

THE STATE AND THE MAKING OF CAPITALIST MODERNITY IN CHILE

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ABSTRACT

This dissertation provides a reinterpretation of Chilean history via an analysis of the processes of state and class formation in the construction of capitalist modernity. Conventional periodizations divide Chilean history into alternating models of externally-oriented and market-led development, on the one hand, and internally-oriented and state-led development, on the other. What this pendular reading of history overlooks, however, is the question of capitalism as a historically-unique social order: its origins and expansion, how state and class actors respond to the revolutionary pressures emanating from capitalist transformation, and how these responses shape the trajectory of economic development. The first part of this dissertation will contend that the decades from 1870 to 1970 are more fruitfully considered as part of the long and frustrated transition to capitalist hegemony.

The second part of this dissertation will examine the decades from 1970 to the present. In a great historical irony, it was the socialist revolution of Allende that made possible the depth of the subsequent capitalist reforms of the military regime by enervating the chief obstacle to capitalist hegemony: Chilean capitalists themselves. And far from initiating a neoliberal ‘withdrawal’ of the state, Pinochet deployed the enormous state power inherited from Allende to carry out a state-led capitalist revolution from above. The military regime actively reconstructed Chilean capitalists as the dominant social force while simultaneously demobilizing organized labour and individualizing and marketizing subjectivities and social reproduction in civil society via the ‘social modernizations’ that comprise the subsidiary state.

The particular manner in which capitalist hegemony was instituted in Chile, however, with its powerful capitalist class, institutionally-constrained and subsidiary state, and disarticulated and individualized civil society, has rendered the political system chronically unable to address pressing challenges and now represents the primary obstacle to the deepening

of socio-economic development. As a result, capitalist modernity in Chile has taken the forms of deep inequalities of power, income, and opportunity and an increasingly stagnant economic structure dependent upon the exploitation of natural resources, on the one hand, and a rigid and exclusionary political system plagued by a series of structural and institutional obstacles to change, on the other.

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ABBREVIATIONS

AD	Democratic Alliance
AFP	Pension Management Funds
AOAN	Workers Assembly on National Nutrition
APS	Social Property Area
AUGE	Universal Access With Explicit Guarantees
BIH	Basic Irrigated Hectares
CAP	Pacific Steel Company
CERA	Agrarian Reform Centres
CESEC	Centre for Social and Economic Studies
CIA	Central Intelligence Agency
CIF	Cost, Insurance, and Freight
CIDA	Inter-American Committee on Agricultural Development
CMPC	Paper and Carton Manufacturing Company
COAJ	Junta Advisory Committee
CODELCO	National Copper Corporation
CONAF	National Forestry Corporation
COPERE	Committee for Economic Programming and Reconstruction
CORA	Agrarian Reform Corporation
CORFO	Industrial Promotion Corporation
CPC	Confederation for Production and Commerce
CPPD	Alliance of Parties for Democracy
CTch	Confederation of Chilean Workers
CUT	Chilean Workers Central
DINA	National Intelligence Directorate
EAP	Economically-Active Population
ECA	Agricultural Marketing Corporation
ECLA	Economic Commission for Latin America
ECLAC	Economic Commission for Latin America and the Caribbean
ENAP	National Petroleum Company
ENDESA	National Electricity Company

FOCH	Federation of Chilean Workers
FONASA	National Health Fund
FRAP	Front for Popular Action
GDP	Gross Domestic Product
INDAP	National Agricultural Development Institute
ISAPRE	Private Health Insurance Provider
ISI	Import-Substitution Industrialization
ITT	International Telephone and Telegraph
MAPU	Popular Unity Action Movement
MDP	Popular Democratic Movement
MIR	Left Revolutionary Movement
NED	National Endowment for Democracy
NHS	National Health Service
NIC	Newly Industrializing Country
NSC	National Security Council
NTAE	Non-Traditional Agricultural Export
ODEPLAN	National Planning Office
PC	Communist Party
PDC	Christian Democratic Party
PPD	Party for Democracy
PS	Socialist Party
RER	Real Exchange Rate
RN	National Renewal Party
SCM	Contractual Mining Society
SINAI	Savings and Loan Institutions
SNA	National Agricultural Society
SOCA	Agricultural Cooperation Societies
SOFOFA	Manufacturing Promotion Society
UCD	Uneven and Combined Development
UN	National Union
UDI	Independent Democratic Union
WTO	World Trade Organization

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INTRODUCTION – STATE, CLASS, AND THE TRANSITION TO CAPITALIST MODERNITY IN CHILE

This dissertation emerged from two interrelated lines of inquiry, one theoretical and one historical. The theoretical line of inquiry emerged from my engagement with the literature on late economic development. The more I studied the theory and practice of economic underdevelopment, the more I became frustrated by what I perceived as the chronic separation of the political and the economic that has permeated the literature. From its inceptions in Latin American structuralism and development economics to the more recent debate between neoclassical economists and neo-institutionalist state theorists, with its ontology of states-and-markets, the literature on economic underdevelopment has treated the political and the economic as theoretically discreet and hermeneutically sealed spheres. Too often, works on late economic development treated the state at the theoretical level as independent of society, as a neutral arbiter and aggregator in pursuit of an assumed and yet unspecified ‘national interest’. The economy, for its part, was similarly theorized in isolation from the political, with its own internal logic and movements, whether driven by the micro-rationality of market actors, which elides questions of class and power, or the deduction of social classes from abstract modes of production in the neo-Marxian formulations, which often assumes the existence, interests, and behaviour of social classes rather than problematizing their historical formation.

To my mind, the theoretical separation of the political and the economic has resulted in three key deficiencies in the study of late economic development. First, the postulation of an abstract economic sphere has meant that capitalism and its constituent social actors are merely taken as given. The study of capitalist development is thus restricted to ‘international development’ and the dynamic construction of modern capitalist societies in late-developing nations is reduced to ‘developmental models’. This dissertation will contend that the failure to

theorize the process of capitalist transition has limited our capacity to explain the historical processes of economic development, in addition to their contemporary manifestations in many countries in which the transition remains fragmentary and incomplete. If what we are to investigate is the process of *capitalist* development, we cannot simply assume the existence of capitalist societies and capitalist actors fully aware of their power, positions, and interests.

The analysis of the historical process of successful capitalist development therefore entails an examination of how capitalist social actors are formed via the dynamic intersection of economic, political, and ideological relations that shape the control over the use, production, and distribution of human and natural resources. The interests and behaviour of industrialists, for instance, cannot simply be assumed from their immediate relationship to the means of production without consideration for the wider political and ideological relations through which the process of class formation and the transition from one form of class rule to another takes place. As Lachmann observed in his study of European elites during the transition to capitalist modernity:

Capitalism and nation-states were not created by visionaries or obsessive-compulsive Protestants. Elites and non-elite alike were rational in that they were aware of their own interests, they knew when they were endangered by enemies...and they could choose allies in their struggle based on cold-blooded political considerations rather than sentiment or tradition. The new social relations and political institutions of early-modern Europe developed step-by-step as cautious elites sought to preserve the privileges and powers they already enjoyed...[they] never intended to create new social relations or new modes of production. They truly were capitalists in spite of themselves (2000, 228).

For our purposes, the behaviour of individual and collective actors will be recast as an empirical rather than as a theoretical question, as the practical problem to be explained rather than a series of idealized assumptions, whether in the form of the timeless rationality of neoclassical economics or the Marxian counterposition of a progressive industrial bourgeoisie and a backwards landed aristocracy (Wilk, 1993).

What is lost when capitalist social relations and forms of rationality are assumed is the fundamentally revolutionary nature of capitalism as a system of social organization. The

transition to capitalism involved far more than the removal of the feudal fetters that had impeded the “certain propensity in human nature...to truck, barter, and exchange one thing for another” (Smith, 2007, 19). The social, economic, and political upheaval involved in the transition to capitalist modernity, its separation of producer from means of production, its motive forces of hunger and privation, and its relentless competitive drive to accumulate ever greater quantities of capital, transformed social subjectivities, economic structures, and political institutions in a manner unprecedented in human history. As a revolutionary force, capitalism opened vast new opportunities for social advancement and threatened to undermine and destroy established forms of privilege and hierarchy. As Lachmann suggests, capitalism was just as likely to be perceived by elites as a threat than as an opportunity. The revolutionary threat posed by capitalism was even greater in late developing nations, moreover, where even the capitalists found themselves under siege from the competitive pressures emanating from the more developed nations that imperiled their tenuous and transitional forms of class rule.

The transition towards capitalist modernity will be investigated via a reworking of the Gramscian concepts of passive revolution and hegemony. Passive revolution will be deployed to interrogate the process by which capitalist social relations transform pre-capitalist forms of class rule. Instead of initiating a rapid and fundamental reconstruction of rationalities and institutions, passive revolution is the modality through which capitalist social relations do not so much break old forms of rule as they adapt to and modify them in the dialectic between revolution and restoration. While there are significant path dependencies that shape the passive-revolutionary dialectic, passive revolution is an open-ended and contingent process. As a result, the institutionalization of historically-specific forms of state and class relations does not necessarily mean the developmental trajectory of a country becomes fixed. As we will see in the case of

Chile, there were numerous key historical junctures that resulted in continuity or radical rupture, depending upon the balance of forces in state and society.

Nor does the initiation of capitalist transition necessarily augur for its completion. The institutionalization of capitalist hegemony, in which forms of capitalist rationality and the imperatives of capital accumulation predominate and govern society, requires the construction of a capitalist class capable of exercising its hegemony over state and civil society. As discussed above, however, capitalists themselves – and particularly in late-developing societies – often prove resistant to the revolutionary and transformative pressures of the capitalist mode of production and seek to restrict and contain the process of capitalist transition. The question of how to construct a hegemonic capitalist class with a dynamic and internationally-competitive economic base and the class consciousness, political organization and influence, and ideological command to subordinate and integrate the state and civil society into networks of capital accumulation must necessarily assume a central place within the study of late economic development. The institutionalization of capitalist hegemony, moreover, is a necessary but not sufficient condition for sustained economic development. For the latter to hold, the transition towards capitalist hegemony must be managed in such a way as to construct politically-institutionalized class relations that are conducive to more rapid and inclusive patterns of economic development, a process in which the organization and role of the state is central.

The second and related deficiency of the literature on late development is the analytical subordination of the political to the economic, which has reduced the state to a theoretical afterthought, whether the benevolent steward of the classical development economics, the political reflection of the pre-theorized economic contradictions in the more reductionist Marxist literature, or the external source of inefficiencies in the equilibrium marketplace of the neoclassical economists. As a consequence, what is largely absent in many accounts of late

development is a theory of the state as a constitutive and transformative source of agency in a dynamic society. The state is not merely the sum of passive institutions in which theoretically pre-determined economic actors engage in their timeless activities. On the contrary, state institutions play a critical role in the constitution and transformation of civil society. This dynamic and formative role of the state cannot be properly interrogated, however, in the absence of a theory of the state as a constitutive relation within the wider social formation.

Now one might object that the developmental-state literature, elaborated first by statist authors such as Johnson (1982) and Amsden (1989), concerned with the remarkable economic development in East Asia, and later refined by neo-institutionalist authors such as Evans (1995), has rectified the absence of an adequate theory of the state-in-development. The development-state literature, however, is ultimately founded upon the same theoretical separation of the political and the economic and as a result it eschews the questions of capitalist transition, class formation, and the nature of state power to devote itself to the narrower question of the ideal institutional configurations for economic development. The developmental state literature can tell us much about what economic development looks like; it is less convincing on the question of why some countries get there while others do not. The reversal of the analytical emphasis from the economy to the polity is laudable, but the inability to transcend the theoretical separation of the political and the economic as pre-existing entities with pre-determined interests renders developmental-state authors largely unable to move beyond descriptive analyses of optimal institutional configurations towards more theoretically-informed and comparative explanations of variations in levels of economic development. This dissertation will build upon the powerful insights of developmental-state authors regarding the internal organization of the state and the relations between state managers and capitalist actors, to situate the state within a more dynamic sociological whole.

Third, the economic development literature has generally failed to incorporate the spatial dimension of development at the theoretical level. Theories of state and societal formation, therefore, must be wary of falling into the comparativist and teleological pitfalls of many theories of development, to which one could add many mode-of-production analyses. The concept of Uneven and Combined Development (UCD) was based upon the observation by Trotsky that the path of capitalist development in Russia was diverging from that of the advanced European nations rather than converging, thus modifying the Marxist maxim of the developed country showing the underdeveloped one the image of its future. UCD reminds us that systems of class rule are formed not endogenously but in articulation with other processes of class and state formation within an integrated and uneven global system. Dependency theory perceived this historical reality quite clearly but mistook its meaning based on its postulation of a false and endogenous ideal type of European development, from which underdeveloped countries had allegedly strayed. What we must incorporate at the theoretical level, then, are the spatial variables that shape, propel, and stunt the transition towards capitalist hegemony.

Chapter I will probe the aforementioned weaknesses by providing a brief history of development theory that will culminate in a more detailed interrogation of the developmental-state literature. It will be contended that what is needed is a more dynamic and sociological theorization of the state and the process of capitalist transition that can explain the specific developmental trajectories of countries, i.e., not only *that* some countries failed to develop institutional arrangements conducive to rapid and equitable capitalist development, but *why* these institutional arrangements failed to develop. Two key questions have guided the theoretical framework and historical analysis of this dissertation. First, how do societies move from a pre-capitalist society in which class rule is exercised and social reproduction is carried out primarily via non-market means to one in which class rule and social reproduction are negotiated primarily

through market mechanisms? And second, how do the conditions and manner in which the process of capitalist transition and the institutionalization of capitalist hegemony take place affect the trajectory, form, and stability of economic development? Chapter I will present an analytical framework organized around three contentions with regards to the theory of late economic development: that societies should be conceptualized as systems of class rule comprised of intersecting political, economic, and ideological power relations; that systems of class rule must consider the dynamic and temporal nature of state and class formation through which the transition from one form of class rule to another is made and forms of class rule are deepened and reproduced; and that class and state formation can only be properly understood within the spatial dimension of uneven and combined development on a world scale.

The second line of inquiry stems from my experience living and working in Chile for several years prior to returning to university to pursue a doctoral degree. One of the most striking features of Chile for a first-time visitor is how thoroughly capitalist and consumerist a society it is. The more time I spent there, the more I came to think that something quite distinct had taken place over the course of the military regime that distinguished Chile from the experiences of other authoritarian regimes in the Southern Cone and the rest of Latin America. Beyond the more superficial levels of macroeconomic performance and institutional stability, what made Chile unique was the profundity of the transformations in state and civil society wrought by the Pinochet dictatorship. As I studied the dictatorship in greater detail, I began to perceive that while its policies were in many ways and at different points consistent with the set of policies labelled 'neoliberal', what is typically meant by neoliberalism was not only inadequate to capture the scope and effects of the reforms, it was highly misleading. The neoliberal language of liberalization and deregulation, of state withdrawal and retreat, was contradicted again and again

by the actions of a state just as if not more activist and constructivist than any of its historical predecessors.

As my study of the military dictatorship fed into my aforementioned reservations regarding the literature on late-economic development, the historical scope of the dissertation widened beyond the Pinochet dictatorship into a study of the processes of state and class formation that shaped Chilean society from the critical turning point of the 1870s to the tumultuous decades of the 1970s and 1980s. The dissertation transformed, as a result, from an analysis of the military regime into a rereading of the Chilean political and economic history. The conventional periodization and interpretation of Chilean history will strike most of those who have studied Latin America as very familiar. The century from 1870 to the 1970 is commonly divided into two periods: first, six decades of a market-driven and externally-oriented development model, based on mineral production and led by a coalition of landlords and foreign capital until the Depression of the 1930s; and second, four decades of state-led and internally-oriented development, fuelled by industry and underwritten by a coalition of industrialists and the middle and working classes until the crisis of the 1970s. Parts or all of this account can be found in numerous historical works on Chile, ranging from its conservative origins (Encina, 1912) to the more radical interpretations of the structuralists and Marxists, on the one hand, and their neoliberal adversaries on the other (Cademartori, 1968; De Castro, 1992a; Jobet, 1955; Lüders & Wagner, 2003; Pinto, 1973). Indeed the principal difference between the structuralists/Marxists and the neoliberals is that the former see the Depression as the beginnings of capitalist development while the latter see the 1930s as the origins of its frustration. The basic periodization and sociological foundations are largely the same.

The analytical framework to be presented in Chapter I provides an alternative theoretical and conceptual foundation for the reinterpretation of Chilean history presented in Chapters II and

III, with implications for the study of Latin America more generally. Instead of seeing the Great Depression as the critical turning point in the pendular shift between market/external and state/internal development models, this dissertation will suggest the century from 1870 to 1970 is more fruitfully understood as one long process of incomplete capitalist transition, driven by the passive-revolutionary dialectic of revolution/restoration. To be clear, this is not to suggest the Great Depression was of little or no import. To the contrary, the global economic collapse wreaked enormous havoc on Latin America, and Chile in particular, a reality of which those so quick to disparage import-substitution industrialization (ISI) should be reminded. After all, one can reasonably ask what viable alternatives existed, given that the purchasing power of exports did not recover its 1929 levels until the 1960s (Cárdenas, Ocampo, & Thorp, 2000, 14)? The argument here instead builds upon the view that the Depression was not so much a radical rupture as an accelerator of tendencies that were already in historical development (Thorp, 1984, 2).

Far from representing a period of pre-capitalist predominance or the ideal of the liberal and non-interventionist state, Chapter II will contend the decades from 1870 to 1920 set in motion the driving forces of the passive revolution in Chile and witnessed a rapid but exclusionary process of capitalist development and an enormous transformation and expansion of the role and size of the state. Under fire from more efficient competitors in foreign markets, the dominant segment of landlords responded to the impulses of capitalist transformation by retreating into the state. Foreign-owned nitrate exports were subjected to substantial taxation and state protection was extended for the domestic market in order to facilitate an internally-oriented capitalist modernization that incorporated the nascent industrial sectors into a diversified and integrated economic elite and excluded the rest of society from political participation. Between 1870 and 1920, the basic structural contours and social forces of the Chilean political economy that would propel social, economic, and political transformation during the period of import-substitution

industrialization were emergent: a foreign-owned mining enclave, the rapid expansion of the state and the rise of a state-based middle class, an internally-oriented and elite-constrained capitalist modernization, and the formation of urban and rural working classes. It is no surprise, then, that the policies that would dominate the political debate in the decades leading up to the election of Allende – state-led industrialization, the distribution of mining rents, agrarian reform, worker rights, and social protection – were already bubbling up by 1920.

Chapter III will interpret the crucial decades from 1920 to 1970 as the period of frustrated transition, driven by the dialectic of revolution/restoration and characterized by the mounting politicization of society and balkanization of the state that repeatedly hindered attempts to address the structural and institutional tensions generated by capitalist transition. The collapse of nitrates in 1919, which set off a groundswell of social protest that offered glimpses of the worker and peasant revolts that were to come, and the election of the liberal reformist Arturo Alessandri in 1920 signalled the next stage of the passive revolution: the integration of the middle class into the formal political system. The recalcitrance of the congress in the face of reform, however, resulted in the de facto dictatorship of Carlos Ibañez, who pushed through the reform agenda and sought to break the control of property owners over the political system via a massive expansion of state activity and a bid to integrate capital and labour into state-controlled corporatist institutions. Like Balmaceda before him, however, the attempt by Ibañez to transform and organize civil society through the state failed in the face of opposition from civil society forces, as both capital and labour resisted subordination to state managers and institutions. Rather than reorganize civil society under the aegis of state leadership, the reforms of Ibañez further integrated a divided civil society into the state, the effect of which was to disarticulate the state apparatus and further impede the process of capitalist-class formation beyond the sectoral level.

The election of President Pedro Aguirre Cerda of the Popular Front in 1938 denoted the rise of middle-class protagonism and the arrival of the working class to the formal political system. The election of the Popular Front and its proposal to construct a nodal developmental agency to coordinate the industrialization effort, moreover, represented another conjunctural moment in which an opportunity to deploy state power to break the pattern of elite-constrained and partial capitalist transition presented itself. The election of the Popular Front is generally considered the beginnings of the so-called compromise-state, from 1938 to 1958, in which a coalition of industrialists, middle-class bureaucrats, and organized urban labour sustained a programme of accelerated industrialization and the expansion of state protection, provision, and employment. Pace the compromise-state thesis, this dissertation will argue the reform efforts of the two decades from 1938 failed not because of the collapse of the class coalition, but because of the absence of any meaningful and stable political coalitions and compromise to begin with.

Every government from the Popular Front to the second Ibañez presidency was persistently hamstrung by the powerful class divisions that permeated civil society and became increasingly inscribed into the institutionality of the state. Industrialists and landlords showed little to no interest in concessions to labour and used their congressional veto repeatedly to block reforms that weakened their control over capitalist modernization; organized labour showed a similar disinterest in class compromise and sought repeatedly to organize rural labour and break the political power of the landlords; the middle class oscillated wildly between the two gravitational poles, able to work with neither an obstinate right nor an increasingly radicalized and threatening left, whose power grew as capitalist transformation spawned ever-larger urban and rural working classes; and the strategic capacity of the state was compromised by the balkanization of state apparatus into a myriad of autonomous agencies that set policy according to the interests of ensconced interest groups with no over-arching strategic and planning capacity.

ISI failed, then, not because of the unravelling of an imaginary class coalition, but because the state incubated and perpetuated an incomplete capitalist transition that underdeveloped the economic structure and impeded the development of the state capacity required to carry through the kinds of thorough-going reforms necessary to construct a dynamic and internationally-competitive economic base and a capitalist class willing and able to exercise its hegemony over state and civil society.

The breakdown of landlord control over the rural vote in 1958 and the concomitant emergence of rural workers as an autonomous political force marked the collapse of the political stalemate, the definitive polarization of the political system, and the beginning of the final stage of the passive revolution. After the unsuccessful presidency of Jorge Alessandri, the last time the right would win a presidential election for more than four decades, the passive-revolutionary dialectic would reach its limits during the administration of Eduardo Frei Montalva from 1964. Although the Frei government was arguably the most legislatively-accomplished in Chilean history to that point, the levels of social mobilization, popular demands, and rightist obstructionism overwhelmed the limited economic foundations and institutional capacity of the state. As the revolutionary left gained momentum, moreover, bourgeois-revolutionary forces began to emerge within the right, led by a young generation of economists and businessmen who gained footholds in the political and economic spheres over the course of the 1960s. By 1969 the limits of the passive-revolutionary dialectic were drawing ever closer and the historical stage was set for the organic crisis of the state and the definitive confrontation between the revolutionary forces that had risen in attempt to transcend the frustrated transition.

Chapter IV will examine the critical years from 1970 to the early 1980s that were dominated by the two most transformative and polarizing figures of twentieth-century Chilean politics: Salvador Allende and Augusto Pinochet. The conventional reading of these tumultuous

years opposes Allende, the socialist revolutionary who sought to place the economy under state control, and Pinochet, the neoliberal counter-revolutionary who dramatically restricted the role of the state. According to this narrative, the military dictatorship in Chile imposed an orthodox neoliberal rollback of the state-socialist development model of Allende, driving the pendulum back towards market-led and externally-oriented development. Because of its foundations in the states-and-markets ontology, however, the conventional narrative conceals as much it reveals. Conceptualizing Allende and Pinochet in terms of state or market-led development models neglects the fundamental unity of their two political experiments: that both sought to use state power to supersede the crisis instigated by the frustrated transition to capitalist modernity by radically reforming state and society. What is more, the common objective of a revolutionary and state-led reconstruction of civil society meant that Allende and the UP unwittingly facilitated the capitalist reforms of the military dictatorship by strengthening the power of the state vis-à-vis the capitalist class that had historically opposed policies to enhance competitive pressures and global integration. It is true that Allende and Pinochet were historical adversaries, but their opposition was dialectical, united by the common objective of transcending the frustrated capitalist transition.

The limitations of the states-and-market ontology come into sharper focus when one examines the military dictatorship. The Pinochet regime is generally considered the ‘laboratory’ of neoliberalism, a term most commonly understood as synonymous with the Washington Consensus policies to reduce state intervention in the functioning of the market economy. A closer examination of the policies of the dictatorship, however, belies the language of state withdrawal and retreat so common to mainstream analyses of neoliberalism. Rather than simply returning expropriated assets to their former owners and withdrawing from the economy, as one would expect from the conventional definition of neoliberalism, the military regime deployed its

extraordinary structural and institutional power to construct a capitalist class capable of reproducing an expanded economic base and exercising its hegemony over the state and subordinate sectors within civil society. State-controlled firms were privatized not to members of the old capitalist groups but to a new generation of entrepreneurs based in finance and commerce; expropriated land was not returned to the old landlords but transferred to a new class of capitalist farmers; and the state actively promoted new economic sectors via direct investment, generous subsidies and loans, and marketing support abroad. The social modernizations of labour, social security, education, and health, moreover, disarticulated organized labour and reconstructed the subjectivities and pathways for advancement in civil society, while further subordinating the state to the hegemonic capitalist class. Neoliberalism in Chile is inadequately captured by the image of a counter-revolutionary state withdrawal. On the contrary, it will be contended that the military regime represented a state-led capitalist revolution from above, working through neoliberalism to subsume not only the workers and the peasantry but also the principal financial, industrial, and agrarian interests to the dynamic disciplines of global capital accumulation.¹

The analysis provided in Chapter IV similarly contradicts the prevailing periodization of the military regime, divided into a period of ‘orthodox’ neoliberal reform until the early-1980s when the economic crisis compelled the government to reintroduce state intervention, initiating the period of ‘pragmatic’ neoliberalism (Cypher, 2007; Negoita & Block, 2012; E. Silva, 1991). As will be argued, however, the state engaged persistently in a process of socio-economic engineering throughout the so-called ‘orthodox’ period and many of the reforms of the pragmatic period – such as export promotion – represented the continuation of previous policies. While

¹ Several authors, such as Martínez and Díaz (1996) and Moulian and Vergara (1981) have considered the foundational or revolutionary character of the dictatorship. The difference between these works and this dissertation revolve around two issues: first, both Martínez and Díaz and Moulian and Vergara conceptualize the capitalist revolution primarily in terms of the relationship between states and markets; and second, neither work situates the dictatorship in terms of the process of capitalist transition.

there was an increase in government regulation of the financial and tradable sectors, financial regulations consisting of a series of minimal regulatory measures to avoid the worst excesses of the early 1980s and tariff increases in the first half of the 1980s were a short-term stop-gap that were quickly phased out. Finally, part of the reason the 1970s appear more 'orthodox' is that the policy challenges of the 1970s required a more dramatic shift in direction to address the deep-seated contradictions within Chilean society. For instance, one of the explanations implicit here for why the financial sector was largely unregulated is that neoliberal planners were utilizing the financial sector – and in particular the largest financial conglomerates with deep ties to state managers – to restructure the national economy and capitalist class. The post-crisis period of the 1980s thus necessarily appears 'pragmatic' compared to the 1970s because the nature and scope of the challenges were quite distinct and most of the major structural reforms had been undertaken already.

