. In short, the face of Chile changed significantly, and for the good during the transition period.

Meanwhile, Chilean population has grown only 22% in the period, from 13 million in 1990 up to 16 million in 2005, which means that available goods have increased significantly more than the number of Chileans. In fact, poverty was reduced from roughly half of the population by the end of the 1980s, down to one fifth in 2003, while indigents fell to around 6% of the population. Health and education indicators, as well as

the Human Development Index calculated by UNDP, have all improved quite impressively during this period as well.

Nevertheless, most of the increase in GDP went to the upper income segments of the population.

Average real wages, for example, recovered 53% from 1990 to 2004, less than half the increase of GDP in the period, which means that the share of salaries in overall income fell significantly. The level of real wages at the end of the dictatorship was so low - about 25% below pre-coup levels - that only in December 1999, just when the century ended, Chilean workers in the average recovered the pre-coup purchasing power of their wages. Nevertheless, teachers and other public employees, who received wage increases roughly of the same order as the increase of GDP (2.6 times from 1990 to 2004), had such low wages at the end of the dictatorship that they still do not recover their pre-coup purchasing power. In the case of teachers, their wages in 1990 were at about 1/3 their pre-coup levels, that is, 2/3 below what they earned at the beginning of the 1970s.

As a result of the above, distribution of income deteriorated terribly during this period, if only autonomous incomes of families are considered. If additionally, public social expenditure is taken into account, and only non-contributive pensions for poor people are considered, then distribution of income remained roughly as bad from 1990 to 2003. Nevertheless, if contributive pensions, military pensions, and transferrals to the AFP system are considered, then public expenditure overall becomes regressive as well.

There is increasing awareness of the limitations of the liberal social protection schemes. After 20 years of experiments with liberal social protection schemes in Chile, the virtues and especially, the serious weaknesses and shortcomings of such schemes, seem to have become quite clear by now.

Broadly speaking, the main disadvantage of the private Neoliberal social protection schemes seems to be that they have remitted their benefits to the upper income quarter, or so, of the population (UNDP 2002b). However, not even these segments of the population are quite satisfied with them, and they now demand a curb on raising costs of health, education, and pension administration, as well as other regulations.

On the other hand, the amount of resources targeted in the lower income segments of the population, in poverty alleviation kind of programs and others, although effective both in bettering social indicators and the condition of the poorest, have proved insufficient. "They are barely enough for the last quintile, but insufficient to attend those immediately above them, who are also horribly poor" as the Chilean Finance Minister has declared.

Meanwhile, such schemes have proven to be quite ineffectual regarding the vast majority of the population, which is now quite unprotected, or has returned to state social protection systems where it is allowed to do so, such as in health care.

The renowned Chilean AFP pension system seems to be a good example of this assertion. A quarter century on, it seems clear that the system by itself will not benefit further than the upper income quarter of the workforce, or less. Only that segment is contributing to the system with both the level of salaries and the regularity required, in order that their savings alone may ensure that they will receive pensions larger than the State-guaranteed

“minimum pension.” Even those who will receive benefits out of the system, for their part as said, are quite dissatisfied with aspects of the same, mostly derived from shortcomings in the regulatory framework. Administration fees charged by the AFPs are very high, so much indeed, that even though sales costs and other expenses of the AFPs are quite high, their net income has hit record levels even during recession years.

Chilean Education Along a Century

Education provides a good example of what happened with State policies in Chile along the whole of the 20th century. Public expenditure in education grew very fast during the DWS period, more than duplicating every decade, and faster still from 1950 up to 1973, where it duplicated every seven years. On the contrary, it was slashed in half in the wake of the 1973 coup and remained very low until the 1990s, when it recovered as shown above. Nevertheless, it was not until 1993 that public expenditure in education recovered the dollar amount it reached before the coup, and it is still way under those levels when measured in relation to GDP.

Accordingly, overall school enrolment in all levels ever more rapidly during the DWS period: 3.4% a year from 1924 to 1973, 5.6% a year during the 1960s, and 8.9% a year during Allende. On the contrary, the Pinochet dictatorship reduced overall enrolment during its first decade in power, from 3,029,210 pupils overall in 1974 down to 2,938,601 pupils in 1982. During the whole of the dictatorship, overall school enrolment stagnated at a 0,7% annual clip. After 1990, overall enrolment is growing again at 2.1% a year.

On the other hand, privatization policies applied during the Neoliberal period as a whole resulted in the creation of a dynamic private industry that provides education for almost half of all students and work for almost half of all teachers, in all levels of education. Nevertheless, its growth has been financed mainly by the State, which subsidizes most of the fees for all but 8% of students in the basic and medium levels. Furthermore, the privatization was made in detriment of the public school system, which still cares for most of the pupils in all levels of education. In basic and medium levels, the public system lost half a million pupils from 1981 to 1990, about 25% of the 1981 enrolment, meanwhile the private schools increased theirs in about the same number, which in the latter case meant doubling their 1981 enrolment. During the *Concertación* governments, four out every five new pupils have gone to the private schools, carrying with them their State subsidy. In the case of universities, almost all the new enrolment after the 1990s has gone to new private universities.

Additionally, in the wake of the 1973 coup, universities and schools were intervened by the military. Many of the best teachers and no few pupils were expelled, and hundreds suffered from the worst forms of repression as well. Books were burnt, and subject matters prohibited. The national public universities were broken up in regional sites, and public schools were dispersed to the local governments, which for the most part were quite incapable of receiving them at the time, and without the corresponding financing or regulation. Even now, if the State would want to provide the funding to improve a public school it cannot do it, unless a similar amount is delivered to every pupil, about half of which go to private schools. The intentionality of such policies, which remain in place for

the most part, seems quite clear, in the sense that they privilege privatization over any other educational consideration – certainly under the assumption that private schools will be more efficient than public schools. The latter has not proven true in the least, according to recent Chilean experience, where measurements still find that public schools get better results in comparable income strata, and especially in the poorest.

A Neo-Developmentalist Welfare State in the making?

Because of the labour of a century, Chile has been transformed into a quite modern society, complete with modern social actors that have asserted themselves forcefully in basic Chilean political economy. Nevertheless, a huge imbalance may be appreciated between the presence of these actors in the economic level, and their relative influence in the public and general affairs of the country. As has been described, there is a huge bias in the Chile, in the benefit of the short run interests of entrepreneurs and upper-income minorities.

Meanwhile, the new salaried middle classes, and even the poor, have also changed their way of life a whole lot as a result from this overarching process, but they remain grossly underrepresented in overall public affairs. It is from this basic unbalance, as well as the timidly renewing social and political activity of the large majorities, in the face of demise of Pinochet and his era, that better times seem to be in the making.

These new times will probably consider quite a new direction in State-led development strategy, away from the one that has prevailed in recent decades. Unambiguous shifts away from Neoliberalism that seem to be taking place in key Latin American countries, as well as the overall strategic perspective of the region, signal that such a new State-led development strategy may quite probably take place in a wider, more integrated, Latin American context.

The Offspring of the Labour of a Century

A quarter century on, the *Washington Consensus* development paradigm has created a better general economic environment for business, especially for foreign investors. Under the hegemony of this way of thinking, a strong shift of mentalities has taken place in the Chilean masses, away from traditional, agrarian based, communitarian ideas, and towards liberal, individualistic, kind of thinking. However, Neoliberal fundamentalism has proven quite damaging as well, for important areas of Chilean population and economy, as said.

In addition, the *Washington Consensus* has introduced modern living standards in Latin America, including differentiated social services, for the affluent few that can afford them. Moreover, afford they may, because the richest 10% of the population seize over 40% of total income. Sadly, these feats were attained mostly at the expense of the poorest 40%, of the Latin American population, as well as the middle 50% that lie in between. Meanwhile, the former have to survive with only 13% of overall income, the latter, mostly new salaried middle classes, receive their fair share of overall income, 48% of the total, but experience increased job insecurity, at the same time they have been largely left aside by newly privatized social services.

As the century came to its end, the population at large had certainly advanced a long way from the generalized idiocy (in the sense of isolation) of peasant life at the dawn of the 20th century. At that time, the overwhelming majority of Chilean population shared this fate, with the sole exception of the land-based oligarchies and their small entourage of high state functionaries and politicians, liberal professionals, and other privileged members of the traditional elite. Even for the latter, though, life had been quite hard and unimposing as well, for the most part, and if great riches were to be found in the Colonial and post-independence in the largest Latin American countries, this was not quite the case in Chile, secularly a land of small and rather poor lordships.