If we situate the governments of Allende and Pinochet not within the ontology of states-and-markets but rather within the broader historical framework of the dialectic of revolution and restoration and the incomplete capitalist transition, we see both in a different light. Allende was not the culmination of the steady historical march towards statism or the simple extension of the policies of Frei Montalva but a radical rupture based upon the recognition of the limits of the passive-revolutionary capitalist transition of the previous decades. As Tomás Moulian brilliantly observed:

The Popular Unity experience was perceived by the 'new revolutionaries' as the trigger of an 'existential crisis'. But this trigger also constituted a realization. The crisis was a long time coming, and the Popular Unity government, by activating its potentialities, played the role of revelation. Put in other terms: in spite of itself, the Popular Unity government saved the nation. It made visible the gnawing, secret cancer and made possible the dramatic medicine that provided the cure (1997, 27).

Although policies such as the redistribution of income towards the popular sectors bore a keen resemblance to the government of Frei Montalva, the foundational initiatives of the UP, such as

the social-property area and the popular assembly, were not reformist but revolutionary. Instead of counterpoising Allende and Pinochet as representatives of socialist-revolutionary and neoliberal-counter-revolutionary forces, it will be contended the two governments are best understood as the expressions of intertwined and competing revolutionary movements: Allende as representative of the struggle to transcend the frustrated capitalist transition via the state-socialist path to industrial modernity; and Pinochet as the manifestation of the bourgeois-revolutionary forces that sought to reconstruct both state and civil society and complete the long transition towards capitalist hegemony.

Chapter V will examine the apex of the military regime in the early 1980s, encapsulated by the social modernizations and the Constitution of 1981, the descent into economic and socio-political crisis between 1982 and 1984, the institutionalization of the neoliberal order in the second half of the 1980s, and the centre-left governments that ruled Chile from 1990 to 2010. Building upon the arguments of the previous chapter, it will be contended that the construction of the subsidiary state via the social modernizations of labour, education, health care, and social security would lay the foundations for not only the structural and institutional subordination of the state to the capitalist class, but also the reconstruction of the middle and working classes via the individualization and privatization of the mechanisms of identity formation and social advancement and reproduction. The Constitution of 1981 would serve to constitutionalize the Hayekian society and protect its basic institutionality against any efforts by future democratic governments to enact a more fundamental institutional reform.

The constructivist project was not without its unexpected twists and turns. In fact, the neoliberal project very nearly imploded in 1982-1983, when an explosive economic crisis bankrupted the principal financial conglomerates, drove the economy into the worst recession since the early 1930s, and reinvigorated opposition groups within civil society. While making

selective concessions, however, the military regime would successfully navigate the economic crisis. By 1985 the neoliberal reformers were once again firmly in charge of socio-economic policy and proceeded to reconstitute the dominant fraction of the capitalist class around the nascent export and commercial sectors via privatizations, debt-for-equity swaps, and a system of generous subsidies and supports. At the same time, the military regime cleverly divided the opposition forces and integrated the moderate opposition parties into the authoritarian political order, in effect transforming the party system from a mechanism to organize and channel popular demands into a bulwark of the neoliberal state-society complex.

The analysis of the military regime presented in this dissertation strongly supports the interpretation of neoliberalism as state-led project of social engineering and constructivism (Brown, 2003; Panitch & Konings, 2009; Peck, Theodore, & Brenner, 2009; M. Taylor, 2009). Too much of the debate over neoliberalism in Chile, however, remains trapped within the parameters of the neoliberal framing of state intervention versus withdrawal. In order to transcend the limits of neoliberal ideology, we must continue to push beyond its foundational ontology of states and markets as theoretically discreet entities that engage each other in external relations of 'intervention in' or 'withdrawal from'. If state and economy are theorized as mutually constitutive components of a sociological whole then the state can neither intervene in nor withdraw from the economy. When viewed in this light, what neoliberalism represents is a change in the form of the state presence that benefits some actors and deprives others. All deregulation is merely a new form of regulation, a new means by which the state institutes the economic process in society.

At a deeper level, moreover, neoliberalism is far more than the means by which the state institutes the economic process and redistributes resources and opportunities. Because the process of state formation is inseparable from the process of civil-society formation,

neoliberalism is at its core a constructivist project that reconstitutes not only the state apparatus but also the basic subjects and subjectivities of civil society. To reduce neoliberalism to a set of economic policies is to eschew the constructivist rationality that organizes and informs these policies and transcends the institutional binary of states-and-markets. The privatization and deregulation of the financial sector, for instance, was an example not of state withdrawal but was rather an integral moment in the construction of a capitalist class willing and able to carry out the neoliberal project from civil society. Similarly, the privatization of social security was no so much about getting the state out of the market, as evidenced by the fact that worker contributions to private pension funds were made mandatory and minimum levels of profitability and pensions were guaranteed by the state. Rather, the deeper objective of the social modernizations was to individualize and privatize social subjectivities and pathways for social advancement. This is what one of the leading Chicago Boys, Hernán Büchi, meant when he stated, “Apart from reforming norms and mechanisms, we also had to reform mentalities” (2008, 65).

The final section of Chapter V will examine the contours of capitalist hegemony from 1990 and appraise the two decades of center-left Alliance of Parties for Democracy (CPPD) governments. The military regime bequeathed the democratic governments an extraordinarily powerful and cohesive capitalist class that dominates the economic, political, and ideological realms of Chilean society. The hegemonic networks of the capitalist class were able to subordinate and integrate the state apparatus and the middle and working classes dependent upon the rhythms of private capital accumulation and the developmental vision of capitalist investors. As a result, the impressive record of the CPPD governments in terms of economic growth, the expansion of social expenditure, and the reduction of poverty levels was tempered by the systematic failure to address underlying tensions that threaten to destabilize the Chilean society: the sharp inequalities of income and opportunity and the continued reliance of the Chilean

economy upon natural-resource exports. Ironically, the manner in which capitalist hegemony was instituted in Chile, with its overwhelmingly powerful capitalist class, institutionally-constrained and subsidiary state apparatus, and disarticulated, individualized, and privatized middle and working classes, rendered the political system unable to address the most pressing challenges facing the country and now represents the primary obstacle to the deepening of socio-economic development and the renegotiation of hegemony. The chapter will conclude with a brief assessment of the possibilities for transcending the neoliberal order and placing the country on a more inclusive and equitable developmental trajectory.

The fieldwork from which most of this dissertation draws was carried out over a period of sixteen months in Santiago, Chile, between 2008 and 2011. Fieldwork consisted primarily of archival, national-accounts, and secondary literature reviews. Archival research entailed the examination of microfilm copies of the journals of the principal peak associations, the National Agricultural Society (SNA) and the Manufacturing Promotion Society (SOFOFA), from the end of the 1800s to the middle of the 1950s, where I reviewed articles published on current affairs by leading members of the associations and the minutes of executive meetings. The journals of the SNA and SOFOFA provided key insights into the perceptions of and internal debates within the propertied sectors regarding the nature of the developmental challenges facing the country and the desirability of potential public-policy solutions. Much of the statistical analysis presented in figures throughout the dissertation draws from the reconstruction of the historical national accounts of Chile by Braun et al. (2000), which were carefully inputted into spreadsheets. The review of archival, national-accounts, and secondary sources was complemented by interviews with former government officials from the military regime and the democratic governments, as well as leading academics.

CHAPTER I – STATE, CLASS, AND CAPITALIST TRANSITION

This chapter will provide a critical appraisal of the main theories of late economic development, rooted in the principal shortcomings identified in the introduction, with particular focus upon the development-state literature that has assumed an increasingly important role in light of the spectacular transformations of the East Asian Tigers in the decades from the 1950s to the 1980s. It will be contended that while the developmental-state literature offers indispensable insights regarding the kinds of state institutions and relationships between state managers and capitalist investors that are required to generate sustained and equitable processes of economic development, the literature is limited by the ontological primacy of institutions, which restricts the capacity of the developmental-state authors to provide more dynamic and convincing explanations of why some countries ‘get the institutions right’ while others do not. The rest of the chapter will be dedicated to an exposition of the basic theoretical premises and concepts that will be used to examine the Chilean case. It will be suggested that by conceptualizing the development of state institutions and civil-society actors within the historical process of capitalist transition in an uneven and combined international system, one can provide a more complete and convincing account of Chilean political economy from the 1870s to the democratic governments of the 1990s and 2000s.

A Brief History of Development Theory

From its beginnings, development theory has largely ignored questions of capitalism and its relationship to the state, opting instead for a more practical and limited emphasis upon economic growth through savings and productivity (Leys, 1996, 5). While development theory is often considered a postwar phenomenon (Escobar, 1995), modern development economics is

rooted in the Great Depression of the 1930s.² The first of the two major strands of development economics, Latin American structuralism, was the product of attempts by policy makers and intellectuals to respond to crisis of 1930s, fuelled by the founding of Economic Commission for Latin America (ECLA) in 1948 under the leadership of the former Argentine central banker, Raúl Prebisch. The ECLA critique fingered exposure to foreign markets (low income elasticity of demand for primary exports, U.S. protectionism, foreign competition) and internal economic structures (low domestic supply elasticity in key sectors) as the main culprits of underdevelopment, and focussed on the inducement of investment towards not only industry but also a more diversified export base, for which Prebisch himself consistently advocated.

In the United State and England, on the other hand, economists were slowly coming to grips with the lessons from the crisis of the 1930s and the powerful demonstration provided by World War II of the capacity of the state to mobilize factors of production. Even though many development economists, such as Arthur Lewis, rejected the applicability of Keynesian models to underdeveloped nations, they were no doubt influenced by their macro focus and analysis of the role of aggregate demand. Although there were important differences between Latin American structuralism and development economics, such as the relative weight of internal and external variables, they shared key assumptions related to the rejection of equilibrium analyses, the focus on industrialization, and role of the state in mobilizing economic resources. For both schools, development was a process of structural and technological transformation, i.e., industry as the engine of transformation towards Smithian growth.

Another key similarity between Latin American structuralism and development economics was the theoretical separation of the economic and the political, and its concomitant assumption of capitalism and absence of concern with the state as an analytical category. It is not surprising,

² Fine overviews of the origins and evolution of development theory can be found in Hunt (1989) and Leys (1996).

then, that when doubts arose regarding the failure of recalcitrant economies to respond to the policy prescriptions of economists, it was the modernization theory, the political arm of development theory with its foundations in the U.S. State Department and structural-functional analyses of the connections between norms, structures, and behaviour, that stepped in to fill the void (Leys, 1996, 9). But modernization theory simply committed the same error in reverse order: instead of isolating the economy for analysis and treatment, it isolated the political/cultural realm.

The theoretical and conceptual isolation of political and economic forms of power would come under intense challenge in the 1960s with the rise of dependency theory, both in its Latin American and world-systems variants. Dependency theory challenged development economics and modernization theory by inverting their main assumption: underdevelopment was not an aberration to be explained by blockages or absences but rather as the direct and logical outcome of a hierarchical capitalist world system.³ Put another way, what needed to be explained was not why countries failed to develop but how they were underdeveloped. As Latin America descended into dictatorship in the 1960s and 1970s, moreover, the theory of bureaucratic authoritarianism emerged from dependency theory to explain how the developmentalist coalition of the post-depression decades unravelled with the exhaustion of the 'easy phase' of import-substitution industrialization, replaced by an authoritarian coalition of the transnationalized bourgeoisie and foreign capital, the military, and the civilian technocracy (O'Donnell, 1973; O'Donnell, 1988).

Dependency theory, however, suffered from critical deficiencies. First, while it provided an important critique of modernization theory, dependency theorists were still asking the wrong questions, based upon a fictional model of an autonomous and internally-oriented European development: instead of asking why Latin America developed as it did, dependency theorists, like

³ Although some orthodox Marxists, such as Warren (1980), maintained that underdevelopment was the result of the absence of capitalist development, such opinions were in the minority.

their modernization theory predecessors, asked why it did not develop as did Europe. In addition, dependency theory was weakened by its deployment of a mode-of-production framework and the class-succession thesis, which tended to reify abstract modes of production at the expense of historical realities. Even the most sophisticated analysts, such as Cardoso and Faletto (1979) and O'Donnell (1973; 1988), based their analyses on the rise of the dubious “nationalist-populist” coalition of industry and the popular classes, a claim echoed throughout the Chilean literature by authors such as Gil, who wrote of the national bourgeoisie that favoured “higher living standards and the increase in the population’s ability to consume” (1966, 24). But as we shall see, the counterposition of landed aristocracy and national bourgeoisie finds scant support in Chilean history, as does the contention of a coalition of industrialists and popular sectors.

As the world economy was restructured in the 1970s, dependency theory was superseded by neoclassical economics, which articulated clearly the rising power of transnational economic actors and whose chief merit was its provision of a simple and clear diagnosis of and solutions to the impasse of development. Neoclassical economists, such as Bauer (1981), Lal (1983), and Balassa (1986), levelled a critique of development economics for its overemphasis upon structural transformation and capital formation and at import-substitution industrialization for the economic distortions and inefficiencies introduced by the state through its intervention in and replacement of the market. On the heels of a decade of accelerating inflation, deteriorating external accounts, and a massive wave of defaults, the neoclassical analysis seemed very convincing, particularly given that, as John Toyne (1987) observed, the neoclassicals were in many cases simply pointing to realities of which many in the development community had long been aware. Neoclassical economics offered a superficially appealing critique of development policy, but it represented in many ways an intellectual retrogression that not only formalized but lionized the separation and subordination of the political to the economic. As such, neoclassical economists proved unable to

provide an account of the real developmental successes of East Asia and offered little in the way of a positive developmental program. Not surprisingly, their policy prescriptions produced disastrous immediate results. After the ‘Lost Decade’ of the 1980s, development theorists began to search for a new model.

The Developmental State: Origins, Evolution and Limitations

Debates over the role of the state in economic development have a long history. While the catalytic role of the state emerges quite clearly in the literature on nineteenth-century late-development (Carey, 1967; Gerschenkron, 1962; List, 1966), and then again in the postwar writings of development economists and Latin American structuralists, the state itself remained largely an untheorized black box. It is only with the proposition of a “developmental state” in the 1980s to explain the spectacular rise of the ‘miracle’ economies of East Asia in the postwar decades that the state assumed its more contemporary place as an analytical category to be problematized. Born in the work of Chalmers Johnson (1982) on postwar Japan, the developmental state concept spread quickly across East Asia and later to the developing world more generally. The developmental-state literature claimed to provide a distinctive political economy that superseded the binary of free-market capitalism and state-planned socialism by examining how states harness and direct the process of capital accumulation towards rapid economic growth and a more equitable distribution of income and opportunity. In order to understand the contributions and limitations of the developmental state, however, we must first situate the concept within the intellectual and political terrain in which it has developed.

The genealogy of the developmental state can be traced to the statist movement of the late 1970s, in the works of authors such as Stephen Krasner (1978) and Theda Skocpol (1980; 1985). Statism arose as a Weberian critique of so-called “society-centered theories”, and in particular

Marxism. Its objective was to correct the perceived functionalism and instrumentalism of Marxian theorizing that "...treats the state largely as a dependent variable" (Stepan, 1978, 18) and bestow analytical autonomy upon the state from class actors and economic structures. By the late-1980s, however, statism was being supplanted by institutionalism and its more balanced appraisal of state-society relations. Rather than a single-minded focus on state autonomy and organization, institutionalists expanded the developmental state to examine the interstices of state-society relations. Neo-institutionalism, however, was more than a partial corrective to statism; it was also directed at neoclassical economics and its appropriation of the Newly Industrializing Countries (NICs) of East Asia as exemplars of neoliberal orthodoxy (Galenson, 1985). Against the rising ride of neoliberalism, neo-institutionalists sought to defend a positive role for the state in economic development: while injudicious state intervention could produce distortions and inefficiencies, the state remained the only actor capable of correcting the pervasive market failures that characterized underdeveloped economies, harkening back to the development economics of the 1950s.

The developmental state was thus the product of a double reaction: of statism to Marxism and of neo-institutionalism to neoclassical economics. Whether under the rubrics of "embedded autonomy" (Evans, 1995), "governed interdependence" (Weiss, 1995), or the "reciprocal control mechanism" (Amsden, 2001), neo-institutionalists rejected what they perceived as the nomothetic aspirations of the Marxian and neoclassical paradigms and the political polarization of state and market, proposing instead mid-range theories that affirm a positive role for the state not as market replacement but as market enhancement. The neo-institutionalist conceptualization of the developmental state provided a welcome challenge to neoclassical and neoliberal orthodoxy and drew attention to key aspects of successful projects of national economic development. Without a doubt, matters of state organization and the relations between state institutions and civil society

actors are critical to any complete understanding of successful developmental trajectories and explanation of variations in developmental outcomes. The concept of the developmental state, however, remained unable to transcend the limits of its statist and neoclassical interlocutors. Ironically, Max Weber himself provided among the most damning indictments of the ‘middle-groundism’ of the neo-institutionalists, writing, “Scientifically, the ‘middle course’ is not truer even by a hair’s breadth,” and categorically rejecting “...the severe self-deception which asserts that through the synthesis of several...points of view, or by following a line between them, practical norms of *scientific validity* can be arrived at” (1949, 57-58). By trying to fuse the insights of statism and neo-classical economics, the developmental-state literature failed to transcend the limitations of either.

This section will interrogate the developmental-state literature by focussing on the works of three of its most influential and sophisticated analysts, Peter Evans (1995), and Alice Amsden (2001), and Vivek Chibber (2006). We will begin by examining the definition of the developmental state and proceed to interrogate the explanations provided for why the East Asian NICs managed to initiate a sustained and equitable process of industrial development from the 1960s while most of the rest of the developing world did not. It will be argued that the lack of an adequate theory with which to examine the developmental state as part of a sociological whole results in an undertheorization of capitalism in its temporal and spatial dimensions and recourse to contradictory, ad hoc explanations, or limited explanations of divergent developmental patterns. Because it eschews the broader framework of political economy for the narrower study of public policy, it will be contended that the developmental-state literature is ultimately unable to explain adequately macro-structural processes of historical change.

How we define the developmental state is very important to our understanding of the processes of late-industrial development in the 20th century because it maps out and circumscribes

the terrain to be explored. The original definition of the developmental state can be traced to Chalmers Johnson (1982), himself drawing upon Gerschenkron, and his analysis of the Japanese response to the threat posed by its more economically-advanced foreign competitors. For Johnson, it is not state intervention per se that matters, because “All states intervene in their economies for various reasons”, but what kind of intervention: “The question is how the government intervenes and for what purposes” (1982, 17-18). Johnson takes a distinctly statist approach, defining the developmental state as a Weberian ideal-type of interventionist state, what he calls “plan-rational”. The developmental state is therefore defined descriptively, as the organizational characteristics of its successful case, the Japanese state: a small, meritorious, and politically-independent bureaucracy, a nodal agency dedicated exclusively to economic development, and market-conforming intervention.

Peter Evans (1995) moves the literature in a more explicitly institutionalist direction. After dismissing neo-utilitarian state theory as internally contradictory and neoclassical economics as unable to explain dynamic transformation, Evans proposes a comparative-institutional approach that appends an analysis of state-society relations to the statist preoccupation with state organization. The clear objective of Evans is to rehabilitate the role of the state in economic development against the neoliberal critique: “Without the state, markets, the other master institution of modern society, cannot function” (1995, 3). The debate is accordingly not over the level of state involvement but rather its kind. The positive role of the state is to forge and support what Hirschman called “multidimensional conspiracies” that favour development by means of improving the value-added position of national economies within global commodity chains (Evans, 1995, 6-7). What must be investigated, then, is the co-variance between state structures, state-society relations, and developmental outcomes (Evans, 1995, 42).

Similar to Johnson, Evans defines the developmental state in terms of its successful cases, South Korea in his schema, but provides for a greater analytical consideration of the relations between state and civil society and thus a wider comparative framework through which to analyze developmental efforts. Evans defines the developmental state along two axes, which represent the independent variables that explain successful developmental outcomes. First, and building upon Johnson, is the Weberian axis of autonomy, measured by bureaucratic professionalism and meritocracy. A professional and meritorious bureaucracy, however, is a necessary but not sufficient condition, which introduces the Polanyian axis of embeddedness: states must be 'embedded' in civil society via institutionalized channels for the continual negotiation and re-negotiation of public policy: "Either side of the combination by itself would not work...Only when embeddedness and autonomy are joined together can a state be called developmental" (Evans, 1995, 12). The kinds of state involvement are divided into four rubrics: custodian (regulator, policing function), demiurge (producer), midwife (inducement), and husbandry (shepherd of existing industries), and following Hirschman, Evans sees the midwife and husbandry roles as the most promising, given the limitations of state capacity in developing nations (1995, 13-14).

Evans provides a powerful and insightful description of the institutional configurations required for rapid industrial development. He does not, however, provide an analytical model capable of explaining why some countries are more successful than others, primarily because his model assumes what it must demonstrate. As Chibber observed, there is precious little conflict between state bureaucrats and industrial managers in Evans' narrative on the formation of industrial policy (2006, 25-26). And indeed, Evans clearly postulates the existence of a shared developmental project in his critique of Migdal:

The zero-sum approach to state-society relations stands in contrast with the classic comparative institutional political economy that was outlined earlier. The underlying

assumption of Weber, Gerschenkron, or Hirschman is that a shared project underlies the interactions of state and society. Both industrial elites and the state are interested in transformation, neither can implement this project on their own, and each brings something to the task (1995, 37).

But why should we assume the existence of a common set of interests between state and industrial managers, and what if the shared project were itself not the origins of embedded autonomy but rather its outcome? The historical pre-narrative provided by Evans on the origins of industrial policy in Brazil, India, and South Korea is telling, as it exposes the holes in the embedded-autonomy model and indicates a potentially more fruitful line of inquiry that Evans himself leaves open.

Whereas Evans assumes a shared developmental project and uses variations in embedded autonomy to explain developmental trajectories, his historical analysis suggests the shared project is not the promethean origins of industrial policy but is rather an outcome of the particular blend of embeddedness and autonomy that must itself be explained. In his discussion of Brazil, for instance, Evans suggests that industrial policy failed because there was no common developmental project, the result of the persistence of a powerful landlord class: “Since business houses and landowners shared no ‘encompassing’ developmental project, the divided elite comes to the state in search of a particularistic advantage” (1995, 68). Evans again points towards the analytical importance of the origins of embedded autonomy when he claims that South Korean success depended on “special historical circumstances” and lists the unique class and geopolitical factors that structured the economic miracle (1995, 244-245).

Evans then tries to expand the relevance of his basic model to incorporate labour via the cases of Kerala and Austria. But Kerala, a poor Indian state in which remittances represent one of the pillars of the local economy, and Austria, an affluent European country, are dubious examples for the developing world, and even more so given that both were themselves the product of ‘special historical circumstances’ (Evans 1995, 235-243). That Evans would use the Austrian

adjustment of the 1970s as an example for developing countries of a successful “national project” is particularly curious, given that only four pages earlier he cites Katzenstein that restructuring involved “substantial losses in the relative share of gross domestic product accruing to labour” and then notes that corporatism had fallen out of favour by the 1980s (cited in Evans, 1995, 242). Trapped in a corner of his own making, Evans resorts to sleight-of-hand by arguing the shortcomings of the Austrian model are “somewhat beside the point” and that “More radical reconstruction is possible, at least in theory” (1995, 243). By the end of the book, Evans exposes neo-institutionism as not an alternative to neoliberalism but a variant of it when he writes, “...neoliberal ideology might be useful, providing, paradoxically, part of the ideological foundation for a joint project that could facilitate the construction of a more encompassing embedded autonomy” (1995, 247).

The capitulation to neoliberalism at the political level, moreover, is simply reflective of the intellectual capitulation that hamstringing Evans and neo-institutionalists more broadly. Evans claims to transcend the deficiencies of the statism-neoliberalism debate, but he in fact reproduces its basic contours and remains trapped within its conceptual framework of states-and-markets. Because Evans effectively brackets class conflict and intra-civil-society relations more generally, he repeatedly falls back into sociological pluralism, in which the interests of civil-society actors are predetermined and behaviour is shaped exclusively by relations with state institutions. The reason Evans cannot explain why some states attain embedded autonomy while others do not is that he is restricted by what is ultimately a public policy rather than a political-economy framework. As such, what he provides is not so much an explanation of developmental trajectories as an institutional blueprint of best practices.