Chilean middle classes, including the nascent *salariat*, began to emerge as relevant actors by mid 20th century. During the DWS period, urban middle classes improved their lot and differentiated themselves from the peasants, which remained as always during a good part of the century, while traditional oligarchies slowly declined. Only as DWS approached its climax, during the second part of the century, did overall living conditions improve significantly for the mass of the population, while the old oligarchies definitively phased out, and were forcefully liquidated by the revolutionary process.

At the same time, entrepreneurs emerged as the new elite in Chilean society, together with their relatively wider entourage of very high-income, upper middle classes. During the Neoliberal period in Latin America, the latter groups asserted their general well being, and that of business in the first place, disregarding the rest of society for the most part.

Meanwhile, peasants migrated at a fast rate throughout the whole century, though peaking during the Allende and Pinochet times and diminishing its rate during later years. They now account for little over 10% of the population and the workforce, down from 50% in 1930, and from being the overwhelming majority of the population until the late 19th century. Most Chileans descend from peasant fathers or grandfathers, and nearly all of them descend from a peasant ancestor one or two generations before that, and no small number were peasants themselves a few decades ago.

Throughout all momentous changes that the country has experienced during the last century, they have remained silent, working from sunrise to sunset, and suffering all kinds of privations and abuses most of the time, particularly their women. Nevertheless, all the same, they have been the main protagonist of this century long saga, of the coming of a small faraway country to modern age. Moreover, during the brief but decisive moments when they have compelled by history to assume a leading political role, they have done so with dignity, bravery, responsibility, massiveness, civility, and dire effectiveness.

It is mainly because of their painful transition from their old rural self into their modern urban salaried citizenry, that Chile has achieved a quite astounding modern look during recent decades. It is out of their hands that current Chilean riches flow, mostly for the enjoying of their traditional masters, transformed as well into modern entrepreneurs out of the same historical saga.

For themselves they have achieved not much, but State policies that remain from the DWS period still have much to do with their modest gains – apart from its decisive long-term action regarding social change.

All of their offspring have been delivered in good caring hands in the national public health system since the DWS times, and are well nourished by the half a litre a day of milk a day to which they were entitled by Dr. Allende, and ever since. Nearly all of them are taken care of in the public system, which is slowly recovering from the damage received during the dictatorship, and many years of continued dismantling and privatization, disguised as “state reinventing” practices, during the transition period.

At least, today, almost all of them know how to read and write, all their children finish primary and secondary education, and a good third of them are getting some kind of higher-level education. Half of them still attend public schools, which are slowly improving, although they still do not recover from the deterioration suffered during Pinochet, and the continuity of privatization oriented policies during the transition years. The rest of their kids study in private schools, where they receive almost full State subsidy.

Their social security contributions continue to be forcibly saved into a private pension system that in most cases will never be able to provide enough funding for even a minimum pension, and at most will provide only a small supplementary pension. Nevertheless, most of their elderly still receive some kind of modest public pension, and the lively current debate and widening consensus over this issue, and the huge amount of public spending in pensions inherited from the privatization of the system, assures them that, sooner or later, the State will entitle all of them with some sort of decent basic pension.

They are able now to move freely along the country in search for jobs that although are growing fast in the average, prove quite elusive at the same time. As a result, they are constantly moving in and out of short-term salaried jobs, and working by their own or in informal jobs in between, if not unemployed. Although they now have been ensured that their severance payments get deposited in advance in private unemployment insurance accounts, they still lack any kind of decent State unemployment subsidy to confront periods of massive unemployment that have become frequent and severe in recent decades. Anyway, at least all of them these days have got to see the Pacific Ocean, which is something their peasant parents or grandparents did not enjoy in many cases, even in this country so narrow that you may see all across it in a clear day.

What seems pretty clear is that their numbers have increased greatly, as have their economic importance and general capabilities. Nevertheless, their social and political, as well as cultural and general influence in national affairs is clearly wanting, but for how long?

What is Growing East of Los Andes

At the present, as well, an unambiguous shift of direction, away from Neoliberalism, seems to be taking place in key Latin American countries. A new development strategy,

centred in what has been called *Neo Latin American Developmentalist Welfare State*, could be in the making, which now seems to envision a larger, integrated, Latin American space for its full development.

One of the economic giants of the 21st century may be emerging in Latin America. Latin America is now 556 million people strong and will reach 600 million by 2010, 700 million by 2025, and around 900 million by mid century. Its overall GDP (ppp adjusted, 2002) is already around 40% of that of the US, and growing much faster, as modern social relations spread over the continent. Even US banks and the CIA concede that by mid century Brazil, together with Russia, India and China, the so called BRIC four, will all belong to what then will be the G6 – the world’s largest economies; and Mexico will not be far away.

Neo Latin American Developmentalist Welfare State could play a decisive and inclusive role in its building. Huge State-led efforts are needed to provide such a growing giant with the relatively autonomous industrial, energetic, scientific and technological base, as well as modern infrastructure needed to compete with other growing and already existing giants – although this time such chores will be assumed by Latin American bourgeoisies that will emerge greatly strengthened out of the process.

All this would be greatly enhanced and facilitated in a growingly integrated Latin American space. Inclusive social policy, on the other hand, if tied to the integration process, could play a relevant role as a bond for the integration process, as it did in modern nation building – apart from its role in alleviating more pressing needs of the population.

Will Latin American countries manage this time to build what has been secularly called “Bolivar’s Dream”?

These questions are wide open, but seem quite judicious nowadays, and the answer is an ongoing process with no certain results. Nevertheless, many signs point towards a not completely pessimistic outcome.

Manuel Riesco

Buenos Aires, February 2006

Presentation ²

During the 20th Century, the Chilean State presided over the modernization of the country, largely through two successive and violently conflicting strategies, which nevertheless, in a certain sense, seem to conform a unity as well. During the process as a whole, the country underwent its painful transition out from its old traditional agrarian self, and modern social actors were born, in a labour that lasted a century. Out of it, the country today seems to be, once again, at the crossroads of yet another momentous shift in its State-led development strategy. However, the emerging State strategy seems to demand both an adequacy to the modern social structure that was born, as well as a closer engagement with similar and contemporary processes that seem to be taking place throughout Latin America.

During most of the past century, the Chilean State, through its developmentalist economic and social policies, became the main actor in both the industrialization of the country and the promotion of its momentous social change. What has been called the *Developmentalist Welfare State* (DWS) was born in Chile in Sept 11, 1925, when a rather progressive military government took power, enacted the country's first social legislation, and created the basic economic institutions of the modern Chilean State. This kind of State-led strategy, which explicitly pursued both economic development and social progress, would build up throughout the following decades, supported by democratic governments of diverse political denominations, and up to its revolutionary climax during the government of Salvador Allende (1970-1973). This State strategy was brought to a violent end in Sept 11, 1973, by an extreme right military coup, headed by Pinochet.

The DWS needed to engage in diverse economic activities simply because contemporary civil society was not capable of assuming this task by itself. This had been the case since the second half of the XIX century, when the State had to build national railways and telegraph networks. Meanwhile, in contemporary developed countries, as is well known, these industries had been the flagship of nascent capitalism, they were invented by the emerging industrial bourgeoisies and built by the then growing modern proletariat. These modern social actors simply did not exist significantly in Chile at the time. Instead, traditional landowners, merchants, and bankers, dominated the elite, while most of the population were peasants. Foreign capital was a relevant actor as well, but it operated locally mainly in mining enclaves, where labour relations kept a close resemblance to those existing in contemporary *latifundia*, from where the enclave workers had been recently uprooted. By the second decade of the century, the nascent DWS was agonizingly aware of the backwardness of the economy, and the ignorance and misery of the population, which by then showed one of the worst sanitary indicators in the world. Hence, from the start the DWS engaged in ambitious social legislation and educational and health policies.