Alice Amsden (2001) builds upon the state-society nexus developed by Evans and puts it into a more explicitly historical perspective, seeking to explain the wave of industrialization that

has spread across the developing world from the postwar period. To do so, Amsden focusses on “the rest”, a group of twelve countries that developed highly diversified industrial structures in the decades after 1950, to which she counterposes “the remainder”, countries that while experiencing some industrialization generally failed to achieve similar levels of industrial expansion and diversification as the ‘rest’. Applying a knowledge-based assets approach, Amsden emphasizes the role of state policy in fostering the capabilities to develop and distribute products that allow producers to charge above-market prices. Unlike the standard Heckscher-Ohlin-Samuelson trade theory, which renders knowledge-based assets moot by assuming their perfect availability, Amsden contends the choices of uncompetitive nations go beyond that of reducing relative prices (wages) to include the use of public policy to develop know-how and the kinds of capabilities required to charge “entrepreneurial” or “technological” rents.

Amsden recognizes the historical precedence of state intervention in the promotion of industrial development. Unlike Gerschenkron, however, the difference in the state promotion of late industrialization over time is not quantitative, i.e., that the role of the state increases, but qualitative, i.e., that the nature of the intervention is altered. In 19th-century Europe, state intervention was primarily centered on protecting the organic and indigenous development of technological advances and skill-based assets that emerged from the second industrial revolution. State intervention in the 20th century, however, sought not to protect technological advances but rather to develop new skill-based assets in the absence of home-grown technological innovation, thereby closing the “skill gap” with the more advanced economies. According to Amsden, the ‘rest’ achieved this by means of the reciprocal mechanism, “an unorthodox, original economic model” whereby state subsidies and protection were tied directly to performance requirements (2001, 8). The re-definition of the development state as reciprocal mechanism allows Amsden to extend the applicability of the concept across the developing world, and allows for an

examination of how the implementation of similar policies across nations produced divergent outcomes.

Unfortunately, Amsden runs into many of the same problems as Evans, on account of her undersocialized conceptualization of state and civil society, which leads her to make unsubstantiated and contradictory claims and ultimately rely upon a series of ad hoc arguments. Amsden sets out to show not only why a group of twelve countries – “the rest” – developed strong manufacturing industries between 1950 and 1980, but also why since 1980 a small group went on to develop economies based on proprietary knowledge. To begin, Amsden supports the first component of her argument via the claim that what separated the states of the ‘rest’ from their unsuccessful counterparts was their ability to impose performance requirements in return for industrial subsidies. This claim, despite its centrality to the narrative, is not supported by evidence, and in fact the abundance of evidence from other studies roundly contradicts the thesis of a widely utilized “reciprocal mechanism”. Anyone who has studied Chile knows there was practically no oversight of state subsidies to industry and agriculture, let alone performance requirements, and Chibber finds much the same in India (2006). Apart from exceptional cases such as South Korea and Taiwan, there is little reason to believe the other nations that comprise the ‘rest’ were any more successful than Chile and India in exacting performance requirements.

Leaving aside the dearth of evidence to support her hypothesis of the reciprocal mechanism, Amsden’s argument also suffers from methodological flaws as she attempts to explain divergence within the rest from 1980, between the “independents”, who developed their own knowledge-based assets, and the “integrationists”, who continued to depend upon foreign assets. What Amsden provides here is in effect a comparative-statics analysis. Comparative statics endeavours to ascertain shifts in endogenous variables that result from the introduction of exogenous variables. Put another way, comparative statics takes the institutional configuration of

one period, juxtaposes it with the institutional configuration from a prior period, and then imputes an exogenous variable to explain why the latter emerged from the former. The exogenous variables that explain the divergence between the independents and integrationists are colonial manufacturing experience and income distribution: “The more equal income distribution and the more discontinuous direct foreign investment before and after World War II, the more likely a latecomer is to build its own national firms and proprietary knowledge-based assets” (Amsden 2001, 282).

The problem is that Amsden is unable to specify how her exogenous variables produced divergence. Instead, she offers a vague theoretical proposition of the organic whole: “By way of explanation, a national economy may be regarded as an organic whole. The greater income inequality...the more that organic whole is fractured, and the more difficult it is to mobilize support for national business enterprises and firm-specific national skills” (Amsden 2001, 18). Similarly, Amsden is unable to explain why, if colonial manufacturing experience and income distribution pre-dated industrialization after 1950, was it that “Only at a later stage of economic development, beginning in the mid-1980s, did the seed responsible for the rise of ‘the rest’ divide into two distinct strains” (Amsden, 2001, 282)? In attempt to extricate herself from this dilemma, itself the result of her reliance upon the dubious reciprocal-mechanism, Amsden falls back on a series of ad hoc explanations, including rising wages in the 1970s, racial and ethnic conflict, and Japanese trading patterns (2001, Chapter 8). The reason Amsden cannot move beyond correlation to the identification of a causal mechanism is that she reduces society to the static equilibrium marketplace. Much like Evans, the real motor of the narrative provided by Amsden is rationality, wherein rational states and firms work together to promote a rationally-defined national interest. What remains unexplained, however, is “why the angel of rationality got it right in Japan [and South Korean and Taiwan]” (Cumings, 1999, 64)? What Amsden provides, again, is more an

insightful piece of comparative public policy than a political-economy explanation of developmental trajectories.

Vivek Chibber builds upon the work of Amsden and in particular Evans to explain why India, with its rich natural resources, significant industrial base, competent state institutions, and political leadership committed to industrial transformation, failed to build a successful developmental state (2006, ix). Like Amsden, for Chibber the distinguishing feature of the developmental state is its deployment of a disciplinary planning mechanism to complement subsidies, in order to induce structural transformations in the economy. In underdeveloped economies, the key is not the quantity of state intervention but its quality, and planning mechanisms are required to overcome coordination failures and ensure high private returns coincide with high social returns (Chibber, 2006, 16-17). Summarizing the developmental-state literature, Chibber contends there are three institutional requirements for disciplinary planning: a rational bureaucracy, nodal agencies, and embeddedness (2006, 19-22).

Like Evans, Chibber assumes a broad consensus around industrialization and places the explanatory burden for the emergence of effective state policies upon the nature of the relationship between state bureaucrats and industrialists. Unlike Evans, however, Chibber problematizes this relationship at the theoretical level:

...if there was consensus around this project, then how did it transpire that so many attempts at state building ended as failures? While intra-state conflict undoubtedly played a part, the capitalists comprise the other part of the equation. Scholars have tended to conflate the fact of business support for state promotion of industrialization for agreement regarding its modalities, and it is in the area of discipline that divergence between state planners and capitalists emerge (2006, 25-26).

Using South Korea as the comparative case to sharpen his analytical lens, Chibber presents his thesis in four parts: (1) that state planning in India was stunted by the capitalist class, whereas in Korea the state was able to harness a leading segment of the capitalists to the developmental agenda; (2) that the difference in business reaction is related to import versus export models; (3)

that Korea could switch to an export model because of Japanese sourcing its U.S. market share to Korean firms; and (4) that India demobilized its labour force which left it without an organized social base to leverage against the capitalist class (2006, 29-44). When combined with the coalescence of capitalist interests around the maintenance of the status quo and the fragmented and contradictory organization of power within state bureaucracy, the demobilization of labour rendered reform of the extant developmental trajectory impossible and India's inefficient import-oriented model became "locked in place".

Chibber's elegant analytical framework and rich historical narrative make an important contribution not only to the study of India in particular, but also to the developmental-state literature more generally. By appending a choice-theoretic class analysis to the institutional framework, Chibber provides a more nuanced and historically sensitive explanation for why countries with ostensibly similar developmental origins and agendas can produce dramatically divergent outcomes. Because he begins his analysis from the embedded-autonomy framework and problematic of Evans, however, Chibber confines the scope of his work to the relationship between industrialists and state managers, on the one hand, and the organization of the state apparatus, on the other. Key considerations, such as the role of actors beyond industrialists and state managers, the effect of inter-class conflict on the process of class formation, and the influence of the United States, are bracketed out at the theoretical level.

As a result, while the explanatory narrative provided by Chibber is quite persuasive on its own terms, if one pushes the analytical boundaries beyond the narrow problematic of the book in search of a more comprehensive comparative framework, a host of questions emerge. For instance, what role did the intense repression of labour by the Park regime play in securing the acceptance by capitalists of state discipline in the context of incomplete hegemony? Similarly, what was the role of landlords? Chibber makes no mention of the part Indian landlords played in

impeding the emergence of a common developmental project and a centralized state apparatus organized around the advance of said project (Evans, 1995, 68), nor does he give consideration to the role of land reform in removing the landlord impediment and providing the social basis for the developmental state in Korea. Finally, the differential role of the United States, in terms of its support for land reform, labour repression, and manufacturing exports⁴ in Korea and its efforts to undermine disciplinary planning in India remain largely excluded by the basic analytical framework.

The principal weakness of the developmental-state literature is its inability to situate the developmental state within a broader framework and theory of socio-historical transformation, itself the result of the abstraction from processes of class formation and the international conditions that shaped not only the success of the developmental state in East Asia but also its relative failure in other developing nations. While all three authors place great importance on state-society relations, society is itself left largely untheorized and the origins and evolution of capitalism as a social order are unproblematized. As a result, the interests and behaviour of class actors are shaped primarily by their relationship to the neutral state apparatus. The fundamental problem is that by abstracting the developmental state from its social totality, the authors in question end up trying to explain a dependent variable, the developmental state, by recourse to an unexplained and undertheorized independent variable, civil society.

The methodological limitations of the developmental-state literature similarly extend to the consideration of spatio-temporal variables. In particular, none of the authors discussed perceive either the temporal *commonalities* or the spatial *uniqueness* of the East Asian model. What the authors examined here fail to grasp is that the East Asian NICs are unique not in the

⁴ Chibber is correct to note the U.S. promoted exports across the developing world in the 1960s, but the much greater promotion of manufacturing exports in East Asia, through the tariff exemptions under the Generalized System of Preferences, would seem to merit consideration (Hock & Ow-Taylor, 1993, 90-92).

temporal sense, as a new kind of state, but in the spatial sense, as radically distinct social formations vis-à-vis the rest of the developing world of the twentieth century. East Asia is more favourably compared to the late-industrializing countries of Continental Europe in the late-nineteenth century than with those of the twentieth-century developing world. In both East Asia and Continental Europe, external threats and pressures drove state elites to impose capitalist relations from above: "...artificial class making, as part and parcel of full-blown industrialization, has been the project of all the Northeast Asian states, founded precisely on the mid-nineteenth-century theory" (Cumings, 1999, 71). The results were distinctive state-society complexes, what Cumings called the "fused state" (1999, 89), characterized by "the paramountcy of the state as the institution driving forward the social formation and pre-emptively shaping, by action, sometimes *revolution* from above, the social institutions which have evolved 'organically' if not necessarily autonomously, in the [British] heartland" (K. Van Der Pijl, 1998, 80).

In addition to the temporal commonalities with Continental Europe, the developmental-state literature overlooks the spatial uniqueness of East Asia vis-à-vis the developing world in the postwar period. Whereas weak capitalist and working classes, the lack of a traditional agrarian elite, and low levels of foreign capital penetration in East Asia enabled the state to direct national development, the same cannot be said for most of Latin America, where powerful landlords fused with industrialists and high levels of foreign investment preceded the developmental state and exercised considerable influence over state policy and developmental outcomes. Rather than investigate these significant disparities in the structural power of capital and the processes of class and state formation, the developmental-state authors simply assume the question away by presupposing the existence of a national capitalist class with which the developmentalist state could embed itself. What needs to be explained is thereby assumed, and the comparative explanatory burden is reversed: what is in reality the exception, East Asia, becomes the rule.

Related to the inadequate theorization of the relevant temporal and spatial variables is the distinct lack of consideration of the role played by the United States in shaping local class configurations, state institutions, and developmental opportunities. Chibber and Amsden, for instance, attached considerable – albeit ad hoc in the case of the latter – historical import to the role played by Japan in East Asia, yet they both failed to account for the American spider in the Japanese web, to borrow from Cumings’ brilliant metaphor. As an earlier iteration of Peter Evans observed from a dependency-theory perspective:

In Latin America geopolitical influences might be summarized as U.S. attempts to protect the economic status quo without doing grave violence to reality. In East Asia such a summary would be ludicrous. There U.S. hegemony is again a central feature of the geopolitical environment, but the way in which the United States has defined its postwar interests had different consequences for the development strategies of the East Asian NICs (1987, 222).

While the American hegemon was not the determining developmental factor in either East Asia or Latin America, its markedly different role in the formation of the class configurations, state institutions, and developmental opportunities that shaped each region is surely worthy of explanatory status.

So what is it, then, that drives the explanations of the developmental-state literature? Because they do not theorize the social totalities within which developmental projects are undertaken, developmental-state authors end up with an inadequate conceptualization of the nature of the developmental state itself. The state in this framework is presented as a depoliticized and rational organism in pursuit of a congenital “national interest”. But how is this national interest defined and by whom? Faced with this question, the real driving force is revealed: rationalization, the “original totality” (Löwith, 1993, 64) and independent meta-variable that produces rational states and capitalists working together in the rationally-defined common interest. The developmental state is indeed, as Cumings (1999) observed, “a web without a spider”. But there can be no webs without spiders, and developmental-state narratives therefore

fall victim to inconsistent, ad hoc, or limited explanations. In a very real sense, the developmental state literature, when compared to its neo-Marxist predecessor, is a classic case of one-step-forward, two-steps-back: whereas at least the neo-Marxists attempted to theorize the class structure from which the state was relatively autonomous and the international system within which national development takes place, developmental-state authors offer comparatively thin sociological foundations for their analyses.

Developmental-state authors are correct to contend that the relationships between civil-society actors and state institutions are critical to explaining economic development outcomes. Where the literature lacks is at the level of how to explain why the specific configurations of classes and state institutions that do result in rapid and equitable economic development prevail in some countries but not others. The narrow focus on the relationship between capitalist investors and state institutions blocks out key dynamics, in particular the origins and development of capitalist social classes, the social foundations of the state, and the international environment that is both an external constraint upon and internal force of national development. As a result, even the most sophisticated developmental-state authors weaken class as an analytical category, vacated of its dynamic and sociological foundations. In the next section, I will attempt to build upon the critical insights of Evans and Chibber on the significance of state organization and the relationships between state institutions and capitalist investors by means of an alternative explanatory framework that recasts institutions from ontological foundations to dialectical articulation in the formation of class actors.

The Theoretical Framework: The State and Capitalist Transition

One of the central theoretical contentions of this dissertation is that much of the literature on economic development simply assumes away its motive force, capitalism, rather than

problematizing its origins, contours, and evolution. The introduction of capitalism and capitalist transition into the debate over economic development provides an alternative framework of analysis and calls into question several of the traditional binaries of development studies, such as political/economic and internal/external, in addition to the conventional periodization of development models. This dissertation does not, however, seek to provide a general theory of capitalist transition from which to examine economic development. Rather, the objective is the more modest one of presenting the basic conceptual categories deployed in the analysis of the Chilean case. Their applicability to and relevance for other historical and contemporary cases is a matter that must be determined by a more rigorous comparative analysis. Although I draw upon numerous intellectual traditions, the principal intellectual inspiration is the Marxian tradition, and in particular what Eric Wolf called “the historicizing Marx”, whose concepts are “used as discovery procedures and not as fixed assemblies of postulates” that “direct attention to the forces that generate the social fields in which people engage one another” (2001, 61).

The basic analytical framework employed here focusses on how civil society actors and state institutions mutually constitute and transform each other as part of an integrated system of class rule that shapes and mediates the process of and possibilities for rapid and equitable economic development. Systems of class rule, in this conceptualization, are neither static nor isolated. On the contrary, an analysis of systems of class rule must incorporate the dimensions of temporality and variation that constitute social systems as historical and dynamic entities. The dimension of temporality refers to the formation of class actors and state institutions in the transition to and deepening of the specifically capitalist form of class rule. The main concepts used to define and elaborate the category of temporality are Gramscian: passive revolution and hegemony. The dimension of variation, for its part, requires we shake loose from the territorial shell of the nation state in order to theorize how systems of class rule are articulated within a

global hierarchy that is in turn reproduced within each society. The principal expression of variation is the Trotskian concept of Uneven and Combined Development (UCD).

By systems of class rule I am referring to complexes economic, political, and ideological relations that emerge from the interrelated processes of class and state formation. The key point to address in this section is the relationship between the political and the economic in capitalist societies and how best to overcome the theoretical partition that has traditionally divided the two into discrete spheres of activity with their own power bases, logics, and internal dynamics. The standard liberal approach to the relationship between the political and the economic is to impose a strict separation of the two realms in the form of the disciplinary division between political science and economics. Where the relationship between the two is interrogated, it is typically in the form of how one interferes with the ‘proper’ functioning of the ideal-type other, whether the capture of the pristine political system by ‘economic’ interests or the distorting effect of state intervention in the equilibrium marketplace. The underlying assumption of theoretically-discrete systems is at no point challenged.

The Marxian tradition, to its credit, has focussed to a much greater degree upon the interrelations of the political and the economic than has its liberal counterpart. However, Marxists have often struggled to define and anchor the institutional differentiation of the economic and political that is characteristic of capitalist society in the more fundamental unity of class power, the result of which has been a tendency towards economic reductionism, whereby the pre-theorized economic realm ultimately determines political forms and functions. This is true even of those who have sought to theorize the ‘superstructure’ itself. Indeed, hidden beneath the instrumentalist-structuralist state debate were the theoretical separation of the economic and the political and the subordination of the latter to the former, whether by means of the instrumental control of the state by the dominant economic sectors or the structural determination

of state forms and functions by the forces and relations of production. The ‘relative autonomy’ of the superstructure proposed by Althusser and Poulantzas was not so much a resolution to as a theoretical expression of the problem itself. The ‘economy’ as the abstract motor and theoretical driver of society has therefore shaped a significant segment of the Marxist literature from its early theories of imperialism (Bukharin, 1917; V. I. Lenin, 1933) to more recent work on transnationalization (Robinson, 2004).

What is needed is a way to conceptualize the functioning of capitalist societies that is rooted not in a pre-theorized economic realm but rather in the way in which the control over human and natural resources is organized and reproduced. For this I would suggest that it is fruitful to borrow from Karl Polanyi and Antonio Gramsci. One of the chief merits of Polanyi was his rejection of economic reductionism as a methodological principle, or what he referred to as the “economic solipsism” of the neoclassical economists. Instead of conceptualizing societies as being determined by their economic bases, however conceived, Polanyi began from the way in which control over the economy is institutionalized in the society, what he called the economy as an instituted process. For Polanyi, “two concepts stand out, that of ‘process’ and its ‘institutedness’” (1957, 248). The economic process refers to the interaction of humans and their environment by means of locational (change of place) and appropriative (change of hands) movements of the material elements required to sustain the community. This basic definition

...contains no more than the bare bones of the processes of production and transportation, as well as of the appropriative changes. In the absence of any indication of societal conditions from which the motives of the individuals spring, there would be little, if anything, to sustain the interdependence of the movements and their recurrence on which the unity and the stability of the process depends (K. Polanyi, 1957, 249).

The key insight of Polanyi is that the economic process has no motive, motor, or movement beyond its politically-institutionalized context; or put another way, how a society produces and distributes the material goods required for its reproduction is always a question of politics.

The institutedness of the economy refers to the ways in which the economic process is integrated with the other dimensions of human life, which determines the motives and institutional patterns that shape the economy and its place in society. For Polanyi, there were two principal ways in which the integration of economy and society was organized: (1) societies in which the economic process is instituted in such a way that embeds the economy in non-economic motives and institutions of the community, and (2) societies in which the economic process is instituted in such a way as that the production of distribution of the material requirements of life is dominated by the principle of private gain and its pattern of market competition. Where I part from Polanyi is over the mechanism by which the institutedness of the economic process is shaped and driven, which he identified as the requirements of a vague 'society'. For our purposes here, the mechanism that shapes and drives the integration of society and economy is the process of class struggle that propels the formation of class actors and state institutions that together constitute systems of class rule. Our object of investigation, then, is not the abstract economy but the politically-instituted control over the economic process.

Gramsci for his part noted that in capitalist society the superstructure was separated into political and civil society. This distinction is helpful if we think of political and civil society as distinct and interrelated ways of instituting the economic process. In pre-capitalist society, the economic process was instituted in such a way so that control over human and natural resources depended upon the direct control over political society, the realm of coercion and force, while in capitalist society the control over human and natural resources is exercised primarily in the realm of civil society. The advent of capitalism, however, does not mean that the political is separated from the economic or that power is now based in the economy. As Polanyi observed, "The true criticism of market society is not that it was based on economics – in a sense every...society must be based on it" (2001, 257). Rather, what makes capitalism unique is that the economy is

politically instituted in such a way as to privatize control over the economic process. Capitalism is therefore the privatization of class rule by means of the construction and institutionalization of a civil society in which class rule takes a private and consensual form.

The development civil society, however, neither does away with political society nor obviates coercion and force as mechanisms of class rule. Political society remains constitutive of civil society and the development and struggles of the latter are inseparable from the former because the actors and institutions of the state are themselves transformative of civil society. Put another way, the control over the economic process remains fundamentally a question of 'politics', understood broadly as "all activities...involved in the use, production, and distribution of resources, whether material or ideal, whether at the local, national, or international levels, or whether in the private or public domains" (Leftwich, 2000, 5). What changes is that the direct control over political society is no longer a basic condition for the reproduction of class rule because the coercive realm of political society is itself subsumed by the realm of civil society and the privately-controlled economic process. The motor of capitalist society is therefore not the abstract and pre-theorized 'economy' but the struggle over control of the economic process that fuels the dialectical interaction between political and civil societies, between rule by coercion and rule by consent.

The shift in focus from the economy to how the economic process is instituted fixes our attention on the state and its place in capitalist society. The separation of the political and the economic in much of the development literature and the subordination of the state to the economy have reduced the state to a theoretical afterthought. Even the developmental-state literature reproduces this fundamental separation of the political and the economic by treating the state and the economy as separate theoretical entities rather than as part and parcel of the same social order. The key question in the analysis of the state is not only the relationships between state institutions

and civil-society actors, but also the role of state institutions in the constitution and transformation of class actors and systems of class rule. Because the state apparatus is constitutive of civil society, there can be no source of state power independent of the control over human and natural resources that is the foundation of class power. The power of the state and the effects of its exercise are therefore never neutral in civil society because the formation of state institutions is inseparable from the constitution and transformation of civil society. To claim the inseparability of state power and class power is not to reduce the state to the ‘tool’ of one group or another, though groups can and do manipulate state institutions to their own ends, but simply to affirm that the state has no existence, interest, or effect independent of its socio-historical environs.

The value of theorizing the state as a constitutive element of a larger social order can be demonstrated by means of a negative example: the dominant conceptualization of neoliberalism in Chile. While most discussions of neoliberal policy in Chile focus on the reduction of state intervention in the economy, for better or for worse, this beginning point is unduly restrictive. Because the state is not external to but rather constitutive of the market, it can neither ‘intervene’ in nor ‘withdraw’ from the economic process. What neoliberalism represents, therefore, is not the withdrawal of the state from the economy, but rather a change in the form of the state presence (Poulantzas, 2000, 18-19). All ‘deregulation’ is merely a new form of regulation, a new means by which the state constitutes the economic process that bolsters the positions of some while weakening the positions of others. Gramsci recognized as much when he wrote, “...*laissez-faire* too is a form of state ‘regulation’, introduced and maintained by legislative and coercive means” (1971, 160), as did Polanyi, who famously quipped, “Laissez-faire was planned” (2001, 141).

At a deeper level, moreover, neoliberalism is much more than a change in the form of the state presence that favours some actors over others. Because the process of state formation is

inseparable from the process of civil-society formation, neoliberalism is at its core a constructivist project that reconstitutes not only the state apparatus but also the basic subjectivities of civil society according to what Polanyi identified as the integrative principle and institutional pattern of capitalist society: individual gain and market competition (1957). To treat neoliberalism as merely a set of economic policies is to eschew the constructivist rationality that organizes and informs these policies and transcends the institutional binary of states-and-markets. As Wendy Brown observed: “it [neoliberalism] does not presume the ontological givenness of a thoroughgoing economic rationality for all domains of society but rather takes as its task the development, dissemination, and institutionalization of such a rationality” (2003, 4). As we shall see in the Chilean case, although neoliberal critics openly derided the social and economic engineering of the import-substitution industrialization period, the neoliberal state was every bit as constructivist as its predecessor.

Rethinking the state similarly requires a reconsideration of social class. The principal point of departure is that class is not a thing or a category that can be assumed *a priori*, but a dynamic, relational, and historical phenomenon. As E.P. Thompson knew well, classes do not fall from the sky or spring forth from the productive structure. Quite to the contrary, class formation is a profoundly political process that occurs when people perceive and articulate their identity and interests not only as in common but as against others: “Class is a social and cultural formation which cannot be defined abstractly, or in isolation, but only in terms of relationship with other classes; and ultimately, the definition can only be made in the medium of time – that is, action and reaction, change and conflict” (Thompson, 1968, 939). The existence and behaviour of social classes is thus properly an empirical inquiry, not a series of idealized assumptions based on deductions from the relations of production or other rationalistic models. Class formation and class behaviour are the practical problems to be explained. If we begin by

assuming what the behaviour of actors ought to be, we are left with little more than tautological affirmations or *ad hoc* explanations of deviations from the theoretically-imposed ideal.

As an example, there are many different explanations for why a dynamic bourgeoisie never emerged in nineteenth-century Chile. Reasons for this failure range from an alleged cultural preference for quick, easy fortunes and sumptuous spending over austere saving to the quasi-feudal institutions implanted by the Spanish crown and the transformation of domestic capitalists into compradors for foreign capital (Barros & Vergara, 1978; Encina, 1912; Góngora, 1981; Keller, 1931; Moulian & Torres, 1986; Pinto, 1973). While such explanations appear disparate, they are united by a common feature: the assumption that such a class *should* have emerged, generally as a result of the adherence to the kind of master developmental logic of which Cardoso and Faletto so presciently warned against (1979, xvii), whether the logic of liberal modernization or its Marxist corollary, the class-succession thesis. It is the contention of this dissertation, however, that the existence and interests of the principal social classes cannot simply be deduced abstractly without consideration for the wider economic, political, and ideological relations through which the process of class formation takes place within systems of class rule. Another way to think about class formation is to ask why would we expect a dynamic bourgeoisie to emerge in the first place? By posing the question in this manner, we rid the analysis of class formation of its teleological tendencies and focus not on how capitalist actors spring forth from the fount of ideas or social structures but on how and under what conditions are hegemonic capitalist classes constructed.

The processes of state and class formation are in turn shaped by the dimensions of temporality and variation. The temporal dimension refers to the arduous shift from one form of class rule to another and the subsequent deepening of and challenges to the new system of class rule. Building upon Marx's analysis of primitive accumulation and the formal and real

subsumption of labour, Kees Van der Pijl (1997) identifies three levels at which capitalist social relations spread, and which we will modify to serve our purpose of investigating the process of capitalist transition: original accumulation, production, and social reproduction. At the first level of original accumulation, Marx's primitive accumulation, economic relations become increasingly disembedded from their previous socio-political context and subject to commodification, most importantly by means of the separation of the worker from the means of production. While Van der Pijl, like Marx before him, focussed on the subsumption of labour to the imperatives of capital accumulation, as we shall see the consideration of uneven and combined development draws to our attention the fact that even more than labour, it is the owners, whether of landed or industrial property, that must be subordinated to the imperatives of capital accumulation in order for the transition to be complete.

The second level takes place in the realm of capitalist production and produces conflicts on two interrelated levels: first at the point of production, where groups organize to struggle over the labour process and the distribution of its private product; and second at the societal level where groups organize to struggle over the pace and character of capitalist expansion. This level is traditionally where class-based organizations and political parties begin to emerge as the hothouse of capitalist modernization generates new subjectivities organized around the nascent and incomplete form of class rule. The second level is shaped by what Gramsci called passive revolution, or incomplete hegemony (1971, 105). At the third level of social reproduction, the imperatives of capital accumulation have been imposed upon society as a whole, that is to say the process of capitalist transition is complete. This is the level at which we can identify the consolidation of capitalist hegemony, i.e., the acceptance of capitalist imperatives as the dominant principles of social organization, the internalization of capitalist values and subjectivities, and the expansion of the commodity form into nearly all aspects of social reproduction. That capitalist

hegemony is established by the third stage, however, is not to imply the absence of coercion and conflict. As we will discuss below, the threat of coercion always accompanies the exercise of hegemony.

The Gramscian concepts of passive revolution and hegemony are critical to modifying the three levels of capitalist development identified by Van der Pijl in order to think through the process of capitalist transition. Before presenting my own views on passive revolution, however, it is important to mention the work of Adam Morton, who has done much to advance the incorporation of this concept into the study of international development (2003; 2007; 2010). Morton's use of passive revolution has been ably critiqued by Cox (2007) and Callinicos (2010), so I will refrain from a more detailed discussion. In brief, I concur with Cox and Callinicos that the deployment of passive revolution by Morton is a classic case of concept stretching, even if such stretching is rooted in ambiguities proper to Gramsci himself. The problem is that Morton defines passive revolution in two incompatible ways: first, as a particular path to capitalist rule and second as a mechanism for the reproduction of capitalist rule. In the first usage, passive revolution is a concept to explain the historical transition towards hegemony while in the second usage it is deployed as the dialectical antithesis to hegemony in which countries alternate between periods of passive revolution and hegemony in the constant renegotiation of capitalist class rule.

It is the latter usage – preferred by Morton – that is objectionable, because passive revolution is stretched into a catch-all for the restructuring of capitalist rule. It is fair to ask what the concept really adds when used in this sense. At its core Morton's usage of passive revolution remains trapped in an ambiguity with which Marxism has struggled from its beginnings: the inadequate distinction between the transitional phase of capitalism and its more mature or hegemonic phase. It is this inadequacy that has led Marxists to predict on so many occasions the decline and collapse of the capitalist mode of production based on an analysis by Marx of what

was ultimately the transitional period towards capitalist class rule. Yet surely the modalities of social struggle, transformation, and reproduction are sufficiently different between the stage in which capitalist principles and social relations are only emerging from the period in which they have attained dominance to warrant the analytical separation of the two periods. The concepts of passive revolution and hegemony offer the potential to disentangle the period of transition from the period of maturity, but first we must ‘unravel’ the meanings of passive revolution and hegemony.

Passive revolution is used here to describe the process whereby capitalist hegemony is established, that is to say it describes the process of transition towards capitalist modernity in societies where the pre-capitalist form of class rule remains intact but the capitalist form has already been introduced. Passive revolution should be understood not as a concrete phenomenon or series of phenomena, but as a set of guideposts to the practical problems and possibilities of the process of capitalist transition. For Gramsci, passive revolution was a revolution without a revolution, whereby new social groups emerge without revolutionizing the existing social order. Instead of initiating a rapid and fundamental reordering of social relations, the passive revolution initiates a modernization from above that does not so much break the forms of rule of the old ruling groups as it does adapt to and modify them in a permanent dialectic between revolution and restoration (2000, 247). What passive revolution represents, therefore, is the inability or unwillingness of the capitalists to integrate subordinate sectors into the new form of capitalist class rule, or hegemony, reflecting a situation of “...domination without... ‘leadership’” (Gramsci, 1971, 105-106). Unlike Morton, then, I refer to passive revolution not as the dialectical antithesis of hegemony but rather as its precursor, the expression of the incomplete transition towards a new form of historical class rule.

Passive revolution is therefore not only the modality of capitalist transition but also the expression of its incompleteness. Because passive revolution instils a form of incomplete hegemony, wherein the reproductive logic of capitalist accumulation does not regulate state and society and the capitalist class is unable or unwilling to establish its hegemony within civil society, the state tends to become the locus of social struggle and transformation. The struggle over the construction and establishment of hegemony within civil society therefore takes place on the terrain of the state, a process Gramsci called Statolatry: “For some social groups, which before their ascent to autonomous state life [hegemony in civil society] have not had a long independent period of cultural and moral development on their own...a period of Statolatry is necessary and indeed opportune” and “...is nothing other than the...initiation to autonomous state life and the creation of a ‘civil society’ which it was not historically possible to create before...” (1971, 268). For Gramsci, statolatry is a conception of state as political society that constructs within its husk a well-articulated civil society, that itself represents the emergence of an autonomous state life and the eventual subordination of political society by civil society. It is no surprise that periods of passive revolution tend to coincide with the rapid development and expansion of the state apparatus, as we shall see prominently in the Chilean case.

What is passive about the passive revolution is that the revolutionary forces introduced by capitalist social relations come into conflict with the existing social order, what Gramsci means by the dialectic of revolution-restoration. The direction and form of the passive revolution therefore depend upon the formation and balance of class forces within civil society and the development of state institutions that more often than not take a groping and hesitant form, as actors pursue interests on multiple and at times contradictory levels and rarely do so with a clear and coherent vision of the broader structural forces and implications that shape individual and collective action. In some places the revolutionary impulses towards capitalist transformation

might be greatly accelerated or effectively stunted by local oligarchs or foreign powers, while in other places the revolutionary impulses gradually overwhelm conservative attempts to contain them. In cases where capitalist modernization cannot be stunted, the forces of conservative reaction may seek to absorb threatening social forces, a process Gramsci called *transformismo*, or non-propertied or foreign actors may attempt to exercise leadership over the process of capitalist modernization. In Chilean history these moments of defensive incorporation and protagonism of non-propertied classes are quite clear: first the incorporation of the middle class from the 1920s, the period of middle-class protagonism and the failed attempts to integrate the industrial working class from the 1930s, and finally the polarization that resulted from the rise of the urban working class and its incorporation of rural labour from the 1950s.

Where *transformismo* or non-bourgeois leadership fail to construct an economic structure and state apparatus adequate to address the mounting social pressures and demands, they only temporarily displace the pressures emanating from the process of capitalist transition. By incorporating these pressures into the state apparatus, moreover, the passive revolution simply fuels the intensification and politicization of the class struggle. In contexts where neither the revolutionary nor the restorative forces can impose a coherent program upon society, passive revolution may result in Caesarism, where "...the forces in conflict balance each other in a catastrophic manner; that is to say, they balance each other in such a way that a continuation of the conflict can only terminate in their reciprocal destruction" (Gramsci, 1971, 219). In the context of an organic crisis, or a crisis of the whole social system, a 'Caesarist' third force may arise to attempt a resolution to the crisis. Passive revolution and Caesarism should not be understood mechanically or teleologically, however. They are conditioned by historical processes and are as a result open-ended: "...when the progressive force A struggles with the reactionary force B, not only may A defeat B or B defeat A, but it may happen that neither A nor B defeats

the other – that they bleed each other mutually and then a third force C intervenes from outside, subjugating what is left of both A and B” (Gramsci, 1971, 219). The Caesarist force may be revolutionary or restorative; or it may fail to resolve the crisis and merely displace the pressures towards the future. The outcomes of the passive revolution and Caesarism therefore depend in large measure upon the balance of social forces and state institutions (Riley, 2007, 816-817).

Passive revolution and its associated conceptual apparatus are completed in the concept of hegemony. As distinct from the period of passive revolution, hegemony represents the primacy of capitalist principles and their institutional pattern of market competition within the society, the concrete form of which is the exercise of hegemony of the capitalist class in civil society and the subordination of the state to the process of private capital accumulation. The hegemony of the capitalist class means not only the exercise of leadership by capitalist sectors, the articulation of a new civilization, but also the internalization of capitalist values and interests on the part of subordinate members of civil society and their integration into the circuits of capital accumulation. Hegemony is “...not only a unison of economic and political aims, but also intellectual and moral unity, posing all the questions around which the struggle rages not on a corporate but on a ‘universal’ plane, and thus creating a hegemony of the fundamental social group over subordinate groups” (Gramsci, 1971, 181-182). The normal functioning of hegemony is where “the individual can govern himself without his self-government thereby entering into conflict with political society but rather becoming its normal continuation, its organic complement” (Gramsci, 1971, 268). It is not only civil society, moreover, that is subordinated to the hegemony of the capitalist class. The state apparatus is likewise subsumed by the exigencies of the privately-controlled economic process, to the point where the reproduction of class rule relies not upon the direct control of the state but rather through control over civil society.

The utilization of hegemony here differs from that of Gramsci in two important ways. First, the definitions of civil society are distinct. Whereas Gramsci separates civil society from the economic structure, in order to emphasize the role of its non-economic institutions (parties, media) in the construction and reproduction of consent, I deploy the classical Marxist definition of civil society as encompassing the economic process in capitalist society, in order to focus upon the relationship between class formation and struggle, on the one hand, and economic development on the other. While Gramsci clearly did recognize the economic foundations of hegemony, for instance in his discussion of Fordism in the United States, the base-superstructure metaphor can lend itself unnecessarily to the temptation to assume autonomous economic forces. Second, the establishment of hegemony is here understood as synonymous with the completion of the process of capitalist transition. This does not mean that hegemony once attained is immutable, but rather seeks to recognize the broad acceptance of capitalist values and imperatives within the society and the deepening penetration of the commodity form into everyday life, captured by the third level in the schema of Van der Pijl.

The constitution of capitalist hegemony is thus inseparable from the process of class and state formation. Hegemony, moreover, implies a non-reductionist Marxism: it is not an alliance of already-constituted social agents but the principle of their mutual formation (Laclau, 1985, 72). The construction of capitalist class rule involves the construction of capitalist social actors. Gramsci identified three levels of class formation that develop from the instituting of control over the economic process within civil society, that is to say from the vertical relations between capital and labour and the horizontal relations between owners of capital and the owners of labour: corporate, where common interests emerge at the level of economic sectors; economic, where common interests transcend the sectoral level to encompass those of an entire class; and political/hegemonic, where common interests are forged beyond the economic class to

incorporate other social classes within civil society. The process of state formation is likewise embedded within the construction of hegemony. In the period of passive revolution, where class formation has yet to transcend the second level, the state apparatus tends to emerge as the locus of social transformation and absorbs the transformative energy emanating from civil society. With the establishment of hegemony, the state itself is subsumed by the process of capital accumulation and the exercise of class rule in civil society.

It would be a mistake, nevertheless, to contend that the exercise of hegemony in civil society reduces the state to a passive role or that coercion and domination are no longer necessary to the process of social reproduction. The state in a capitalist society remains active in the renegotiation and reproduction of capitalist hegemony, upon which it likewise depends, and state managers remain capable of taking decisions that go against the interests of particular segments of capital or favour subordinate sectors as the terms of hegemony are in constant redefinition. Moreover, to separate coercion from consent is the kind of dualism Gramsci sought to overcome. Hegemony is always and everywhere consent *plus* coercion: "...the supremacy of a social group manifests itself in two ways, as 'domination' and as 'intellectual and moral leadership'. A social group dominates antagonistic groups, which it tends to 'liquidate', or to subjugate perhaps even by armed force; it leads kindred and allied groups" (Gramsci, 1971, 57). It is not that hegemony implies the absence of coercion; quite to the contrary, it is that coercion and violence appear in the eyes of the majority as justified in the defence of their common interests against a threatening 'other', whether from within or beyond.

In addition to assuming the existence of capitalism, models of class and state formation must be wary of falling into the comparativist and teleological pitfalls of many theories of development. Every society and every process of national capitalist transition is imbricated with external patterns of development with which it is engaged in synchronic and diachronic

transformation. The temporality of the passive-revolutionary process is therefore mediated by its spatial counterpart of variation. The concept of Uneven and Combined Development (UCD) helps to capture this inter-societal element and provides an entry point for an investigation of the effects of interactive variability on the processes of class and state formation. Based upon the observation that the path of capitalist development in Russia was diverging from that of the advanced European nations rather than converging, Trotsky developed UCD to modify the Marxist maxim of the developed country showing the underdeveloped one the image of its future. For Trotsky, the ‘backwards’ country assimilates the material and intellectual conquests of the advanced, but it does not simply reproduce the forms and stages of the latter: “The laws of history have nothing in common with a pedantic schematism” (Trotsky, 2010, 32). Instead, assimilation is a contradictory process driven by the dialectical amalgamation of archaic and contemporary forms of class rule, the result of which is new social forms and relations. As Gramsci recognized, the fusion of external and internal relations “create[s] new, original, and historically concrete combinations” (2000, 206).

Drawing upon Rosenberg (2006) one can identify two levels at which UCD functions. The first is the interdependence of events and social structures by which the conditions of uneven development are transmitted. Here we must examine the nature and modalities of political and economic integration into an uneven international system. It is at this level, for instance, that international relations scholars have begun to examine the impact of early capitalist transformation in England upon the process of capitalist transformation in Continental Europe (Lacher, 2006; K. Van Der Pijl, 1998). A key question at this level is what external pressures were exerted, whether geopolitical or economic, and did they drive the society in question towards capitalist transformation and how? Trotsky was acutely aware of the impact of geopolitical pressures on state and class development:

Russia's social existence was always under constant pressure from the more developed social and state relations of Western Europe, and as time went on this pressure became more and more powerful. Given the relatively weak development of international trade, a decisive role was played by military relations between states. First and foremost, the social influence of Europe found expression in the form of military technology. The Russian state, having been formed on a primitive economic basis, was brought face to face with state organizations which had developed on a higher economic basis. Two possibilities presented themselves: the Russian state had either to fall in the struggle with those state organizations...or it had to outpace the development of its own economic relations..." (1972, 4).

In Chile, the pressures towards capitalist transformation were much weaker as a result of its geographical isolation. Although the conflict with Peru and Bolivia towards the end of the nineteenth century exerted important geopolitical pressures that hastened the development of the institutions of a modern state and the expansion of capitalist social relations, as Kurtz convincingly argues state building was more critically influenced by internal dynamics (2009). The weak integration of the Chilean economic elite into the world market, moreover, restricted the impulses towards rapid capitalist expansion and Chilean property owners responded to external pressures by seeking state protection to defend a weak economic structure.

The second level of UCD is the formation and transformation of hybrid actors and institutions that is the internal manifestation of uneven development. At this level we examine the effects of the interdependence of events and social structures upon the process of class and state formation and systems of class rule. The constitution of hybrid actors and institutions modifies our understanding of processes of class and state formation in several key ways. First, UCD forces us to reconsider the concept of primitive accumulation and in particular the formation of the capitalist class. The reconsideration of the capitalist class in turn opens the door for a reconsideration of the role of subordinate classes and state institutions in the transition towards capitalism, with important ramifications for economic development. And finally, UCD requires that we investigate the importance of historical context and how it influences the meaning and effect of ostensibly similar policies.

The concept of primitive accumulation is generally defined as the separation of the direct producer from the means of production, the genesis of the capitalist and working classes. Marx's discussion of primitive accumulation, however, makes it clear the separation of the direct producer from the means of production is only the beginnings of the process of class formation: "...it is not enough that the conditions of labour are concentrated at one pole of society in the shape of capital, while at the other pole are grouped masses of men who have nothing to sell but their labour-power. Nor is it enough that they are compelled to sell themselves voluntarily" (1977, 874, 899). For Marx, the working class did not spring forth from the separation of producers from the means of production. Rather, it was consciously and actively formed, not only by its members but importantly by the state itself, which subjected the newly 'free' men to a "bloody discipline that turned them into...a working class which by education, tradition and habit looks upon the requirements of that mode of production as self-evident natural laws" (Marx, 1977, 899-900).

Where UCD modifies our analysis is first and foremost in relation to the construction of a capitalist class. Marx recognized that capital did not spontaneously emerge from the privatization of the means of production: like labour, capital was constituted by means of the class struggle and under the prodding of the state that

....embraces the colonies, the national debt, the modern tax system and the system of protection. These methods depend in part on the brute force, for instance the colonial system. But they also employ the power of the state, the concentrated and organized force of society, to hasten, as in a hothouse, the process of transformation of the feudal mode of production into the capitalist mode, and to shorten the transition. Force is the midwife of every old society which is pregnant with a new one. It is itself an economic power" (Marx, 1977, 915-916).

The construction of a capitalist class is a critical component of the transition from the formal the real subsumption of labour. Whereas the formal subsumption of labour refers to societies where capital "...has not yet succeeded in becoming the dominant force, capable of determining the form

of society as a whole,” the real subsumption of labour occurs when capitalists carry out “production for production’s sake” and the ceaseless drive to increase the productivity of labour “...becomes a *law*, independent of the will of the individual capitalist” (Marx, 1977, 1023, 1037).

Here is where many Marxists have gone astray and where UCD helps us to capture the key and yet undeveloped insight of Marx regarding the formation of the capitalist class. Much of the Marxist literature in the area of development simply assumes the existence of a capitalist class wherever industry exists. What Marx’s comments are suggestive of is something altogether different: in order to subsume labour and establish their hegemony, the capitalists themselves must first be subsumed by the disciplines of capital accumulation, whether via foreign or domestic market competition or the disciplinary levers of the state. Indeed, how can capitalists subsume labour to the exigencies of capital accumulation if they have not yet done likewise? At first the question may seem odd, even illogical, the subsumption of capitalists to capital, but it will be argued that the existence of industry and industrialists, and even their sectoral dominance within the economy, is itself insufficient for the establishment of capitalist hegemony. That the subsumption of labour requires the prior subsumption of capitalists to the discipline of capital accumulation is alluded to by Marx in his discussion of nineteenth-century France: “The industrial bourgeoisie can rule only where modern industry shapes all property relations to suit itself, and industry can win this power only where it has conquered the world market, for national bounds are inadequate for its development” (1978, 588).

Unfortunately, Marx failed to elaborate this insight. As a result, he never problematized adequately the process of capitalist-class formation and the possibility of resistance to capitalist transition from not just pre-capitalist elites but also the capitalists themselves, particularly in later-developing societies where the gap with the advanced economies is all the greater. What we find historically in Latin American nations is not a strong and assertive bourgeoisie but a weak

and defensive one. Rather than reproducing their class rule *through* the discipline of capital accumulation, Latin American capitalists sought to curb those disciplines and retreated from the nineteenth century onwards into the state, shielding themselves first from foreign competitors and later from domestic challengers. Contrary to the prevailing myths of free trading Latin America and protectionist Europe, average tariffs between 1870 and 1914 were five times higher in the former. As Coatsworth and Williamson observed: “From Independence to 1914 the tariff policies adopted by governments in Latin America made it the world’s most protectionist region by a wide margin” (2004, 205). The retreat into the state, however, was only a temporary remedy, as it would lead to the politicization of society and severe external imbalances. As Marx well understood, capital eventually knocks down all ‘Chinese walls’.

Nor is the history of Latin America terribly different from that of Europe in many regards, a point to be taken up again below. In a wide-ranging study of early-modern Europe, Lachmann found few self-conscious capitalists and instead many who sought to protect privileges and circumvent the pressures for change, actors who became “capitalists in spite of themselves” (2000). Marx himself chided the French bourgeoisie of the mid-nineteenth century for its reluctance to support the republican cause and its hesitancy in the face of the exigencies of its class rule:

Instinct taught them [the bourgeoisie] that while, indeed, the republic completes their authority, it at the same time undermined their social foundation, in that, without intermediary, without the mask of the crown, without being able to turn aside the national interest by means of its subordinate struggles among its own conflicting elements and with the crown, the republic is compelled to stand up sharp against the subjected classes, and wrestle with them. It was a sense of weakness that caused them to recoil before the unqualified demands of their own class rule, and to retreat to the less complete, less developed, and, for that very reason, less dangerous forms of the same (2005, 26).

This penetrating critique serves as a powerful reminder that capitalism and its constituent classes do not simply fall ready-made from the sky. Indeed, history demonstrates the bourgeoisie is

rarely willing to accept its 'historical mission', and on the contrary must be pressed and prodded by state officials and subordinate classes.

The inability of capitalists to establish an adequate economic base from which to exercise their internal hegemony over the state and subordinate classes brings us to the next modification to the process of class and state formation: substitutionism. The role of institutional substitutionism in late-developing countries was recognized clearly by Gerschenkron (1962), but for our purposes substitutionism refers not simply to the institutional level of the state but the sociological level at which capitalist transition is driven ahead not by the dynamic capitalist sectors but by subordinate classes through the state. One of the key insights developed by Trotsky in his analysis of Russian history was how in underdeveloped nations it is the non-propertied classes that drive reform: "The solution of the problems of one class by another is one of those combined methods natural to backwards countries" (2010, 36). In the absence of a capitalist class able to articulate and execute a coherent strategy of economic development, other social forces, whether the middle class or foreign powers, may emerge to drive forth the process of transition. Because the social forces driving modernization do not have access to the means of production, they realize their program through the state apparatus. While observers from Carey (1967) and List (1966) to Johnson (1982) and Amsden (1989) have demonstrated the potentially positive role of the state in the process of late economic development, in many developing countries statolatry produced mixed results and ended up blocking the transition towards capitalist hegemony.

In Chile, for instance, the state began to play a critical role in economic development from the 1880s, via the taxation of foreign-owned nitrate exports that became the principal source of wealth for the local elites. Following the collapse of nitrates in the 1920s, however, it was the middle class that pressed most aggressively for the state promotion of capitalist modernization.

Industrialists and landlords, while generally supportive of state protection and subsidy for industry and agriculture, feared the loss of control over the state and thus saw its economic role as simultaneously a threat to be contained. The attempt by the middle class to incorporate organized labour into the political system from the late-1930s onwards, moreover, further impeded the articulation of a coherent developmental project as such efforts were fiercely resisted by the propertied sectors and resulted in a prolonged political stalemate and sharp oscillations in policy within and across governments.

Here can see how the dialectical relation between revolution and restoration is articulated with uneven and combined development: the weak economic base of the property owners in the world market led to the early expansion of the protective state role in the economy; this early and defensive statization of economic development resulted in the politicization of the subordinate sectors, the middle class in the 1920s, the urban working class in the 1930s, and rural workers in the 1950s; the rising protagonism of the middle class drove the capitalists further into defensive positions within the state, the result of which was the mounting penetration and disarticulation of the state apparatus and ever more incoherent and contradictory policies further weakened the Chilean economy and radicalized the working class. While far from inevitable, it is no surprise that the accelerating politicization of a weak economy resulted in violence and dictatorship. Marx's observation about the tendency towards violence in Continental Europe, when compared to England, is germane to the late developing nations of Latin America and elsewhere: "Violent outbreaks...naturally occur rather in the extremities of the bourgeois body than in its heart, since the possibility of adjustment is greater here than there" (1978, 593).

The question of the differential effects of state intervention on class and state formation and economic development brings us to the third modification of our basic framework: how the construction of hybrid and historically novel actors and institutions transforms the meaning and

effects of similar moments of transition and similar policies. As Locke and Turner have persuasively argued, the comparisons of similar labour policies across different times and places can produce misleading results and lessons if they are not properly contextualized (1995). The temporal and spatial character of uneven and combined development renders it an excellent instrument with which to interrogate precisely these questions. UCD thus reminds us of the importance of timing and context to key moments of transition. For instance, the completion of capitalist transition in Western Europe took place on the heels of nearly a quarter century of war and economic crisis and in the face of a communist threat, the result of which was a transition much more favourable to labour. In Latin America, on the other hand, the democratic incorporation of the working class took place in the context of an incomplete capitalist transition, which turned into an obstacle to the constitution of a capitalist class capable of exercising its hegemony in civil society. In Chile, moreover, the establishment of capitalist hegemony took place in the context of an internal political crisis, the installation of an authoritarian regime, and the rise of neoliberalism, the result of which was a transition much less favourable to the interests of workers.