² Text of the speech presented in the UNESCO/UNRISD Seminar in Buenos Aires, February 21, 2006

The 1930 crisis, was the first great painful contraction in the childbirth of modern Chilean workforce, as tens of thousands of workers expelled from the closing nitrate mines flooded the country's then small cities, mainly Santiago, and became available for hiring by nascent private industrialists – some of the latter recent immigrants, no few of them coming from the Arab countries. The crisis liquidated the traditional export-based economy, and enforced a new State-led development strategy, which later on was to be proclaimed by ECLAC as the *import substitution* or *inward oriented* development model. Meanwhile, in the late 1930s, *Popular Front* governments reinforced and made even more explicit their commitment to *welfare developmentalism*. During the following decades, the Chilean DWS would persistently enhance its twin commitment to both economic development and social change, while at the same time becoming increasingly confrontational with the traditional landowner-dominated elite.

Meanwhile, peasant migration to the cities increased in speed, and social agitation slowly started to gain momentum as new urban dwellers, including industrial workers and State employees and students, among others, gained in organization, assertiveness and influence. Peasants, now increasingly under the sway of DWS-promoted educational and sanitary programs, and labour legislation, had finally started to wake up from their secular *siesta*. Popular political parties continuously gained in influence, even through periods of proscription. Notably, the Chilean Communist party, which had been founded by workers in the nitrate mines during the first decades of the century and had instantly become a national organization when the 1930 crisis disseminated its seasoned worker base throughout the country.

The DWS experience reached its climax under the advanced reformist government of President Frei Montalva (1964-1970), a Christian-Democrat, and Socialist President Salvador Allende (1970-1973).

In 1965, under the odd fellow influence of the Cuban revolution and US-sponsored *Alliance for Progress*, and with overwhelming internal support, a large parliamentary majority approved an advanced agrarian reform law. The Allende government made it effective, expropriating practically all the useful farmland during the first two years of its mandate – forever liquidating the traditional landowner oligarchy, which had been decaying slowly for years. In parallel, the Allende government also managed to gain unanimous parliamentary approval for a law that nationalized all mining resources, and the US companies that exploited them. All these quite extraordinary feats were made possible in the backdrop of widespread political agitation, which assumed the form of an outright revolution during the Allende years, when peasants finally joined massively into urban-led popular mobilizations.

At the same time, both the Frei and Allende governments culminated the building of the DWS period, expanding the public systems of education, health, housing, and social security, at record rates. The economy grew as well, at an increasingly rapid pace throughout the whole DWS period, culminating during the 1958 -1971 economic cycle, which showed the fastest GDP growth in the century, unsurpassed until the 1990s.

State roles similar to the above described, were evidenced throughout Latin America during the past century, in more or less contemporary times. In the backdrop of the

region's huge and ongoing tectonic transition, away from its traditional agrarian past, and towards its increasingly modern contemporary socio-economic structures. Its forms though, varied broadly from country to country, in dependence to the wide differences that may be appreciated in Latin America, both in the stage and pace of the transition process, as well as the diverse historical patterns followed by different countries and regions. Nevertheless, what has been defined as *Latin American Developmentalist Welfare State*, appeared in most Latin American countries in the wake of the 1930 crisis, and peaked towards the 1970s and 1980s.

Nevertheless, the DWS paradigm was subject to intense criticism as the 20th century entered its final decades. These criticisms came both from the left and from the right – the ones demanding an even faster engagement in social change, while the latter its replacement for a model friendlier to business. In the end, the LADWS experience was probably a victim to its own success, in creating a new economic structure and new social actors that could now sustain and support the new development strategy that would replace it everywhere, and that was to be proclaimed as the *Washington Consensus*, during the 1990s.

The strategy of the Chilean State changed abruptly after the ruthless 1973 military coup, which put an end both to revolutionary agitation and to democracy in the country. In the Chilean case, the main features of the Neoliberal period, its early start, its extreme nature, and its dynamic and highly volatile economic performance, all seem to be a direct consequence of the revolutionary climax of the preceding DWS experience, and its quite radical achievements.

The succeeding three decades are more or less evenly divided, between a 17-year military dictatorship headed by Pinochet, and a slow transition to democracy that has been going on since 1990 and up to the present day. Certainly, there are evident and sharp differences between the dictatorship and transition periods in all sorts of matters, which will be emphasized below. Nevertheless, the transition period has maintained the basic lineages of the Neoliberal period, including a unilateral emphasis in creating a business friendly economic environment in the short run, and management of public affairs mostly in the interest of the entrepreneurial class and the minority high-income segments of the population. Consequently, it still seems justified to consider both periods as being a part of the same long term, and ongoing, State development strategy that the country has experienced since the last decades of the 20th century.