Ostensibly similar policies can likewise mean very different things in the context of societies with very different class structures and political institutions. In the decades after 1950, for example, the state in both Latin American and East Asia maintained substantial protections and subsidies for local producers. In Latin America, however, protectionism and subsidy coincided with stagnation, external account imbalances, and foreign indebtedness, while in East Asia they coincided with decades of extraordinary economic growth and development. Protectionism in Latin America was widely held responsible for economic failure, but how can levels of protection explain the failure of Latin America if they were similar to those in East Asia (Fitzgerald, 2000, 84)? The key difference was that in East Asia, protectionism was part of a

coherent developmental program of export expansion organized by the state with the support of industrialists, while in Latin America protectionism was a defensive manoeuvre to protect a weak accumulation base and shore up chronic balance of payments deficits following the collapse of exports and an emerging challenge from below.

Neoliberalism can hold similarly disparate meanings and effects in different contexts of temporal transition towards or deepening of capitalist hegemony within an uneven and combined international order. Even if one accepts the broad understanding of neoliberalism discussed above, as a constructivist political project to reconstitute state and civil society, there are significant variations in the meaning and effects of this reconstitution. In the context of the Britain, for instance, neoliberalism could be construed as an attempt to reconstruct and deepen capitalist hegemony by means of the internationalization and strengthening of the domestic capitalist class viz-a-viz the state and subordinate social forces. In the United States, on the other hand, while neoliberalism may represent all of these things, it could likewise be construed as a critical moment in the reconstitution of U.S. imperialism and hegemony within the global political economy (Panitch & Gindin, 2005). And in Chile, as will be argued below, neoliberalism was the political form through which the long transition towards capitalist modernity was completed and capitalist hegemony consolidated by means of a radical reconstruction of the capitalist class, while in other countries where capitalist development was still relatively shallow and the balance of social forces and state institutions quite distinct, such as in much of Central America, neoliberalism had no such revolutionary effect.

Finally, the focus on capitalist transition and its uneven and combined nature reminds us not only that processes of class and state formation occur in articulation with other societies at different developmental levels, but also that the process of capitalist transition is always and inevitably protracted, painful, and violent, "...dripping from head to toe, from every pore, with

blood and dirt”, as Marx so powerfully described (1977, 926). Mainstream developmental theorists failed to understand either of these realities, and as a result expected underdeveloped nations to “perform like wind-up toys”, in the memorable phrase of Albert Hirschman (1981, 24). Dependency theorists were well aware of the global and articulated nature of class and state formation, perhaps overly so, but mistook its meaning because they forgot the second lesson. Indeed, an important part of what led dependency analyses astray was their assumption of a false and endogenous European developmental trajectory, a kind of Weberian ideal type from which underdeveloped countries had allegedly strayed.

Far from the idealized, balanced, and autonomous developmental trajectory attributed to it by development theorists, however, the transition to capitalist modernity in Europe not only looked a lot like what has taken place in underdeveloped nations, it was arguably even more brutal and violent. Examining Western Europe in 1914, Sandra Halperin found all the hallmarks of underdevelopment: “...enclave economies oriented to foreign markets; weak middle classes; alliances between the state, traditional landowning elites, and new industrial classes; unstable and partial democracy; sharp inequalities; and increasing poverty” (1997, x). It was not until Europe had suffered through two catastrophic wars, an economic depression, and the scourge of fascism that capitalist hegemony could be secured and the working class could be incorporated en masse into the political system via state regulation and provision to ensure stable employment and redistribute wealth.

CHAPTER II – NITRATES AND THE ORIGINS OF THE PASSIVE REVOLUTION

The period from independence to the 1930s has traditionally been understood as one characterized by an export-oriented commodity economy, minimal state intervention, and the dominance of pre-capitalist landlords and foreign capital. In more recent decades, however, revisionist economic historians have challenged several components of this narrative. The works of Muñoz (1968), Kirsch (1977), and Palma (1979), for instance, have demonstrated convincingly the existence of significant levels of industrialization prior to the outbreak of the First World War in 1914. Moreover, Robles-Ortiz has fashioned evidence that suggests the process of capitalist transformation in the countryside and proletarianization of the peasantry and rural farm labour began during the nineteenth century and not in the 1930s, as traditionally thought (2002; 2009). The problem is that none of these works adequately account for the partial nature of capitalist industrialization, or address how the path of capitalist transition taken by Chile prior to the 1930s shaped its subsequent development?

Arnold Bauer suggested, in light of such aforementioned revisionist historical accounts, that we ought to conceive of the decades from 1880 to 1970 as not divided into two periods, but along a single continuum (1990, 230). However, Bauer himself does not identify adequately the continuum along which we ought to reinterpret the century in question. The analytical framework presented in the previous chapter will be used to fashion an alternative interpretation of the period from independence until 1920 as encompassing the origins of modern capitalist transformation and passive revolution. This chapter will divide the period into two sections: first, the consolidation of the new republic and the rise and fall of the first export boom, from 1818 to 1879; and second, from 1880 to 1920, the conquest of the nitrate fields and the establishment of the general pattern of twentieth-century capitalist transformation, where the basic structures of the Chilean political economy of the mid-twentieth century (foreign-owned mining enclave, rapid

expansion of state activity, internally-oriented and exclusionary capitalist modernization, and the formation of urban and rural working classes) were forged not during the Great Depression but by the resolution to the crisis of the 1870s.

The Rise and Fall of the First Export Boom: 1818-1879

With the exception of the dictatorship of Bernardo O'Higgins (1817-1823), the declaration of independence from Spain in 1810 was followed by two decades of infighting and acute political instability. In fact, between 1823 and 1830 alone there were eighteen different governments. All that would change, however, with the battle of Lircay in April of 1830, where General Prieto led the conservative forces (pelucones) to victory over the liberal (pipiolos) opposition, which consolidated the power of the landed oligarchy at the expense of the British-backed liberals (Cariola & Sunkel, 1982, 22). The Constitution of 1833 sought primarily to instill order and stability by imposing a strong and centralized state apparatus over which the president enjoyed extraordinary powers, including a veto over all congressional legislation and the capacity to legislate via decrees, with congress restricted to the control over finances, to prevent the president from using state funds to bolster autocratic rule. In addition, the constitution prohibited freedom of association, which meant no group could form legal parties or professional associations of any kind, in order to prevent elite factions from re-emerging, and property restrictions meant the vast majority of the population was unable to participate in the formal electoral system (Barros & Vergara, 1991, 88-89).

Consolidation of an authoritarian state after the 1830s provided a national government with administrative capabilities that created the conditions for the first economic boom of the country, between 1845 and 1875, when the value of exports quadrupled, the first railroads were built, connecting Santiago and the port of Valparaíso to the mining and agricultural centers to the

north and south, and steam navigation was introduced by William Wheelwright (B. Loveman, 2001, 119). Four events shaped the external demand for Chilean products: victory over the Peruvian-Bolivian Confederation in the 1830s, when Valparaíso became the main port to Britain in the Pacific Ocean; the normalization of commercial relations with Britain via the “Treaty of Friendship, Commerce and Navigation” in 1854; the rapid growth of Californian market with beginnings of gold rush in the late 1840s (Chile was the only southern-pacific country with a grain surplus); and the “Great Victorian Boom” from 1848 to the 1870s, which brought rapid price increases for Chilean exports (G. Palma, 1979, 72-75).

Intimately related to the integration of Chile into the world economy was the place and role of Britain, the most important foreign power in the region during the nineteenth century, though not the only one, with German interests gaining momentum towards the early twentieth century. Chilean exports to Britain as a share of total exports rose from around 30% in 1850 to nearly 70% by 1890, primarily copper and later nitrates, and imports from Britain reached close to 50% of total imports by 1880, led by textiles (Mayo, 1981, 100). During most of the 19th century, the British government intervened in the domestic affairs of Chile primarily to protect its investment and trade interests and largely in the form of demands for equal treatment (Mayo, 1981, 97). More significant to the transformations in the economic structure of Chile and the related processes of class and state formation were British traders and investors who settled in Chile, most in the port city of Valparaíso and the mining provinces to the north, from the turbulent decades before political stability was imposed in 1830. According to Pregger Román, the influence of British immigrants passed through three stages: the 1820s, when resident British merchants in Valparaíso gained control over foreign commerce; from the 1830s to the 1870s, when British merchants leveraged their commercial clout to shift into the banking and nitrate sectors via portfolio stock investments; and following the War of the Pacific, when nitrates fell

under the control of the British speculators and investors (1983, 39). By the First World War, however, British influence in Chile and elsewhere in Latin America was on the wane, to be replaced by the United States.

The export boom and the rise of British influence held important implications for the economic structure and the processes of class and state formation. As in many countries of Latin America, the hacienda was the axis of colonial rule. The hacienda and the unequal distribution of land it entailed were rooted in the systems of grants (*mercedes*) and trusts (*encomiendas*) from the Spanish crown to conquerors, royal officials, court favourites, and merchants, as well as military and church officials. Given the relatively sparse indigenous population in Chile, the system of servile indigenous labour was replaced during the seventeenth and eighteenth centuries by a system of permanent resident (*inquilino*) workers, who received usufruct rights, and seasonal (*peon*) labour (Borde & Gongora, 1965, 30-32; Sternberg, 1962, 24). The demand for wheat from Peru accelerated the process, and owners rapidly expanded the tenant system so that by the end of the eighteenth century tenants outnumbered labourers and money and in-kind rents began to be commuted to labour rents (Kay, 1977, 104-106; B. Loveman, 1973, 32-33).

The rural labour system, however, remained fluid and informal until mid-19th century, when agricultural exports exploded, rising fifteenfold in value between 1840 and 1875, driven by demand in California, Australia, and Europe (B. Loveman, 2001, 120). Given the surplus of rural labour, landlords responded to the rapid rise in demand for wheat not by intensifying production but by extending the land under cultivation through the expansion of *inquilino* and sharecropping arrangements (Robles-Ortiz, 2009, 498; Wright, 1982, 4). The lands of existing *inquilinos* were restricted and labour dues increased, moreover, as new *inquilinos* were settled from the seasonal population, similar to Barrington Moore's "labour repressive model" of Eastern Europe (1966). The dynamic between lord and labourer was very much a "master-and-man relationship"

(McBride, 1936), but one must be careful not to overextend the parallel with Europe. In feudal Europe, the political and military functions of land predominated and surplus was extracted by coercive means, while in Chile agriculture was primarily a commercial enterprise from the early colonial era onwards, exporting to Peru, and it was the economic coercion produced by the monopoly over land that was at the root of the socio-political domination of rural workers (Ratcliff, 1973, 28).

The mining sector likewise expanded rapidly prior to 1870. The gold deposits exported to Peru during the colonial era had been exhausted, but the discovery of silver at Chañarcillo in 1832 and the introduction of British smelting furnaces into the copper industry saw the rapid rise of mining production and export (Cariola & Sunkel, 1982, 23). Copper was the main export from the 1840s to the 1860s, reaching 56% of exports in the latter year, and the technological modernization of the industry grew steadily as the major foundries and smelters, primarily under the control of local capitalists, converted from firewood to coal and adapted modern European production techniques, such as the 'Napier method'. Copper was complemented by silver, which peaked at over 100,000 kilos in the early 1850s, and coal from Concepcion to the south (B. Loveman, 2001, 119-126). Copper and silver would soon decline as high-grade ores were exhausted and the absence of technological and productivity improvements rendered the exploitation of lower-grade ores unfeasible (Felix, 1961b, 301; G. Palma, 1979, 113-116), but not before Chilean mining entrepreneurs began to invest in the nitrate fields in Peru, a development that would have dramatic consequences in the 1870s (Cariola & Sunkel, 1982, 37).

Industry prior to 1880 was primarily related to mining, agriculture, and infrastructure, processing primary production for export and providing inputs for railroad construction, and was organized by immigrants and entrepreneurs from mining and commerce (Carmagnani, 1998, 20; G. Palma, 1979, 208). After 1840, manufacturing began to expand with rapid growth of export

trade, related to sectors such flour milling, copper smelting, and the processing of silver into bars. By 1850, exports with manufacturing value-added represented 75% of all exports, growing at an average of 5.2% per annum between 1844 and 1875, and while silver declined after 1850, manufactured exports still represented 56% of total exports between 1840s and 1870s (G. Palma, 1979, 19-21). What is more, evidence suggests an important modernization of industrial operations. By 1860, artisanal manufacturing was being replaced by more sophisticated operations for the domestic market through the application of advanced technology (steam engines) and wage labour. By 1875, 23.4% of economically-active population (EAP) was in manufacturing (G. Palma, 1979, 30-31).

One must be careful, however, with the statistical data on industrial diversification and modernization. For instance, Ortega found that by 1878, 31 of the 124 ‘modern’ firms (steam power, more than ten workers, and wage labour) were in the metalmachine sector, second only to foodstuffs, while metalmachinery accounted for 2,596 of 5,981 workers (1981). Marshall, in turn, sees this as evidence that Chile was a comparatively advanced country with the potential for rapid technological advance (1988). Nevertheless, lax classifications mean we must take these data with a hefty grain of salt. When items like soap, candles, and oil were considered part of the “chemicals industry”, it is fair to ask whether we are talking about capital-intensive intermediate goods or labour-intensive consumption goods. One could make a similar contention with regards to the metalmachinery sector, whose 43.4% share of the labour force nearly doubled its 25% firm share and whose percentage of the labour force grew more rapidly than its percentage of Gross Domestic Product (GDP), both suggesting that what the statistics were capturing was not the expansion of a capital-goods sector so much as a producer-goods sector (Muñoz, 1968, 57). What the data suggests is that while they were some modern industrial operations, organized primarily around the export sector, most industry during the period was artisanal in nature.

The diversification of the economy resulted in the emergence of a formal banking sector and modern forms of corporate organization. Informal credit markets had existed during the first-half of the nineteenth century, largely dominated by British merchants who imposed high interest rates and credit-options that offloaded risk onto the backs of Chilean agricultural and mineral producers, with British merchants exercising their domestic influence to scrap the proposal for a state bank and tensions bubbling up over the course of the 1850s (Pregger Román, 1978, 79-80). Following the passage of a law in 1854 that formalized limited liability companies, the Bank of Valparaíso was established by Chilean and British investors and the banking industry grew with the passage in the 1860s of a very liberal banking law that provided for few regulations of this emergent industry. Although British banks would not enter Chile until the 1880s and accounted for around 25% of all deposits at their peak (Edmundson, 2009, 173), the banking sector represented a key nexus of interconnections between British and Chilean capitalists. British investors held significant shares in Chilean-owned banks and British immigrants were overrepresented at the levels of senior management and the boards of directors, while joint-stock companies provided a platform for British and Chilean investors to integrate an increasingly diverse economic structure, from railways and mining to agriculture and trade.

As the economic structure diversified, however, tensions developed between Central Valley landlords, who had consolidated their control over the state, and northern miners and southern agriculturalists, that would produce periodic policy disputes, such as the elimination of export taxes for agricultural exports but not mining exports in 1840 (Ortega, 1985, 152), and the eruption of violent conflict in the 1851 and 1859.⁵ Economic linkages to Britain and the influence of liberal and secular thinkers from Europe fuelled intra-elite tensions in the 1850s and generated transformations in the party system, with the emergence of the Liberal Party in 1849

⁵ Zeitlin (1984) contends the insurrections of the 1850s represented the struggle of nascent bourgeois-revolutionary forces that would culminate in the Civil War of 1891.

out of the Conservative Party and the Radical Party in 1863 out of the Liberal Party (Cariola & Sunkel, 1982, 33). The civil wars of the 1850s were fought over the power of and control over the presidency and the nature and scope of state activity, but the defeat of the insurrectionists resulted not in retaliation or exile but in amnesty and reintegration into the political order, with most reforms, such as the electoral reform of 1861, negotiated among the elite (Moulian, 2009, 12-15). From the 1850s we can begin to perceive clearly one of the chief characteristics of the Chilean landed elite: its capacity to integrate new groups based in non-agricultural wealth.

Chile emerged from independence dominated economically by an agrarian elite based in the Central Valley and a mercantile class that exported its products first to Lima and then to England, Australia, and California, on the one hand, and a mass of artisanal producers in agriculture, mining, and manufactures on the other (Salazar, 1985). The landed aristocracy fused with the foreign and local merchants and bankers of Valparaíso and Santiago, fuelled by the “well-known preference” of the Chilean elite to marry European immigrants and their children and facilitated by the rise of joint-stock companies (Heise González, 1951, 154; Pregger Román, 1983, 49), which brought an initial wave of modernization to agriculture through greater access to credit. Later and more gradually mining investors, often linked to foreign commercial houses, were drawn into aristocratic circles via dense networks of cross-investments and intermarriage:

...bourgeois families united around relations of family and friendship, and quickly developed similar linkages to the traditional aristocracy that was quickly being supplanted in terms of wealth, influence and power. Thus there emerged a process of fusion between the upper classes, including importantly foreigners and their progeny, giving origin to the so-called oligarchy (Villalobos R., 1987, 70).

Bound by money and blood, this period gave rise to many of the great names of Chilean capitalism, such Ossa, Cousiño, Subercaseaux, Edwards, and Matta.

In addition to elite interpenetration, the period witnessed the birth of the most influential locus of class formation and influence in the nineteenth century: the National Agricultural Society

(SNA). Founded in 1838 with the support of the government, the SNA was initially a charitable association of the Santiago aristocracy; however, by 1868 it was consolidated as a voluntary association dedicated to the progress of agriculture, that in reality functioned as a “voluntary, quasi-official Ministry of Agriculture”, in the Hispanic patrimonial tradition (Muñoz Delaunoy, 1991, 10-11; Wright, 1982, 16-17). By the second half of the nineteenth century, the economic interests organized within the SNA extended into commerce and finance (Mattelart, Castillo, & Castillo, 1970, 72-80). One group that was not assimilated into the oligarchy and the SNA during this period, interestingly, were industrialists, many of whom had few linkages to the landlords and organized the Industrial Association in 1875 to address the economic and social problems of the sector via industrial promotion (Ortega, 2005, 306-326).

From 1860, state activity increased in a more or less secular fashion. In contrast to the alleged ‘liberal’ ideology of the period, state investments in infrastructure, most importantly the port of Valparaíso and railways to connect agriculture in the Central Valley to foreign markets, rose steadily. At the same time, there was significant public investment in human capital. Free primary education was decreed in 1860 and primary education coverage increased from 17.3% in 1860 to 26.8% by 1875 (Braun et al., 2000). Indeed, education was the principal social expenditure of the period: between 1842 and 1872, real public expenditure on education rose 12% per year and literacy increased from 13.5% in 1854 to 20% by 1874 (G. Palma, 1979, 182-184). As a result of rising infrastructural and educational spending, state expenditure as a percentage of GDP expanded from 5% in 1860 to 9.3% by 1875 (Braun et al., 2000).

As Cavarozzi argues, the Chilean state at this point was something of hybrid: one the one hand, it was marked by feudal characteristics, whereby the state was a “...multiplication of various manifestations of cellular domination of the landlord class”, as a result of the ability of landlords to control rural labour and thus the state apparatus as an extension of their local rule;

and on the other hand, the centralization of authority opened the possibility for the use of the state to discipline landlords and impose a broader rationality upon the social order, a possibility that would become increasingly real with the capture of nitrate fields in 1879 (Cavarozzi, 1978, 232). The unusual degree of state centralization and administrative capacity in Chile compared to its northern neighbours is, according to Kurtz, the product of the interpenetration of the economic elite and the absence of a coercive labour system (2009). However, one must be wary of overstating the expansion of state capacity to move against agrarian interests during this period.

Landlord dominance of the political system ensured policies favourable to the most powerful and influential group of the period. Indeed, between 1854 and 1902, the percentage of Senators who were large landowners rose from 48% to 73%. The power of the Central Valley oligarchy is further demonstrated by a study that found that of the 599 deputies and senators elected between 1831 and 1927, there were 98 sets of brothers, 61 sets of father and son, 57 sets of uncle and nephew, 20 cousins, 12 father and son-in-law, and 32 brothers-in-law, with one family, the Errázuriz, contributing four presidents and 59 congressmen (B. Loveman, 2001, 139). Not surprisingly, state policy heavily favoured the landowners: public investments in infrastructure were concentrated in connecting the Central Valley to foreign markets; taxation levels remained stagnant as agricultural exports and income went tax-free, despite expenditure increases; and electoral law, particularly the reform of 1874 that enfranchised greater numbers of rural *inquilinos* to vote for their patron, further strengthened the control of the landlords over the government (A. Bauer, 1995, 30-32).

Although authors such as Ortega (1981; 1985; 2005) and Kurtz (2009) are correct to note the incipient processes of economic and political modernization of the period, they both exaggerate their claims. While industrial output and exports did expand between the 1830s and the 1870s, much of the industrial output was labour-intensive and oriented towards producer and

consumer goods, and proto industries for the domestic market, such as textiles, suffered severe retrogression, with the number of spinners and weavers to the south of Santiago falling from nearly 75,000 in 1850 to only 24,000 by 1895 (A. Bauer, 1990, 233). The exports of the period, moreover, would be dwarfed by the rise of nitrates in the 1880s. Similarly, state expenditure and capacity expanded steadily, but expenditure growth was meagre compared to the post-1880 period and landlords maintained firm control over the government. Pulses of capitalist transformation were evident between 1830 and 1880, but in a rural society where agrarian relations remained steadfastly pre-capitalist and where linkages to and pressures from the global political economy were weak, they failed to generate the kind of self-sustaining processes of class and state formation that would drive Chilean society from the 1880s to the 1970s.

The final decade of our first period is one of the most definitive in Chilean history and would launch the political and economic trajectory of the nation for the next hundred years. The Great Victorian Boom that had sustained Chilean exports for two decades would end dramatically in the 1870s. More critical than the end of the boom, however, was the emergence of new and more competitive producers onto the world market, occasioned by the revolution in transportation technology. The arrival of Argentine, Canadian, and Australian wheat drove Chilean producers out of foreign markets while Hungarian and U.S. producers did the same in flour and copper, respectively, with the latter exacerbated by the exhaustion of high-grade ores in the mid-1870s and the absence of state support to modernize the industry and exploit lower-grade ores, as Zeitlin has argued (1988). Agricultural exports collapsed and would not recover their mid-1870s levels until the early twentieth century, three decades later (A. Bauer, 1970, 143; Cariola & Sunkel, 1982, 38; G. Palma, 1979, 86-88).

The export crisis quickly spread to the rest of the economy, provoking declines in metal and flour output, and widespread bankruptcies of financial institutions and commercial houses,

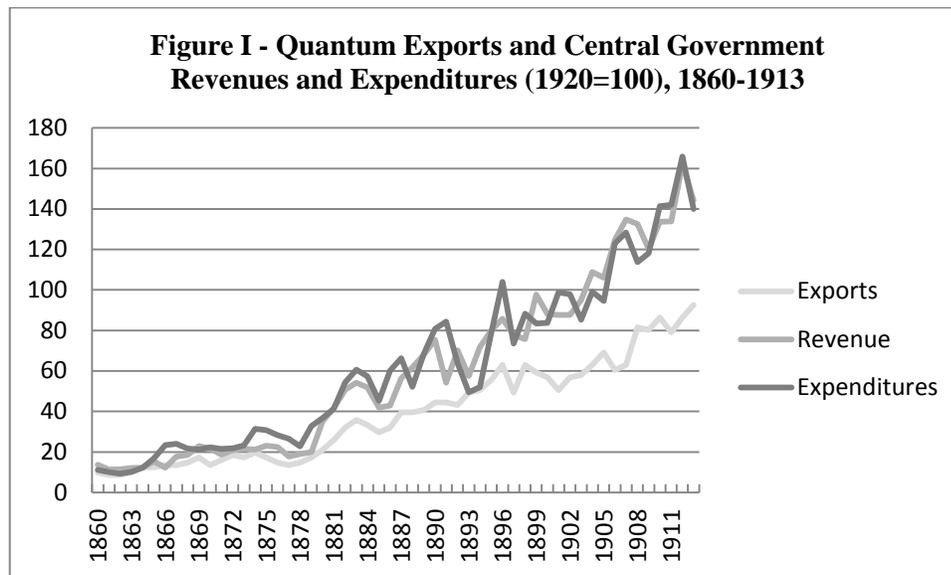
with bank notes declared inconvertible to prevent a run by depositors (W. F. Sater, 1979, 72-81). Moreover, imports and state revenues plummeted and the convertibility of the peso was suspended in July of 1878 (G. Palma, 2000b, 217-218). The first reaction of the Pinto government, and its Minister of Finance, Rafael Sotomayor, was to reduce public expenditures via cuts to the military and the civil service and a rise of ten percent on import levies; however, agitation in the mines and the countryside produced growing concern over the effects of the economic crisis and its potential to inspire more radical action from the starving masses, and led to the call for tax reform and the expansion of domestic industry. The resistance of Sotomayor led to his resignation and replacement by Matte, who pushed ahead an inheritance tax and the tariff reform of 1878 that showed the first signs of protectionist intent, allowing raw materials to enter freely while increasing levies on consumer goods and machinery that could be produced domestically (W. F. Sater, 1979, 92-95).

The real resolution to the crisis would come with the War of the Pacific in 1879. As Palma noted, the War of the Pacific was an 'economic war' in the strictest sense, and Chilean officials openly spoke of the potential of the nitrate fields to put an end to the deepest political and economic crisis in the nation's history. Throughout the 1870s, tensions had mounted over control of the nitrate industry in Peru and Bolivia, nearly 20% of which was owned by Chilean investors, including former and future presidents Montt and Balmaceda (Cariola & Sunkel, 1982, 76-79). Following the nationalization by Peru of its nitrate deposits and the imposition by Bolivia of nitrate taxes, an order by the Bolivian government to confiscate the Chilean Antofagasta Nitrate Company led the Chilean government to occupy the port city of Antofagasta on February 14, 1879, thus marking the beginning of the war. The subsequent Chilean military victory, culminating in treaties signed with Peru and Bolivia in 1883 and 1884, gave the crisis-ridden country a virtual monopoly over a strategic resource in great demand from a Europe in the throes

of agricultural and military modernization, and would mark the onset of the sustained expansion of capitalist social relations.

Nitrates and the Origins of the Passive Revolution: 1880-1920

The origins of capitalist modernity and passive revolution in Chile can be found in the capture of the nitrate fields of the Atacama Desert, an assertion that runs contrary to the position of Ortega, who contends the War of the Pacific did not represent a new era in the Chilean political economy, as significant expansions of industry, exports, and state activity preceded 1880 (1985, 147). What Ortega fails to recognize, however, are two crucial facts. First, the data on exports and state revenues and expenditures clearly demonstrate a remarkable break between the pre and post-1880 periods, as we can see in Figure I.



Source: Braun et al. (2000).

More importantly for our purposes, however, is that Ortega overlooks the key impact of the crisis of the 1870s and the conquest of the nitrate fields: that the Chilean economic elite lost access to foreign markets and resorted to the taxation of nitrate exports and the deployment of state resources and protection to turn towards production for the domestic market in order to reproduce

their class rule. This fundamental transformation in the means by which class rule was reproduced would reverberate over the next hundred years of the Chilean political economy.

Following the war, the nitrate commission appointed by the Chilean government to set nitrate policy over the long term recommended the dissolution of the state monopoly over nitrates brought into force by Peru and implementation of an export tax of \$2.2 pesos per metric quintal, which set off a speculative fervour to gain control over the bonds issued by the Peruvian government at the time of nationalization. Most the bonds ended up in the hands of British (and to a lesser extent German) speculators such as John “Nitrate King” North who were able to leverage their close connections to Chilean financial institutions such as the Bank of Valparaíso to purchase the nitrate licences (see Zeitlin, 1984). Thus did control over the nitrate industry shift to foreign owners. Whereas the distribution of nitrate properties by nationality in 1878 was 58% Peruvian, 19% Chilean, and 13.5% British, by 1895 the British owned 60% of the properties, with other European nations accounting for 27% and the Chilean share falling to 13%. The ownership of properties, however, is misleading because it does not speak to the control over actual production, and here the British were clearly dominant: in 1894, the British owned 60% of nitrate properties, but they accounted for 92% of nitrate production. While the Chilean share of production would rise to 50% by 1914 and then to nearly 70% by 1925, this was the result of the naturalization of foreigners and the sale by Europeans as the industry entered into decline following the discovery of synthetics (Albert, 1988, 26; Cariola & Sunkel, 1982, 136).

Nitrates immediately and dramatically transformed the economic structure of the nation and would initiate the revolutionizing pressures of capitalist transition. By 1882, nitrate exports had a greater value than copper, silver, wheat, and flour combined had before 1880, and mining exports in Chile rose from US\$19 million in 1879 to US\$225 million by 1918 (Braun et al., 2000; G. Palma, 1979, 249). In general, nitrates had limited backward and forward linkages, but there

were important direct effects. Private railroads, for example, increased from 339km in 1881 to 1,787km by 1901, which generated demand for local industry (Cariola & Sunkel, 1982, 132; G. Palma, 2000b, 227-228). Despite these direct linkages, the principal effects of nitrates were indirect. The demand for nitrate workers and the expansion of the state and industry resulted in a major demographic reorganization, as northwards and urban migration created for the first time a significant domestic market. The population of the Norte Grande, for example, rose from 2,000 in 1875 to 288,000 by 1920 while the urban population rose from 540,000 to 1.6 million over the same period (Cariola & Sunkel, 1982, 118). By far the most important structural transformation induced by nitrates, however, was the expansion in the size and scope of state activity.

The central pillar of the transitional form of class rule that emerged over this period was the centralized state apparatus that used export revenues to expand the public sector, build the infrastructure to link the internal market, and whose administrative and military capacity set the stage for the rapid expansion of and settlement of the national territory from the 1870s onwards (Cariola & Sunkel, 1982, 76-79). The single greatest effect of nitrates was on public finances. At their peak, taxes accounted for 44% of nitrate exports, an extraordinary transformation from past practices: whereas in 1863, exports taxes captured 2.9% of export value and represented 10.7% of state revenue, by 1900 those figures had risen to 30% and 52% respectively (Cariola & Sunkel, 1982, 137; G. Palma, 1979, Appendices 19, 22, 40, and 41). If you add all forms of taxation related to the nitrate industry, it is estimated that "...the Chilean state appropriated about half of the wealth generated in the nitrate sector" (Cariola & Sunkel, 1982, 89).

As a result of the substantial taxes levied upon the export of nitrates, real state revenues climbed dramatically from \$29 million pesos in 1879 to \$210 million pesos by 1913, with expenditures topping \$256 million pesos in the latter year (Braun et al., 2000). Flush with fiscal resources, the state became the motor of the domestic economy. In fact, by 1910 the value of

state expenditures exceeded the value of all commercial agricultural production (Monteón, 1998, 18). Public investment similarly accelerated with the establishment of the Department of Public Works in 1888. The network of state railroads expanded from 1,106 kilometers in 1890 to 5,122 by 1915, while investments in education saw the number of public schools increase from 531 in 1860 to 3,587 by 1925 and the number of children in public schools rose from just over 20,000 to a little over 500,000 (Cariola & Sunkel, 1982, 142-143; M. Mamalakis, 1989, 283; G. Palma, 2000b, 236). Educational coverage thus improved from 18.1% and 1.1% at the primary and secondary levels in 1879 to 76.3% and 13.4% by 1913 (Braun et al., 2000). The period also saw the institution of a national police force and the rapid extension of mail and telegraph as well as water, sewer, and electricity services. As public outlays exploded, so the state bureaucracy swelled in size, from 3,048 in 1880 to 27,469 by 1919 (Cariola & Sunkel, 1982, 141).

At the same time, the flood of nitrate money to state coffers was used to modernize the military, with important domestic implications. Typical of the Prussian-inspired military modernizations of the Southern Cone during the period, the Chilean government brought in General Emil Körner to modernize the armed forces. In addition to contributing to the conquest and settlement of the southern regions of the country in the 1880s and 1890s, the founding of the War College educated a generation of military officers critical of the inefficiency and patronage of the political system. When combined with the institution of compulsory military service in 1900 and the repeated deployment of the military to repress workers in the 1890s and 1900s, the professionalization of the military would lay the foundations for the decisive military interventions of the 1920s that would break the oligarchic state and initiate the incorporation of non-elite sectors into the political system (B. Loveman, 2001, 151-152).

Nitrates not only affected the size of the state, they transformed its functions from the maintenance of internal order and the redistribution of the surplus among the domestic elite to the

capture and redistribution of nitrate rents (Barros & Vergara, 1991, 106-107). State control over the economic surplus generated by nitrates, the principal source of dynamism in the economy, therefore transformed the role of the state from the resolution of intra-elite conflict to the chief articulator of foreign and domestic sectors by means of the taxation of exports in return for the pacification of labour (Cavarozzi, 1975, 50). As the state was transformed, so was the oligarchy, which went from a group dependent upon the control over the peasantry as the primary means of surplus extraction and class reproduction to one dependent upon mining rents. The domination of the peasantry therefore became not simply a means to access the economic surplus but more importantly to control the state, which was itself now the point of access to the economic surplus rather than a mechanism for its internal redistribution (Cavarozzi, 1978, 236).

The resultant pattern of state-society relations was similar to that observed by Cardoso and Faletto for enclave economies more generally, where "...it was frequently possible to orient sectors of the dominant classes towards activities that were more political and administrative than economic; for the alliances of groups often strengthened the regulating function of the state, thereby creating an important bureaucracy supported by taxes collected from the enclave sector" (1979, 73). However, this new role of the state as intermediary between domestic and foreign capitalists introduced important contradictions into Chilean society that would drive social transformation over the coming decades. On the one hand, the loss of its economic base in the world market meant that the domestic elite required an expanded state apparatus in order to capture nitrate rents and provide the foundations for an alternative economic base oriented towards the protected domestic market. And on the other hand, the expansion of the state and its encouragement of internal capitalist transformation weakened the control of the domestic elites over the state apparatus and initiated processes of subordinate class formation that would lead to the collapse of the oligarchic order in the 1920s.

The response of the propertied class to the revolutionizing pressures exerted by capitalist transformation was a twofold restorationist pushback. The first move by the landlords and other conservative factions was to strengthen their grip over the state by reining in the power of the executive and solidifying their control over the congress. As the state assumed a greater role in the distribution of economic resources, presidential power became an ever clearer threat to established interests. Indeed, as shall be argued below, the threat posed by Balmaceda was not that he favoured industrialization or public investment but rather that he reawakened the threat of a strong, independent presidency that could threaten the political and economic power of the oligarchy (Barros & Vergara, 1991, 108-109). Both the ‘economic’ and the ‘political’ explanations of uprising against Balmaceda are therefore correct: the threat of a centralized presidency (political explanation) was so real because of the possibility that reformist elements might use it to weaken the grip of the oligarchy over the developmental trajectory of the nation (economic explanation).

It is no surprise, then, that the defeat of Balmaceda was followed immediately by legislation to weaken the presidency: specifically, Law 2,451 which prohibited congressmen from holding paid positions in the state, designed to reduce the patronage power of the president in Congress; and Law 2,960, which increased the autonomy of local authorities and landlords (Atria, 1991, 223). Law 2,960, the “Law of Municipal Autonomy”, in particular was crucial, because it established municipalities that were not only responsible for items such as education and a standing police force, but also for the enrollment of voters and the supervision of elections. Although the ultimate mechanism for landlord control over the rural vote was the threat of expulsion of the *inquilinos*, by the early twentieth century vote buying had become the simplest means (B. Loveman, 1973, 93). As Stevenson wrote of the period, “Bribery had become so prevalent that when by common consent the party leaders tried to stop it or at least reduce the

price of votes, they were greeted with mob violence; the people had come to believe that being paid for one's vote was a citizen's right. Chile had won her electoral liberty, it is true, but in practice it meant nothing more than 'liberty' to indulge in fraud and bribery" (1942, 20).

The carrot of bribery, moreover, was always backed by the force of the state: "...there was an iron hand beneath the velvet glove...preventing any movements that might disturb the social order" (McBride, 1936, 162). In spite of the existence of a national police force under the jurisdiction of the Ministry of the Interior, the Law of Municipal Autonomy provided for the maintenance of parallel police forces at the local level until the 1920s, effectively under the control of the local landlords, as were the municipal courts. As Loveman observed, "The police served, in effect, as agents of rural proprietors", receiving food, lodging, and other perquisites, with rural police posts often located within hacienda territory and municipal police financed primarily by land taxes (B. Loveman, 1973, 69-70). In practice, then, Law 2,960 greatly strengthened the hands of local landlords not only viz-a-viz the executive but also rural labour, and landlords continued to control the congress, with large estate owners comprising 70% of the senators in 1874 and 64% in 1918 (A. Bauer, 1995, 33). The continued political power of the landlords ensured the rightist veto until the 1950s and more immediately set the stage for the parliamentary period characterized by corruption and the inefficient management of the central government (A. Bauer, 1995, 30; Blakemore, 1993, 57-58; K. L. Remmer, 1984, 70-71).

Landlords used their congressional power to reduce their taxation burden and ensure public revenues were distributed to their benefit. The War of the Pacific had necessitated the first taxation of propertied income in Chilean history. Over the next three decades, however, nitrate revenues were used to whittle away at income taxes so that by 1913, taxes on land, capital, and income had fallen from 18% of government revenue in 1880 to practically nothing, and internal taxes had declined to just 5% of total taxation (Hurtado Ruiz-Tagle, 1988, 38-39; B. Loveman,

2001, 173). At the same time as internal taxes were slashed, nitrate revenues were directed towards landlords by means of infrastructure spending and credit. The National Mortgage Bank (Caja de Crédito Hipotecario) was used primarily to channel public resources to landlords, as land was the only collateral that could be used to guarantee a loan, ostensibly to improve the productivity of their agricultural operations, but more often than not to support investments in other sectors of the economy and conspicuous consumption (Ratcliff, 1973, 106; Wright, 1982, 12-13). As a result of falling domestic taxes and rapidly rising spending, state activities came increasingly to be financed by extraordinary revenues (foreign and domestic loans, sale of gold), which rose from 5% of total state revenues in 1865 to 20% between 1865 and 1924 (M. Mamalakis, 1989, 194), and public external debt as a percentage of GDP rose from 11.3% in 1880 to 24.2% by 1914 (Braun et al., 2000).

The second strategy pursued by landlords was the strengthening of lobbying efforts to gain policies favourable to sectoral interests. While lobbying efforts remained relatively modest and more directed to personal appeals at the Club Hípico, social gatherings (*tertulias*) and through political parties (Wright, 1982, 21), the shift towards sectoral advocacy clearly emerged in this period, itself the result of two separate tendencies. First, as we saw earlier the SNA by the 1860s had become a “quasi-official Ministry of Agriculture”, providing invaluable services for the underdeveloped and weak state apparatus. By the 1890s, however, the rapid expansion of the state apparatus resulted in the assumption by the state of regulatory functions resulted in the growing assertiveness of state officials, many of whom were not from oligarchic families (P. W. Drake, 1978a, 90; Muñoz Delaunoy, 1991, 20-21). Second, the loss of external markets led local property owners to focus upon production for the domestic market and the diversification of their economic interests towards industry, supported by the founding of the Manufacturing Promotion Society (SOFOFA), whose history is worth examining briefly.

The origins and evolution of the SOFOFA are important because they speak to the question of who controlled industry in Chile and whether or not the expansion of industry implied the emergence of modernizing industrialists, the traditional liberal and Marxist counterpoint to the landed aristocracy. In 1883, the government asked the SNA to organize an assembly of all those interested in the issue of industrial expansion in Chile. Founded that same year, the SOFOFA was dominated not by the names of the industrialists that had developed prior to the 1880s, but rather by the landed aristocracy of the SNA. As Vargas writes in his history of the SOFOFA, the predominance of non-industrial interests is particularly noteworthy given the fact that “...by 1880 industrialists constituted already a distinct sector with its own profile” (Vargas, 1976, 8, 19). Instead of joining the SOFOFA, the existing industrialists channeled their efforts through societies such as the Industrial Society of Valparaíso, which advocated protections for the capital-goods sector and artisanal industrialists (Vargas, 1976, 7-8).

What the SOFOFA represented then was not the emergence or maturation of a new social stratum but rather the expansion into and fusion with industry by the oligarchic elite. This hypothesis is supported by conflicts between the SOFOFA and industrialists outside the organization over public policy. From its inception, the SOFOFA advocated for consumer-goods industries and the reduction of tariffs on raw materials and capital goods, thereby putting itself into conflict with the metallurgical sector that had arisen prior to the 1880s. Indeed, in its bulletin, the SOFOFA claimed to defend the “interest of industry in general” against “sectoral interests”, a veiled reference to capital-goods producers (SOFOFA, 1896, 248). The industrialists of the SOFOFA therefore dedicated much of their time to seeking measures “shielding them from foreign competition and facilitating the acquisition of raw materials” and other inputs (Vargas, 1976, 28). And rather than clash with agriculture, as one would expect from the traditional liberal

and Marxist narratives, SOFOFA worked quite closely with the SNA in the pursuit of common objectives.

Indeed, from the 1880s onward both the SNA and the SOFOFA mounted vigorous campaigns to protect domestic producers from foreign competition, going so far as to create the Center for Industry and Agriculture in 1897 to push jointly for tariff protection (Wright, 1982, 19). Complaining about plans to build a railway to import Argentine foodstuffs that would “displace Chilean products” (SNA, 1923b, 241), the SNA called to “nationalize agricultural production” by increasing state subsidies, protecting the domestic market from foreign competition, and providing support to export the agricultural surplus (1923c, 745). The lobbying efforts of the SNA and the SOFOFA were partially successful. The SNA succeeded in obtaining a cattle tax, which Balmaceda was able to forestall but that was reintroduced with industrial-protection measures in 1897 (Wright, 1982, 103). Although tariff reforms were still largely driven by fiscal concerns during the period, the SOFOFA was successful in securing greater effective protection in the reforms of 1897, 1916, and 1921, in addition to a change in procurement policies that favoured national industry (Kirsch, 1977, 134-138; Muñoz, 1968, 22-23; Vargas, 1976, 32).⁶

The rise of nitrates and the strategy of the propertied class to channel the burgeoning influence of the state to support production for the domestic market to compensate for the loss of foreign markets brought about significant transformations in the agricultural and industrial

⁶ While Bulmer-Thomas (2003) and Gómez-Galvarriato and Williamson (2009) are correct to note that inflation eroded the specific duties that prevailed in Latin America in the nineteenth and early-twentieth centuries, this was more than offset by the fact that the transportation revolution from the mid-nineteenth century onwards had less impact on the “natural protection” of Latin American manufacturers for three reasons: transportation reductions benefit low-value, high-volume exporters than high-value, low volume exporters; overseas freight costs represented a much more significant percentage of the Cost, Insurance and Freight (CIF) price for primary products than for manufactured goods; and transport costs into the interior were also generally high and thus had a protectionist effect (Coatsworth & Williamson, 2004, 227-228), to which one could add that many of the initial industries were in areas such as foodstuffs that are much more subject to local tastes and preferences than twentieth-century industries such as televisions and automobiles.

sectors. Facilitated by state protection and infrastructure to connect the domestic market, landlords diversified agricultural output towards basic staples (cereals, legumes and potatoes), livestock, and processed foodstuffs (50% of inputs for the food-processing industry came from Chilean producers), driven by the increased demand from urbanization and the nitrate fields (B. Loveman, 1976, 40-45; Robles-Ortiz, 2002, 30). The conquest of the southern frontier, moreover, resulted in a two-fold increase in land under cultivation (Sternberg, 1962, 30). Settlement of the indigenous lands to the south, however, replicated the basic agrarian structure of the Central Valley, as legislation discriminated against Chilean settlers in favour of Europeans, who were granted large tracts of land so that “Instead of creating a frontier yeomanry, government policy allowed the frontier territory to become another domain of the large hacienda. In imitation of the central valley model, political and economic elites carved out new manorial possessions upon which ex-squatters, landless peasants, and Indians became *inquilinos* or peons” (B. Loveman, 2001, 135). The turn towards production for the domestic market also represented the decision to forsake agricultural exports, as “...the total inflation-adjusted value of [agricultural] exports decreased” during the Nitrate Era (Robles-Ortiz, 2002, 88), in spite of the limited effect of nitrates on the real exchange rate. By the early 1900s, “Local demand, more than the international market, determined the trends in agricultural production” (Robles-Ortiz, 2002, 44).

From the early explanation of Chilean “economic inferiority” (Encina, 1912) to the structuralist explanation of “frustrated development” (Pinto, 1973) and the Marxist assault upon the “semi-feudal” aristocracy (Ramírez Necochea, 1969), critics have placed agricultural backwardness and the landed aristocracy at the center of explanations of underdevelopment in Chile. But an important capitalist modernization of agriculture did take place from the 1880s to the 1920s, even if it did not correspond to the conventional models based on the European

experience. Lenin identified two main types of bourgeois agrarian revolutions in response to the transportation revolution and the “Long Depression” of 1873-1896: the Prussian-landlord road and the American-farmer road (1929, 249). In Chile, the road to agrarian capitalism took a hybrid social form typical of uneven and combined development. On the one hand, Chilean landlords gradually began to advance the mechanization of agriculture and the proletarianization of rural labour, as did landlords on the Prussian road, but on the other hand, these processes of mechanization and proletarianization were highly incomplete and uneven, reflecting the pressures towards stagnation and the status quo, attributed by so many authors to the system of land tenure characteristic of Chile and the region. So what explains this partial transformation?

Because the competitive pressures from the world market were weak, the principal driver of changes in the technical and social relations of production in the countryside was the migration of labour. Unlike the serf of feudal Europe, *inquilino* labour was “free” labour and landlords had no means to coerce workers to remain on haciendas. As demand for workers in the nitrate fields of the north and the urban industries accelerated, greater numbers of rural labourers began to migrate away from the traditional agricultural and population center of the Central Valley. Landlords responded to labour shortages by capitalizing their farms: constructing irrigation canals, engaging in selective mechanization, particularly on farms producing wheat and other cereals that had greater labour requirements during the harvest season, and introducing new seed varieties, the result of which was an important improvement in agricultural labour productivity (Cariola & Sunkel, 1982, 112-114; Robles-Ortiz, 2009, 501-503). Capitalization and mechanization were in turn accompanied by a squeezing of the *inquilinos*, as the allotment of perquisites were reduced and labour requirements on the fields of the owner were increased, initiating the proletarianization of rural labourers (Robles-Ortiz, 2009, 513).

The processes of mechanization and proletarianization, however, were partial and uneven. One explanation for this partiality relies upon an economic argument: that the dominance of foreign trading companies in the importation of machinery meant the agricultural sector generally paid high prices for imported machinery, thus slowing the process of mechanization (Robles-Ortiz, 2002, 192-195). There is an alternative explanation, however, that is primarily political: landlords preferred resident labourers because they were more readily dominated. As Bauer contends, the cultural domination of the landlord, when backed by the threat of expulsion, made the resident labourer more susceptible to manipulation and control, to the economic and political advantage of the landlord (A. Bauer, 1992, 27). Because of the boom-and-bust cycle of nitrates, rural migrants would frequently return to rural areas during bust years, bringing with them the new attitudes towards labour organization and resistance that were developing in the nitrate fields (B. Loveman, 1976, 45-47; Robles-Ortiz, 2009, 522), and landlords soon learned to mistrust migrant workers. The primary importance of labour domination, moreover, was not economic but political, because landlords depended upon rural labourers as voters to maintain their control over congress and the executive. The need to control rural labourers in the cultural and political sense made resident workers preferable to migrant workers.

What emerged from the period was a hybrid system of increasingly proletarianized resident workers that was the expression of the revolutionary-restorationist dialectic of the passive revolution. Robles-Ortiz is correct that landlords moved increasingly towards forms of wage labour and proletarianization between 1880 and 1920, in contrast to the conventional stagnationist thesis (Robles-Ortiz, 2002; Robles-Ortiz, 2009), but they did so in such a way as to minimize the effect of modernization on their political control over the countryside. The shift towards a system of resident wage labourers as a hybrid form of capitalist modernization

therefore accounts not only for the evidence of the complaints about labour shortages and the cost of inquilinos in the bulletin of the SNA that drove mechanization, but also the discussions of the unreliability of migrant labour and the need to “root” (*arraigar*) workers on farms. The partial transformation of the Chilean countryside can only be explained by means of economic *and* political factors: on the one hand the response to the economic and demographic impulses of the nitrate fields and on the other hand the response to the political necessity of dominated rural workers as the backbone of the landlord political power.

Industry, for its part, likewise underwent an important transformation. The revisionist histories of Palma (1979) and Ortega (1981) clearly establish the existence of industry in Chile from the mid-nineteenth century onwards. While industry did not originate with the War of the Pacific and the Nitrate Era, however, its character was fundamentally transformed. On the one hand, the wave of industrialization that began in the 1880s represented neither the organic evolution of proto-industry nor the rise to prominence of an industrial capitalists as a new social class. Instead, the process of industrialization was controlled by an interconnected elite with investments across the economy. And on the other hand, the artisanal and producer-goods industries that developed prior to the 1880s were progressively displaced by larger-scale consumer-based manufacturing for the domestic market.

As Carmagnani observed, before the crisis of the 1870s industry was focussed primarily in agricultural and mineral processing, as a complementary sector, as evidenced by the positive correlation between industry and the macroeconomy (1998, 43). Industrial production for the domestic market revolved primarily around the provision of inputs to the railroads and other artisanal industrialists, and proto-industries in textiles and flour milling. Indeed, by 1850 there were 75,000 spinners and weavers at work in the provinces south of Santiago (A. Bauer, 1990, 233). Proto-industries, however, would decline dramatically, under the pressure first from the

transportation revolution of the second-half of the nineteenth century that made foreign goods more competitive, and then from the larger-scale domestic industrialists that emerged after 1880, facilitated by state investments in infrastructure that connected the national market. By 1895, for example, the number of spinners and weavers had fallen to just over 24,000, a decline of nearly 70% despite the fact that the population had increased by roughly the same percentage (A. Bauer, 1990, 233; Braun et al., 2000). As Bauer noted, “At this moment, then, when an independent Chile might have taken stronger steps toward the development of proto-industry...these activities were overwhelmed...which delayed the emergence of rural industry and provided no base for later industrialization” (1990, 235).