In Chile, the role of the State in economic and social policy was dismantled with a vengeance, by the contra revolutionary dictatorship. This did not occur in other Latin American countries, where the so-called structural reforms took place later, during the 1990s, mostly, and were carried out by democratic governments that at the same time were expanding social expenditures. Nevertheless, in Chile, State action continued to enforce rapid social and economic change during the dictatorship, although this time quite unilaterally in the benefit of the emerging entrepreneurial class and upper income minorities, meanwhile workers and the majority of the population were submitted to harsh and enduring repression.

In the background, peasant migration reached breakneck speed during the Pinochet years, spilled over by the very peculiar manner in which Pinochet complied with the agrarian reform law, which meant that peasants were simply thrown out to the roads, numbered in the hundreds of thousands. That is, when they managed to escape the death squadrons that roamed the countryside during those dark days. All the expelled peasants became available for hiring by the eager and now unleashed young bourgeoisie. These hideous and violent events would become the second great labour contraction out of which the modern Chilean workforce was finally born.

The Pinochet dictatorship ended in 1989, after a long and massive struggle that took place during the 1980s, in the wake of a deep economic crisis. Millions of Chileans held their own *intifada*, which they called *protestas nacionales*, which lasted four years, and where just in one night, for example, over 60 people were once killed.

During the three democratically elected governments since 1989, all of them of the centre-left *Concertación de Partidos por la Democracia* coalition, the economy grew at a very fast pace until 1997, although it then entered a recession that lasted until 2003. Nevertheless, the impressive economic growth of the 1990s allowed for some of it to trickled down. Poverty, which encompassed half of the population by the end of the dictatorship has been reduce to one fifth, and all social indicators have surged, as measured by the UNDP *human development index*. Nevertheless, even more has gone to the upper segments of the population, as distribution of income has gotten even more shameful during these years.

Even after this recovery, State size and public social expenditure remains low, even by Latin American standards. The efforts, attempted by the democratically elected governments to recover the damage done to State institutions, although highly visible in areas such as infrastructure and others, have been seriously hampered by both the lack of fully democratic institutions, as well as the persistent prevalence of Neoliberal ideology within academic and technocratic cadres as a whole.

There is increasing awareness of the limitations of the Neoliberal social protection schemes. After 20 years of experiments with such schemes in Chile, the virtues and especially, their serious weaknesses and shortcomings, seem to have become quite clear by now. Broadly speaking, the main disadvantage of the privatized Neoliberal social protection systems seems to be that they have remitted their benefits to the upper income quarter, or so, of the population. However, not even these segments of the population are quite satisfied with them, and they now demand a curb on raising costs of health, education, and pension administration, as well as other regulations.

On the other hand, the amount of resources targeted in the lower income segments of the population, in poverty alleviation kind of programs and others, although effective both in bettering social indicators and the condition of the poorest, have proved insufficient. "They are barely enough for the last quintile, but insufficient to attend those immediately above them, who are also horribly poor" as the Chilean Finance Minister has declared.

Meanwhile, such schemes have proven to be quite ineffectual regarding the vast majority of the population, which is now quite unprotected, or has returned to state social protection systems where it is allowed to do so, such as in health care.

Nevertheless, this situation seems to be ending, as Chilean public opinion quickly shifts away from the trends that have prevailed up to now, and issues previously confined to critical voices are now starting to become mainstream State policies. The quite startling advances that have taken place in human rights issues since Pinochet's detention in London, have encouraged this new direction of affairs, as it has timidly begun to expand within the realms of economic and social policies. A new national development strategy seems to be in the making in Chile, where strong and renewed State-led economic and social policies could play a central role, only this time building upon the deeds that the modern civil society which is the daughter of this whole process, is now quite able to deliver.

At the present, as well, an unambiguous shift of direction, away from Neoliberalism, seems to be taking place in key Latin American countries. A new development strategy, centred in what has been called *Neo Latin American Developmentalist Welfare State*, could be in the making, which now seems to envision a larger, integrated, Latin American space for its full development. One of the economic giants of the 21st century may be emerging in Latin America - now 556 million strong and growing and changing fast -, and *Neo Latin American Developmentalist Welfare State* could play a decisive and inclusive role in its building.