The industrial trajectory of the twentieth century therefore originated not from the 1850s and 1860s but rather from the nitrate era. The initial demand generated by war through the suspension of currency convertibility, increasing tariffs to provide revenue, and government consignment, was sustained by several demand and supply-side drivers: the expansive fiscal policy of the state; urbanization, which saw the urban population increase from 21.9% in 1865 to 48.2% by 1930; the extension of railroads that connected the domestic market and provided demand for local industries, such as caldrons, furnaces, and copper convertors; and the expansion of agricultural production for the domestic market, which saw the rise of food-processing industries (Kirsch, 1977, 5-13; Muñoz, 1968, 22-23). Industry thus expanded at a rate that far outpaced its pre-1880 trajectory. The period from 1895 to 1905 alone saw the founding of over 1,000 manufacturing establishments, more than 70% the total number of manufacturing concerns in existence prior to 1890 (G. Palma, 1979, 310-322). The findings of Palma are supported by the 1895 SOFOFA census, which showed that 76% of the industrial firms in the country had been founded within the previous fifteen years (Albert, 1988, 200).

What this data suggests, when combined with the conflicts between the SOFOFA and other industrial groups, is that industrialization during the period was not the outgrowth of proto-industries but the result of a move by the oligarchy into industry to shore up its economic foundations. This pattern of adaptation to and assimilation of industry by the traditional elites was not unique to Chile, moreover, and was identified by Cardoso as a pattern common to Latin America (1967, 109-110). The shift of the traditional elite into industry helps to explain the rapid expansion of capital-goods imports from the 1880s and the shift in the composition of industry towards non-durable consumer goods, which represented 80% of industrial output by 1914 (Albert, 1988, 200; Gómez-Galvarriato & Williamson, 2009, 676). As a result of the reduction of protection, lobbied actively for by the SOFOFA, the metalmachine sector that had grown up around the railroads and copper exports saw its share of industrial establishments fall steadily from the 1870s onwards, progressively replaced by foodstuffs, controlled by the landed oligarchy to process their primary production, which would become the largest industrial sector by early the twentieth century (Marshall R., 1988, 44).

The hypothesis of an oligarchically-controlled industrialization is further supported by the data on industrial concentration. The percentage of manufacturing establishments with five or more workers nearly doubled, so that large-scale factories controlled 89% of the tobacco sector and 70% of textiles by the 1930s, while the share of the labour force employed in manufacturing actually fell from 23.4% in 1875 to 15.7% by 1920, in spite of the explosion of new firms (G. Palma, 1979, 310-322). Estimates of industrial concentration support these findings, with the coefficient of industrial concentration reaching 0.64 by 1918 (Kirsch, 1977, 110-111), which helps to explain why capital-output ratios went stagnant after WWI (Muñoz, 1968, 61). Another telling piece of evidence is that despite the scarcity of credit facilities for industry as such, the SOFOFA never lobbied for measures to provide financial resources to industry (Vargas, 1976).

This is likely because most industrialists were financing their activities through the mortgage-credit bank or the merchant banking community, which further suggests their elite association. Finally, that these modern enterprises were controlled by landed elites is supported by the firm-level research of Kirsch, who found that: “Ownership and control of the larger and more successful enterprises was limited to a small number of individuals, a listing of whom would be almost indistinguishable from the membership rolls of the Club de la Unión...” (1977, 75).

The mechanism for the shift of the oligarchy into industrial production for the home market, however, was not simply economic but also through social and kinship networks, as part of the formation of a socially and economically-integrated elite. One of the key policy successes of the SOFOFA upon its foundation was the implementation of a discriminatory immigration policy designed to bring European immigrants with business and technical skills, for the purposes of industrial advancement. The data on population and the social origins of industrialists are telling here. As a result of SOFOFA lobbying, the foreign-born population rose from 1.2% in 1875 to 4.2% by 1907 (Braun et al., 2000). What is more interesting, however, is how many of these European immigrants became industrialists. Because of their links to the foreign-dominated financial and merchant communities, either as employees or through social ties, the access to financial resources, imported capital goods, and distribution networks made European immigrants uniquely positioned to take advantage of the emerging industrial opportunities (Kirsch, 1977, 79). And take advantage of these opportunities they did: by 1914, 50.3% of industrial establishments were owned by foreign-born residents, which is likely an underestimate of the role of European immigrants as it does not include the firms created by the children of first-generation immigrants (Albert, 1988, 272; Fernández, 1994).

The European industrialists were quickly assimilated into oligarchic networks. Facilitated by the abolition of primogeniture and entail, which encouraged subdivision and sale of

land, immigrant industrialists merged with landed families through the purchase of estates and ties of marriage (A. J. Bauer, 1975; Mattelart et al., 1970; Pike, 1963; K. L. Remmer, 1984, 40-42; Wright, 1982, 11-13). An examination of 207 directors of manufacturing corporations in the early-twentieth century found that 73% were directors of corporations in other areas, suggestive of the depth of the integration of industrialists with the traditional landed elites, given that the figure likely underestimates the interpenetration of elites as it does not consider investments or family connections (Kirsch, 1977, 73). Indeed, the ties between agriculture and industry were so tight that even by the 1960s, the Inter-American Committee on Agricultural Development (CIDA) observed that “Large agriculturalists are related socially and economically to the wholesalers and food-processing industry” (1966, 180). Pointing to the enormous political and economic influence of the inter-connected elite, and with the proviso that the economic linkages presented are greatly underestimated on account of the difficulties in tracing all the economic interests of individuals and the high probabilities of relations of kinship, a study of 46 directors and vice-presidents of the SNA prior to 1930 found that 70% had been congressmen, 60% ministers, 35% industrial, mining, and commercial executives (including five directors of the SOFOFA), and 30% bank directors (Mattelart et al., 1970, 95).

What emerged from the process of industrialization, therefore, was not the rise of a new social stratum, economically and socially independent of the landed aristocracy, but rather a ruling class tightly-integrated by economic and kinship ties, of the kind later confirmed by Zeitlin and Ratcliff in their exhaustively-researched study of the 1950s and 1960s (1988). This is not to say, to be clear, that there were no divisions between members of the ruling class. Indeed, divisions based in economic geography and interests (Central Valley landlords versus mining interests to the north and agriculturalists to the south), state institutions (the respective powers of the president and congress), or religion (the relationship between church and state) bubbled to the

surface over the course of the nineteenth and twentieth centuries. The point is not whether or not intra-elite antagonisms existed in Chile, as they most certainly did. Rather, the key point is the capacity of the ruling class to repair breaches (via reconciliation and amnesty laws) and the interconnectedness of kinship and economic relations that over time mitigated intra-ruling-class antagonism, so that conflicts between ruling sectors never resulted in a mobilization of the working class and the peasantry.

The economic and political transformations that initiated the passive-revolutionary dialectic likewise had a definitive impact not only in the process of ruling-class formation but also in the formation of subordinate social classes. As Cardoso and Faletto observed in their classic study, enclave economies tended to produce significant middle classes earlier than other Latin American countries, as a result of the rapid expansion of the state (1979, 112). The growth of a middle class based in the expansion of public education and the state bureaucracy, including and importantly the military, was one of the chief developments of the period. While the middle class is often presented as a progressive force, and has played this role, one must be mindful of the similarly conservative tendency of the middle class to associate with elites (in Chile the term *súptico* referred to the middle-class emulation of the elites in the period), reinforced by the education system and notions of racial hierarchy (Pike, 1963, 21).

The growing political consciousness of the middle class found its complex expression in the party system. At first, middle-class voters supported the Democratic Party, founded in 1887, which supported progressive reform but was prone to compromises with the oligarchy, representing the aforementioned conservative tendency. The assertiveness of the middle class would grow with the Radical Party, however, where the state-based middle class joined forces with southern agricultural producers and some northern mining interests, opposed to the dominance of the Central Valley landlords over the political and economic system. Formed in 1868 to advocate

secularism and public education, the Radical Party would move increasingly to the left, under pressure from the emergent working-class movements and parties, so that by 1906 the radical wing of the party had defeated the conservative wing and the middle-class became the main social basis, accounting for 70% of the party (Atria, 1991, 224). The true political significance of the middle class, however, would not become apparent until the crisis of 1919 and the role of organizations like the Union of Employees and the Teachers' Association of Chile in mass mobilizations that would shake the foundations of the nation and bring the oligarchic period to an end (P. W. Drake, 1978b, 43-44; Heise González, 1951, 75; K. L. Remmer, 1984, 140-145).

Mining and urban industry fuelled the migration of temporary labourers to the cities, the result of which was the gradual emergence of working-class organizations and the 'social question', related to the working and living conditions of labour and the rising price of food (Angell, 1972). While labour organization began with mutual benefit societies in 1850s, these reflected the artisanal nature of Chilean industry and were politically moderate. The radical tradition that would come to characterize the Chilean working class would emerge from the mining regions in the north, with the creation of brotherhoods (*mancomunales*) to agitate over wages and working conditions, and later from industrial workers organized into resistance societies espousing anarchism. The first wave of strikes began in the mining region of Tarapacá and would then spread to the industrial heartland of Santiago, where working-class agitation in 1905 resulted in the "Red Week" of protests over the price of beef, which was brutally suppressed, with over 300 killed and 1,000 injured, as was the infamous miners' strike in Iquique of 1907 (Albert, 1988, 274-275; Heise González, 1951, 92-93; Wright, 1982, 104).⁷ And

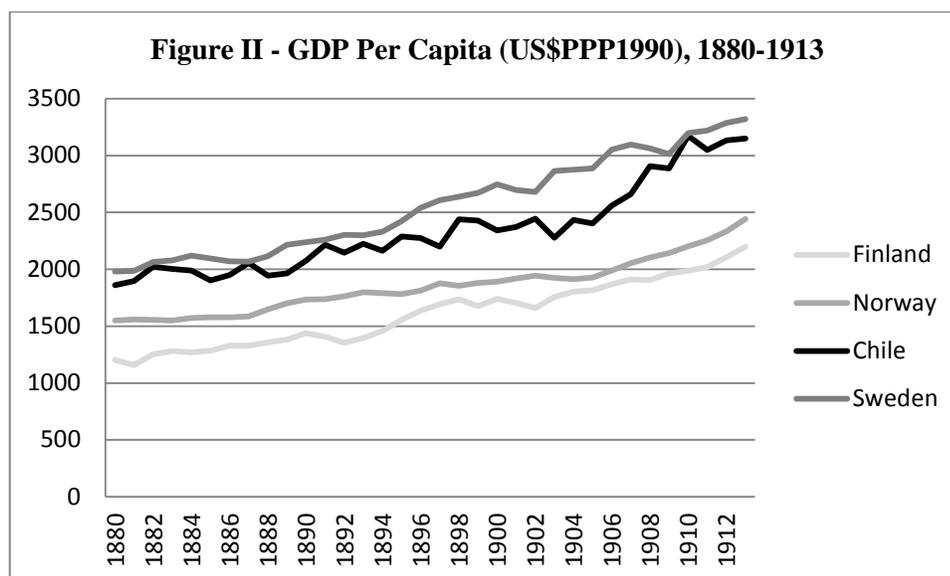
⁷ The "Red Week" protests were particularly eye-opening for the propertied sectors because the Santiago army garrison was away on manoeuvres at the time, so members of the elite Club de la Unión were given arms to support police efforts to quell the uprising.

contrary to popular conception, labour movements were not confined to urban spaces. In fact, the first strike of rural workers took place in 1919, reflecting the changing social relations of production in the countryside and the proletarianization of rural labour (Heise González, 1951, 106-107).

The rise of the large-scale factory and working-class protest coincided with the emergence of labour unions and labour-based political parties, beginning with the Worker's Federation of Chile (Gran Federación Obrera) in 1905, the Federation of Chilean Workers (Federación de Obreros Chilenos) in 1909, the Socialist Workers Party (Partido Obrero Socialista) in 1912, and the Communist Workers Party (Partido Obrero Comunista) in 1922. It was war, however, and the economic disruptions it wrought that proved the key catalyst for organized labour. By the end of 1914, unemployment had reached 44% in Santiago. When combined with falling nominal wages and rising inflation, the economic turmoil produced an acceleration of strike activity, in spite of the recovery after 1916. By 1917 the Federation of Chilean Workers (FOCH) was taken over by socialists and the radical labour movement found its organizational vehicle: "The war proved to be a watershed in the development of organized labour in Chile. It was out of this period that the labour movement emerged with the consciousness, political ideas, and organizations which were to define the character of working-class politics in the country for many years to come" (Albert, 1988, 277). The radicalization and solidification of working-class organization and consciousness during the years of World War I would set the stage for the first definitive challenge from below following the collapse of nitrate exports in 1919.

Class Rule, Passive Revolution, and Restricted Capitalist Development

To those who claim that mining is an enclave activity does not generate any significant economic development, the Chilean case provides evidence to the contrary. As Cariola and Sunkel found in their excellent study, “...the expansion of nitrate exports...far from constituting an isolated enclave that impeded the development of capitalism in Chile, was to the contrary a fundamental factor in its expansion” (1982, 71). Indeed, nitrates were responsible for most of the major stimuli towards capitalist transformation in the period: demographic change and state infrastructural spending that concentrated and connected an internal market, rural labour shortages that fomented agricultural mechanization, and foreign exchange for the importation of capital goods for industry. Between 1880 and 1914, the export boom increased national income, diversified the economy towards modern industry, and brought significant public investments in infrastructure and education, so that by the onset of World War I Chile had the most comprehensive education system in the region (Albert, 1988, 25). Chile’s aggregate performance during the period, however, was not only impressive with respect to Latin America.



Source: Elaborated from data in Braun et al. (2000).

As we can see from Figure II, by 1914 Chile was not only one of the most developed countries Latin America; it had achieved rate of growth and levels of per capita income comparable to the small, resource-exporting nations of Scandinavia.

The impressive macroeconomic performance of the period, however, masked the superficiality and unevenness of the underlying transformations. Nitrates generated enormous wealth, but brought little improvement to the lives of the vast majority of the Chilean population. The rapid expansion of the state bureaucracy affected the lives of urban and rural labourers little. Prior to 1920, there were no collective agreements or legal written contracts; child labour was common and unregulated; there was no social security or accident insurance for workers; and employers were not bound to pay wages in currency but could pay in kind or with tickets for the company store (Meller, 1998, 83). Despite increases in education and health expenditures, moreover, secondary-school coverage reached less than 15% of the population, while more than half of all deaths in 1913 were infants and children under five, and infant mortality rates in Chile exceeded those of Argentina and Mexico (B. Loveman, 2001, 174). In fact, the mortality rate actually rose from the 1870s to the 1910s, despite the rapid rise in national income (Braun et al., 2000).

Drawing from Moulian (2009, 20), there were two major and interconnected failures of the nitrate period: the failure to use the wealth generated by nitrates to develop a diversified and internationally-competitive economic base; and the failure to adjust to changes in the class structure produced by nitrate expansion and shift the form of class rule from coercion and repression towards hegemonic leadership and the incorporation of subordinate sectors. While the direct impacts of nitrates on the Chilean economy were few, the indirect impacts, via the expansion of the state apparatus and transformations in the class structure of the nation were enormous. Nitrates in many ways saved the Chilean economy from the crisis of the 1870s, but

they likewise set in motion a series of transformations, driven by the dialectic of revolution/restoration, that would result in the implosion of the oligarchic regime. The fall of nitrate exports after the end of World War I and the discovery of synthetic nitrates in Germany, which led to the collapse of Chile's global share of nitrates from over 90% in 1913 to 24% by 1929 (Felix, 1961b, 303), brought to the fore the 'social question' and the rise of the middle class to political prominence, the beginning of the end for the oligarchic period.

The question then becomes, if Chile experienced rapid increases in national income and important structural transformations of state and economy during the nitrate era, why were the processes of capitalist transformation and economic development so halting, partial, and uneven? Several explanations have been proffered, including two of the most controversial counterfactuals of the period. The first counterfactual, offered by Marcos Mamalakis, is that foreign control over the nitrate sector, which saw the British siphon off an estimated 7% of GDP, limited the nitrate surplus that could be reinvested domestically and thus restricted the process of structural transformation and economic development (1976, 56). The contention that full domestic ownership over nitrate fields would have resulted in a self-propelling transformation, however, is unconvincing for several reasons. First, it is not clear that Chilean capitalists would have had the capacity not only to develop the industry but more importantly market the products abroad, as the core financial and marketing apparatus was located in London (Monteón, 2003, 80; G. Palma, 1979, 266). Second, given the high propensity of the propertied class in Chile to consume, it is far from clear that private control over nitrate profits would have resulted in their being directed towards an expansion of the domestic economy, rather than consumed or invested abroad.

Third, and finally, given the low taxation levels of copper and silver exports prior to the 1870s, both of which were owned largely by Chilean capitalists, it seems reasonable to assume nitrate exports would not have been taxed at anywhere near the level they were had they been

owned solely by Chilean investors. Export taxes as a percentage of export volume rose dramatically with the initiation of foreign control, expanding from 2.9% in the 1860s to 30% by the 1890s (G. Palma, 2000b, 235). When you factor in the very weak forward and backward linkages of nitrates within the local economy, the capture of around 40% of the value of nitrate exports by the state and its investment in infrastructure and public-sector employment take on even greater significance. In fact, when you consider all these factors put together, it is not unreasonable to ask whether Chilean ownership of the nitrate sector would have left the country *worse off* than was the case under foreign ownership, particularly given the effect state-driven domestic demand had in mitigating Dutch-disease effects (see G. Palma, 2000b).

The second counterfactual is that advanced by Segall (1953) and Ramírez Necochea (1969), and articulated most famously by Zeitlin (1984): that Balmaceda represented the struggle of a national and developmental bourgeoisie and his defeat in the Civil War of 1891 blocked the emergence of an autocratic national developmental trajectory.⁸ The thesis is provocative and captures key dynamics of the civil wars of the second half of the nineteenth century; nevertheless, it will be contended the argument is overstated. First, Zeitlin is correct there were significant intra-elite tensions involving mining capitalists (copper, silver, coal) and industrialists (flour millers) that had emerged from the first export expansion, but he likely underestimates the degree to which these more ‘progressive’ capitalist elements were dependent upon British capital, the degree of elite interpenetration, and the influence of the landlords, bankers, and merchants in the industrial sector. Given this interpenetration of investments and families, it is not surprising that the major industrialists opposed Balmaceda, with the SOFOFA referring to his government as a “dictatorship” and refusing subsidies during his presidency (Kirsch, 1977, 104), and it is doubtful

⁸ It should be noted, that are important differences between these three works, for instance which economic interests supported Balmaceda and the much greater emphasis given by Zeitlin to domestic class configurations and opposition to Balmaceda in contradistinction to the more traditional Marxist emphasis upon the role of British capital and their local compradors.

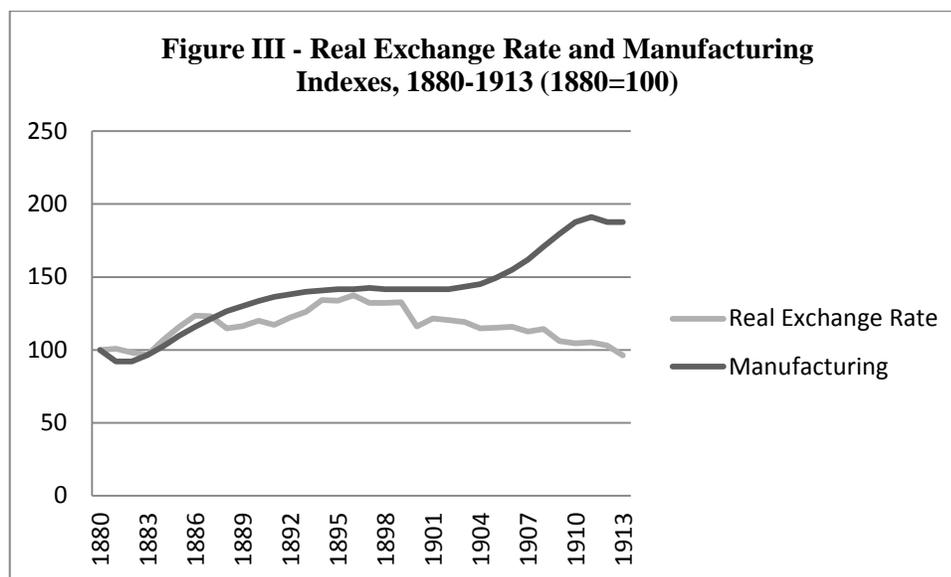
the social foundations existed to push through a bourgeois revolution that would have broken the power of the principal economic interests, even under the more authoritarian political structure Zeitlin believes a revolution from above would likely have necessitated.

Second, evidence for a revolutionary break in policy towards an autonomous capitalist trajectory is likewise mixed. Not only did Balmaceda continue many policies of the past, domestic industry continued to receive substantial state support and experienced rapid expansion after his defeat. Subsequent governments hardly capitulated to British nitrate investors, moreover, with President Montt (1891-1896) pursuing nitrate policies "...one can only describe as Balmacedist" (Blakemore, 1965, 418). Additionally, it is not clear whether the rise to power of copper and silver miners, who had demonstrated very little inclination to pay taxes to the state of any kind, would have provided the resources necessary to finance the kind of state developmentalism envisaged by Zeitlin, particularly given the very high levels of taxation levied on the British-controlled nitrate industry. As discussed above, it is dubious that Chilean control over nitrate resources would in fact have provided greater resources for state developmentalism.

The Balmaceda-as-bourgeois-revolutionary thesis suffers, to varying degrees, from the shortcomings of the class-succession thesis of Marxism and its postulation a 'national' or 'developmental' bourgeoisie, opposed by the 'backwards' landed and financial capitalists, as the bearers of a 'normal' or autocentric developmental pattern. I think a more accurate description of the Civil War of 1891 was that of a conflict over the centralization of state power in the hands of the presidency, which reflected the increasing concern of the dominant economic interests that the centralization of the state apparatus could be used to undermine their control. What Balmaceda represented, more than a progressive industrial bourgeoisie counterposed to the landlords and merchant bankers, was a modernizing segment of the elite that would grow in influence with the rise of the middle class and come to power in the figure of Arturo Alessandri in 1920. This is

why the decades after Balmaceda's defeat saw not the decline of national industry, which in fact benefitted substantially from state policy in the 1890s and enjoyed the most rapid expansion in its history, but rather the decentralization of power to the landlord-controlled congress. What the struggle represented was not the victory of the landlords, bankers, and foreign investors over domestic industry but the victory of a propertied class whose logic functioned primarily on the corporate level and who sought to constrain and control capitalist markets rather than exercise their class rule through them (Moulian & Bravo, 1981, 6-7).

Another explanation for the failure of the nitrate era to produce a more complete structural transformation and economic development is that the country suffered from Dutch disease: that the global monopoly over nitrates resulted in a currency appreciation that stifled the competitiveness of domestic industry during its infancy (Gómez-Galvarriato & Williamson, 2009, 688-689). To sustain this hypothesis, however, one would have to demonstrate that nitrates produced a significant appreciation in exchange rates. And yet, as we can see from Figure III, the Real Exchange Rate (RER) did not rise over the nitrate era while manufacturing output expanded during the rise of the RER and then again during its decline.



Source: Elaborated from data in Braun et al. (2000).

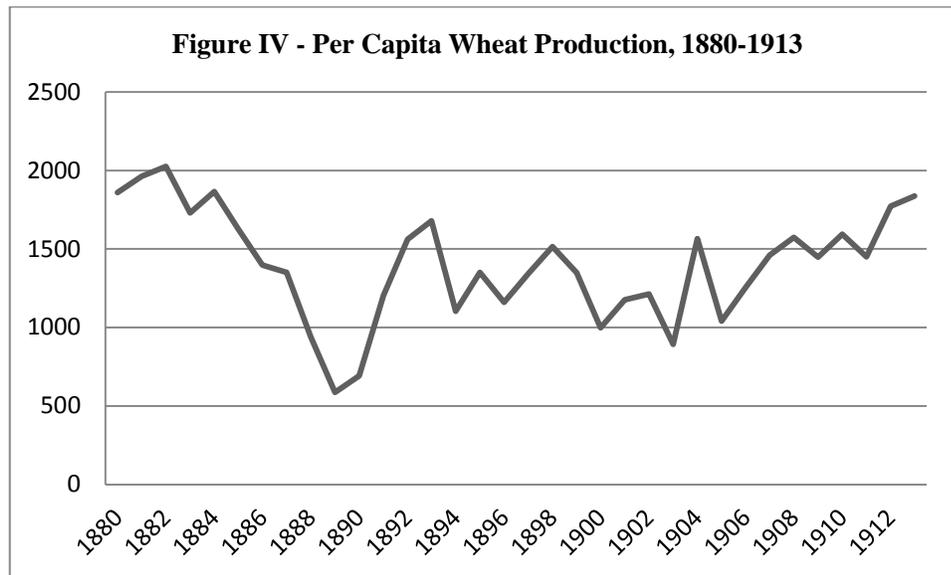
Rather than succumbing to the potentially deleterious effects of the explosion of nitrate exports, the Chilean state avoided Dutch disease by means of a fiscal policy that taxed exports and directed expenditure increasingly towards the domestic economy, that results of which were stable real exchange rate and therefore, given internal demand and tariff protection, the sustained expansion of national manufactures over the course of the period (G. Palma, 2000b, 254).

The problem with the explanations offered for the partial and uneven process of economic transformation and development in the period is that they too often assume the existence of fully-formed capitalist actors, which leads the authors to ask the wrong questions and arrive at the wrong answers. Instead of assuming the existence of a modernizing capitalist class and then focussing on why Chile deviated from a 'normal' developmental trajectory, I believe the explanation for the poor developmental performance can be found in the processes of class and state formation that were ensconced in the period and that in many ways established the driving forces and contours of Chilean development until the 1970s. Facing the loss of its exports markets in the 1870s and the foreign control over the nation's new and lucrative export industry, the reaction of the propertied sectors in Chile was inwards and defensive: the revolutionary pulses were met by a restorative pushback. In response to the pressures towards capitalist transformation emanating from the world market and the nitrate sector, property owners sought to contain and mitigate the external and internal capitalist stimuli by dramatically expanding the activities of the state. This explains the seemingly contradictory and simultaneous enlargement of the role of the state and the systematic weakening of executive authority. Indeed, the fundamentally defensive reaction to the crisis of 1870s is nowhere better evidenced than by the oligarchic opposition to Balmaceda that was the product not only of the absence of a positive developmental model and program of their own but also of the fear that executive authority could

be used to accelerate the process of capitalist transformation in a way that would ultimately weaken the dominant sectors.

Insulated from the competitive pressures of the world market, the landlords imposed steep taxes upon the foreign-owned nitrate mines in order to capture rents and reproduce their class rule. The statist strategy of the landlords required simultaneous moves to strengthen their direct control over the government at the same time as they lobbied for preferential policies from the increasingly bureaucratized and autonomous state apparatus. Thus in spite of urbanization and industrialization in the final quarter of the nineteenth century, the percentage of deputies and senators with large estates actually increased nearly 10% (A. Bauer, 1990, 244). Landlords were thus able to impose a 20% duty on Argentine beef in 1897, abolish the income and inheritance taxes, and direct abundant resources towards agriculture via cheap credit, the cost of which was eroded by the persistent inflation from the 1880s onwards (Kay, 1992b, 99; W. F. Sater, 1979, 98-99). As a result, the share of internal taxes as a percentage of total state revenue actually fell from 13.1% in 1875 to just 3.5% by 1910 (M. Mamalakis, 1989, 195).

While the revolutionizing gravitational pull of the nitrate industry did require landlords to modernize agricultural operations, the existence of state protection and abundant, cheap credit relieved the pressures upon landlords towards capitalist transformation. The movement towards capitalist relations of production was further muted by the continued preference for resident labour for the purposes of electoral manipulation, unlike in the classical Prussian model. Robles-Ortiz denies that agriculture performed poorly during the period, contending output kept up with population growth (2002). However, between 1880 and 1913 per capita wheat production was persistently and significantly below its 1880 level (Figure IV).



Source: Elaborated from data in Braun et al. (2000).

In addition, Robles-Ortiz fails to consider income growth, and real per capita income rose nearly 70% in the twenty-three years after 1880. Because agricultural output failed to keep up to local demand, it became an important source of inflation, and food-price inflation would become one of the issues that sparked the urban riots and unrest of 1919.

While Robles-Ortiz is correct to emphasize the real processes of mechanization in the agricultural sector, they were nevertheless highly partial and uneven. In fact, SNA itself would become very critical of the majority of landlords who failed to modernize operations, even as soaring food prices fuelled political unrest. In one edition of its bulletin, the SNA decried the deficient practices in regards to seed selection and fertilizer usage, which “...are common to virtually all our crops” (SNA, 1923a, 123-126). In a similar vein, the bulletin later railed against the “mania of asking for handouts” that “channels the public interest in the expansion of agricultural output into little more than private benefit”, and went on to criticize producers for “backwards systems of production rooted in the ridiculous prejudice against the adoption of modern machinery” (SNA, 1928, 71-72).

So why did agricultural output fail to keep up with domestic demand? Conditions were by-and-large favourable for a rapid expansion of the sector, particularly for large landowners, who had access to cheap credit via the Mortgage Credit Bank, a stable real exchange rate, minimal taxation, a protected domestic market, and inflation that saw agricultural prices and land values rise. The favourable conditions are further evidenced by data provided by the SNA in its bulletin that shows average profits in the agricultural sector increased between 1875 and 1920, which likely underestimates the profitability of the larger enterprises (SNA, 1920a, 186). I would contend that the agricultural sector failed to modernize more fully because it had no compelling reason to do so. Because they were protected from foreign competition by means of tariffs and domestic competition by means of the concentration of land, with few tax incentives, and with access to cheap credit to finance its other activities, it made more sense for agriculturalists to increase prices than to invest in expanding output. What is more, the process of agricultural modernization threatened to undermine their control over rural labour and thus the state apparatus that was the locus of their class reproduction. Again, the question to be asked is not why did landlords not modernize more, but why would they have?

The other plank of the statist strategy of class reproduction was the shift into industry. As Coatsworth and Williamson note, it is telling that the export boom and the state revenue generated thereby did not lead to a reduction in tariffs, which one would have expected were tariffs exclusively revenue-based (2004, 221-222). Unlike Coatsworth and Williamson, however, who explain the persistence of high tariffs by the shifting center of political gravity towards a coalition of urban interests, I argue tariffs remained high and indeed were rewritten upwards because the propertied class needed to diversify and secure a new economic base. Industrialization thus represented not the rise of revolutionary capitalist actors but rather the defensive reaction of the local property owners to shore up their weak economic foundations.

Indeed, the post-1880 industrialization was carried out at the expense of many of the industrialists who had grown up around the previous export expansion, and tariff reforms shifted the weight of protection increasingly towards finished goods and away from raw materials and capital goods (Kirsch, 1977, 134-138). Moreover, all initiatives for the creation of a modern capital-goods sector, such as the proposal to create an iron industry in 1890, came from state bureaucrats and were met with “a certain antagonism” by the SOFOFA and the interests it represented (Kirsch, 1977, 151).

A final note on a controversial topic of much interest: inflation. As Hirschman observed, Chile has long been the “locus classicus” of inflation in Latin America, with sustained and mounting inflationary pressures beginning in the final decades of the nineteenth century and only occasionally interrupted by brief periods of price stability (1965, 161). One of the most influential theses has been that of Fetter (1931), who linked persistent inflation to the interests of the landlords in reducing their real debt burdens. Mamalakis in turn found no concrete evidence to support these largely speculative claims (1976, 47-49). I concur with Mamalakis that inflation as the by-product of class-conscious manipulation of the political system – that is to say as a conscious economic strategy – is unconvincing. The view of endemic inflation advanced here is simpler: that inflation was the by-product of the basic structural characteristics of the transitional form of class rule that evolved in Chile from the 1880s to the 1970s. On the one hand, domestic producers relied upon significant levels of debt to finance production and consumption and were protected from foreign competition. They were therefore not only able to increase prices they also had a material interest in price increases, which reduced the value of their debts. And on the other hand, the rising demand for state services, when combined with the unwillingness and inability of state officials to impose direct forms of domestic taxation meant that state activity was

financed either by increasing the money supply or monetizing foreign debts, both of which generated persistent inflationary pressures (Barros & Vergara, 1991, 106-107).

This chapter has contended that the origins of twentieth-century Chile can be found not in the Great Depression of the 1930s but rather in the crisis of the 1870s. Although the country made impressive gains in terms of national income and infrastructure in the period from 1880 and 1920, in most ways the nitrate years represent an enormous opportunity lost. The rapid gains in national income generated by the global monopoly over a key strategic resource masked the structural weakness of a Chilean economy characterized by non-competitive industries, vast inequalities and exclusions, and a state apparatus dominated by a narrow oligarchy. This dissertation has sought to explain this outcome in terms of the specific processes of class and state formation that characterized the passive-revolutionary process in Chile between 1880 and 1920. Rather than use the resources generated by the nitrate fields of the Atacama Desert to lay the foundations for a new form of capitalist class rule the propertied sectors in Chile ended up retarding the revolutionizing pressures emerging from the world market and the nitrate fields of the north. Revolutionary pressures were pacified by a defensive oligarchy whose consciousness failed to extend beyond the corporate level and whose class rule was exercised not in the hegemonic realm of civil society but in the instrumental realm of political society.

But while the restorationist maneuvers of the dominant propertied sectors could slow the revolutionizing pressures of capitalist transformation, they could not stop them entirely. The rapid expansion of the state bureaucracy that was the price to be paid for access to the nitrate surplus spawned an increasingly assertive and politically-conscious middle class. The growth of nitrates and large-scale industry in turn hatched one of the region's largest and most radical working classes by the turn of the century. And while the parliamentary period decentralized state authority in such a way as to suffocate more radical reform, it also institutionalized the party

system and constituted the political space that not only facilitated the integration of the diverse interests of the propertied sectors but would eventually provide the institutional foundations for the incorporation of non-propertied sectors (Heise González, 1951, 57). The social forces of the passive-revolutionary dialectic drove the process of capitalist expansion forward, but in a faltering and uneven manner. The system remained stable so long as nitrates provided the foreign exchange and state revenues required to reproduce the defensive capitalist expansion, but as the non-propertied classes grew in number and became increasingly politically conscious, the nitrate crisis prompted by the end of World War I and the mass production of synthetics triggered an economic and political crisis. By 1919 the middle class was at the door, the workers were in the streets, and bourgeois leadership was missing in action.

CHAPTER III – THE LIMITS OF THE PASSIVE REVOLUTION, 1920-1970

The period from the 1930s to the end of the 1960s is commonly labelled the era of import-substitution industrialization and the “compromise state”, as part of the general periodization that divides Latin American history into externally and internally-oriented developmental models. According to this account, the collapse in exports during the Great Depression signalled the end of the previous developmental model organized around commodity exports and a coalition of landlords, urban merchants, and foreign capital. As governments grappled with the devastating effects of the global economic depression, the liberal state was gradually supplanted by the developmentalist state, consisting at first of ad hoc policy responses to the crisis that would later be theorized by Raúl Prebisch and the Economic Commission of Latin America (ECLA). The new developmental model abandoned the old export orientation for a strategy of import-substitution industrialization as the new engine of growth. The conventional narrative captures important aspects of the changes that took place, but the simplistic division of externally versus internally-oriented development models misses that much of the post-1930s political economy was set in place between 1880 and 1920. What is more, it is not the 1929 crisis that triggered the rise of import-substitution industrialization but the collapse of nitrates in 1919.

This supposed new developmental model was supported by the concept of the “compromise state”. Developed by Weffort (1966) in Brazil and adapted to the Chilean context by Moulian (1982), the compromise state refers to the role of the state as the organizer and arbiter of competing social interests in the context of hegemonic stalemate, characterized by a situation in which no social class can exercise its hegemony within civil society and the state steps in to promote industrialization and substantive democratization. From this original construction, however, a stronger corollary thesis has emerged to dominate the literature on Chile. This stronger thesis describes the compromise state not only as interest arbitration by a relatively

autonomous state but also as the product of a multi-class coalition that sustained state policy (Garretón, 1983; Montero, 1997; P. Silva, 1987; Velasco, 1994; Vergara, 1985). Boeninger thus writes of the “broad agreement – at the level of economic ideas and social consensus” that underwrote the compromise state (1997, 99), while Silva notes the “social coalition...[that] included industrialists, the managerial and professional middle classes, and urban labour” organized around mutual interests: “Industrialists benefitted from industrial policy, the middle classes and labor benefitted from social policies, and urban labor additionally benefitted from more favorable labor laws” (2007, 74).

According to the strong compromise-state thesis, the Radical Party served as the programmatic broker and moderator of the three-thirds party system, divided equally between left, center, and right, contrary to the hypothesis of Sartori that polarized pluralism will prevail where the “center of the system is occupied” (1976, 134). After the decline of oligarchic dominance over the political system in the 1920s, it was the ability of the Radicals to bring the left parties into coalition politics that served to moderate the poles of the party system, each of which was forced to temper its proposals in order to negotiate with the center and work towards a common agenda (Pinto, 1971, 83). The compromise state was therefore sealed with the election of the Popular Front in 1939 that was the “political expression of the Compromise State” built upon “an alliance between state managers, industrialists, and labour forged to drive national industrialization and social welfare” (Montero, 1997, 89). Although superficially appealing, it will be argued in this chapter that the compromise-state thesis is unable to explain the political economy of the period. Indeed, as we shall see the literature on the compromise state suffers from many of the same shortcomings as the neo-institutionalist literature on the developmental state.

Against the prevailing narrative of the compromise state, this chapter will contend the period from 1920 to 1970 can be more adequately understood through the concepts of the passive revolutionary dialectic of revolution-restoration within the context of an uneven and combined international order. The defensive reliance of the property owners upon the state apparatus to shore up their weak economic base within the world economy retarded the process of capitalist transformation and restricted the diffusion of the economic gains from reaching the broader population. From the 1930s the substitutionist middle class emerged to drive capitalist expansion forward via import-substitution industrialization, but found their efforts impeded by the integration of the propertied sectors into the state and the balkanization of the state apparatus into a series of fiefdoms controlled by narrow and defensive sectoral interests. Political stability was maintained only insofar as the left could be restricted to the role of junior partner in a series of unstable coalitions with the Radicals, achieved by preventing the working class from mobilizing rural labour into an autonomous left force. The electoral reform of 1958, however, broke landlord control over the rural vote and destabilized the political system as the countryside became the locus of class conflict and political polarization. The election of Eduardo Frei in 1964, with the support of the right, proved the last gasp of middle-class reformism as the government came under fire immediately from both left and right as it struggled to navigate the poles of revolution and restoration.

The passive-revolutionary dialectic was in turn shaped by the growing presence of the United States in the Chilean political economy. U.S. Latin-American policy after World War II was oriented towards the development of inter-American institutions and bilateral military agreements, within the context of the Cold War, and the defence of economic interests in the region. U.S. policy towards Chile prior to the late 1950s focussed on the use of assistance to foster the integration of Chile into the inter-American political and military network, limit the

growth of the Communist Party, and defend and advance the interests of U.S. investors, primarily in the mining sector (Sigmund, 1993, 13). The first two objectives came to a head in the government of Gonzalez Videla in 1947, when the U.S. pressed for the removal of Communist Party members from the cabinet, followed by the signing of the Inter-American Reciprocal Assistance Treaty and the Charter of the Organization of American States in 1948, effectively bringing Chile within the inter-american political and military networks of the United States (Muñoz & Portales, 1991, 26). The Central Intelligence Agency (CIA) likewise became active in Chile from the 1950s in numerous projects involving peasants, slum dwellers, and students in an effort to channel popular unrest away from leftist parties (Sigmund, 1993, 20)

The early 1960s produced a shift in the emphasis of U.S. foreign policy in Chile towards economic development and educational modernization in the second Eisenhower administration that culminated in the Alliance for Progress under President Kennedy. It should be noted, however, that economic assistance did not so much replace as complement military aid, which continued at very high and increasing levels throughout the 1960s. Assistance to Chile peaked during the Kennedy and Johnson administrations, following the Cuban Revolution, when Latin America – and Chile in particular – became a key theatre of the Cold War. Between 1962 and 1968, for example, Chile accounted for 13% of total U.S. military and economic assistance in the region and 18% of Eximbank and other loans, despite the fact that it accounted for around 3% of the Latin American population during the decade (Muñoz & Portales, 1991, 23). The reformist policies of the Alliance for Progress, particularly the advocacy of land reform, alienated the Chilean right, which perceived U.S. intervention in domestic policy as detrimental to their interests, and helped to splinter the Christian Democrats, whose left wing grew increasingly concerned over the reliance of the Frei government upon U.S. assistance and foreign investment, the latter of which flooded into advanced industrial sectors in the second half of the 1960s.

1920-1938 – The First Wave of the Passive Revolution: The Middle Class

The 1920s are typically understood as the definitive end of the extant developmental model, bookended at the beginning of the decade by the election of the reformer Arturo Alessandri, heralding the close of the period of oligarchic political rule (the parliamentary regime), and at the end of the decade by the Great Depression, which marked the demise of export-oriented development. It will be argued here, however, that the 1920s represented less a break and more an acceleration of tendencies that had shaped the Chilean political economy from the 1880s onwards. As was outlined in the previous chapter, the increasing autonomy of state institutions from the landed aristocracy dated from the conquest of the nitrate fields of Peru and Bolivia and their control by foreign investors, and state-sponsored industrialization for the domestic market was the principal economic strategy of economic elite by the turn-of-the-century. The 1920s did not introduce new elements so much as it reorganized roles and proportions, as the middle class entered the formal political system and state-sponsored industry surpassed mining and agriculture to become the driver of the national economy.

The definitive year was 1919, when the cessation of hostilities in World War I initiated a precipitous 75% fall in the real value of nitrate exports (Collier & Sater, 2004, 164). Combined with persistent food-price inflation, the declines in employment and state revenues occasioned by the collapse of nitrate exports resulted in an unprecedented wave of strikes and mass mobilizations. Encapsulated by Chile's abysmal child mortality rate, one of the highest in the hemisphere, protests initially revolved around measures to rein in the cost of food, such as price controls and the abolition of the controversial cattle tax, and were channeled through the Workers Assembly on National Nutrition (AOAN), set up by the FOCH in 1918. The AOAN was joined by middle-class organizations such as the Federation of the Middle Class, as rallies swelled to over 100,000 in Santiago by August 1919 and the AOAN released a comprehensive fifty-point

program on housing, wages, electoral reform, and even a people's militia (Albert, 1988, 285; Wright, 1982, 108). By the second half of 1919 the agitation for reform, now spreading into the countryside, could no longer be ignored.

In the context of widespread strikes, mass protests, and the declaration of a state of siege in the mining regions of the north, Arturo Alessandri ran in the 1920 presidential elections as the reform candidate of the Liberal Alliance, a loose coalition of Liberals, Radicals, and Democrats that reflected the concern of the upper and middle classes over the working-class uprisings. With his fiery reformist rhetoric and open appeals beyond the elite, Alessandri narrowly defeated the more conservative Luis Barros Borgoño on a platform of constitutional reforms to augment the power of the presidency and separate Church and State, the reinstatement of an income tax, and social and labour reforms. Over the next several years, however, Alessandri would be repeatedly blocked by the conservative congress, leading supporters of the president to propose he dissolve congress and declare a dictatorship in order to implement his reform agenda. As the stalemate deepened, the military ousted Alessandri and ordered the congress to pass his 'social laws', including the Labour Code. This set off a tumultuous period of three years that saw junior officers oust their senior counterparts from the executive in January 1925, the brief return of Alessandri and the promulgation of a new constitution, and the eventual assumption of the presidency and its conversion into a de facto dictatorship by a young military officer named Carlos Ibañez (Bergquist, 1986; DeShazo, 1983; Nunn, 1976).

Ibañez laid many of the foundations for the acceleration of import-substitution industrialization and more corporatist forms of political representation in the late 1920s, inspired by European fascism, and in particular the Mussolini regime, and with ample financial support from U.S. banks. Ibañez centralized authority into a de facto dictatorship, repressed opposition forces and radical labour organizations, sought to integrate capital and labour into state-led

corporatist institutions, and established numerous state institutions to promote domestic industrialization. His government, however, was toppled by the Great Depression of 1929 and by July 1931 Ibañez had abdicated the presidency and fled to Buenos Aires. Following an extraordinary convention of the upper and middle classes, organized by the major employer and middle-class associations, the four major parties – Conservatives, Liberals, Radicals, and Democrats – nominated the moderate Vice-President Juan Montero as their candidate, and Montero won in a landslide on December 4, 1931. Popular dissent continued to mount, however, as nitrate and copper exports remained in 1932 at nearly 90% below 1929 levels and the conservative policies of Montero did little to alleviate hardship and stimulate growth (P. W. Drake, 1978b, 94; Ellsworth, 1945, 8; Thomas, 1964, 203-205).

By April and May of 1932, the opposition to the government had formed into three camps: Arturo Merino, a former Air Force official linked to Alessandri; Carlos Dávila, linked to Ibañez; and Eugenio Matte, who drew his base from workers and parts of the middle classes. In spite of their differences, Dávila and Matte, with the support of Colonel Marmaduke Grove, overthrew the government on June 4, 1932 and declared the Socialist Republic, whose main legacy was the decree of several laws that expanded the power of the presidency and would later be used by Allende to implement his agenda in the face of congressional opposition. The Socialist Republic represented another in a series of movements and moments that sought to break the pattern of frustrated transition to capitalist modernity, but which ultimately lacked any real social basis – even the Communist Party of Chile decried it as “militarist” – and thus fell apart after only one hundred days (see Thomas, 1964 for an account of the political machinations of the period). In an attempt to end the chaos, General Bartolomé Blanche assumed provisional executive authority and scheduled a presidential election for October 1932 that Arturo Alessandri won handily, but in which the Socialist and Communist candidates combined to attract 20% of

the voters, laying the foundations for the political rise of organized labour by the end of the decade.

The second Alessandri administration pursued a policy of transformismo that combined concessions to the middle class and repression of workers and peasants. Far from representing an emergent developmentalist coalition of the owners, middle class, and urban workers, Alessandri represented the patent incapacity of the owners to incorporate the working class into the political system and the attempt to draw the middle class away from a potential coalition with labour. Alessandri made clear overtures to the middle class, passing Law 6020 in 1937 that established a minimum indexed salary, unemployment fund, family allowance, and a salary increase of 70% for white-collar workers (J. P. Silva, 2006, 87), while continuing to repress urban workers harshly and suspending indefinitely the provisions of the 1931 Labour Code that permitted rural unionization. The more conservative tone of the second Alessandri administration, however, forced the Radicals to withdraw their support and move closer towards a coalition with the left, with the Communist Party calling for a Popular Front (following the 1935 endorsement of the Comintern), followed by the Socialists and the Communists joining forces to create the Confederation of Chilean Workers (CTCh) the same year (P. W. Drake, 1978b).

The period also witnessed the replacement of Britain and Germany by the United States as the hegemonic power in the region and in Chile. After the Civil War of 1891, Chilean investors opted to invest in shares of nitrate firms, on account of the high rates of return, rather than engage the more arduous process of developing the country's substantial but low-grade copper reserves. The door was thus left open for U.S. investors, such as the Guggenheims, to invest in Chilean copper and by the late 1920s, 90% of Chilean copper production was owned by U.S. investors (Sigmund, 1993, 11). In addition to copper, the economic interruptions and shifting global balance of economic power that resulted from World War I provided the window

for the United States to become the dominant foreign economic power in Chile. Over the course of World War I, the United States increased its trade and investment presence in Chile so that by 1918 it was purchasing 64% of Chilean exports and providing 47% of Chilean imports, figures that would decline to about a third of total Chilean trade by the 1920s with the normalization of global economic activity (W. F. Sater, 1990, 87-88; Sigmund, 1993, 11). The global political and economic instability of the period, however, meant that Latin America for the most part did not register as a high priority in U.S. foreign-policy circles and Chilean-U.S. relations during this period revolved primarily around the treatment of U.S.-owned copper firms, with tensions periodically bubbling up and then subsiding over rates of taxation.

State, Economy, and Class in the Decades of Crisis

The period from 1919 to 1939 did not represent a clear break from the previous processes of state formation; instead, there was a substantial internal reorganization in the structure of the state and a rapid expansion of its functions. On the one hand, the reformist elements of the military were able to push through the Constitution of 1925 that reduced the electoral influence of the landlords and placed the middle class in the role of broker of the new political order; in fact, the candidate of the right would not win a presidential election again until 1958 (Wright, 1982, 30). The new constitution increased the power of the presidency viz-a-viz the congress, as the latter lost many of its legislative weapons, such as control over cabinet selections, the authority to prevent tax collection, and the validation of election results, which was transferred to an independent tribunal. The new constitution, moreover, granted the president extraordinary budgetary power, with the role of congress restricted to approval of the budget proposed by the president, itself a weak bargaining chip given that congress had a limited time frame to negotiate

and approve the budget of the president before it would pass automatically (Heise González, 1951, 31-34).

One must be careful, however, not to overstate the power of the presidency in the new constitutional framework. As we shall see, the inability of presidents to advance their agenda and the need to centralize authority further in the hands of the presidency would become persistent political themes from the 1950s until the military coup of 1973. For one, congress did retain significant powers that ought not to be trivialized, including the ability to override presidential vetoes, the responsibility to confirm the elected president among the two highest vote getters where the victor won by a plurality, the separation of presidential and congressional election cycles to reduce the probability that a president would enter office in control of the legislative branch, the proportional-representation electoral system that favoured party fragmentation and overrepresented rural districts, and congressional power over the creation and composition of state agencies (B. Loveman, 2001, 182; Tapia-Videla, 1977, 468-469). This last point relates to the second major process of state formation that restricted the power of presidency: the continued expansion of bureaucratic authority and discretion. From the 1920s the centre of gravity began to shift not only from congress to the executive but from both the branches of government towards semi-autonomous public agencies in a wide range of areas from credit distribution and price controls to labour relations and foreign exchange management. Because the statutes under which most of these public agencies functioned were very broad, the members of the decision-making committees had wide discretion and scope for policy-making (Carrière, 1981, 67).

The internal reorganization of the state bureaucracy in turn shaped the rapid expansion in the role of the state from the 1920s. Although the conventional periodization traces the policies of import-substitution industrialization (ISI) to the Great Depression, in Chile it is 1919 and not 1929 that marked the origins of ISI. Before 1919, industrial promotion was largely indirect and

ad hoc, consisting of tariffs shaped more by fiscal than protectionist intent, investment in infrastructure to connect the internal market, and specific privileges granted to firms or sectors in the form of duties and state-procurement contracts. By the end of the 1920s, however, the basic infrastructure of a developmental state had been erected: the tariff reform of 1928 was the first explicitly protectionist tariff and it was accompanied by the construction of an institutional apparatus designed to strengthen the capacity of state managers to regulate the macroeconomy and engage in the direct promotion of industry, including the establishment of the Central Bank and the Superintendency of Banks in 1925, the Industrial Credit Bank in 1926, the Ministry of Development in 1927 (which housed the new Department of Industry), and the Industrial Credit Institute in 1928 (Kirsch, 1977, 150; G. Palma, 2000a, 49-50). In addition to the dramatic expansion of their role in the provision of credit for economic modernization, state institutions began to invest public funds directly in industrial enterprises, such as the National Press, the Factories and Armouries of the Army, and the Industrial Steel Company.

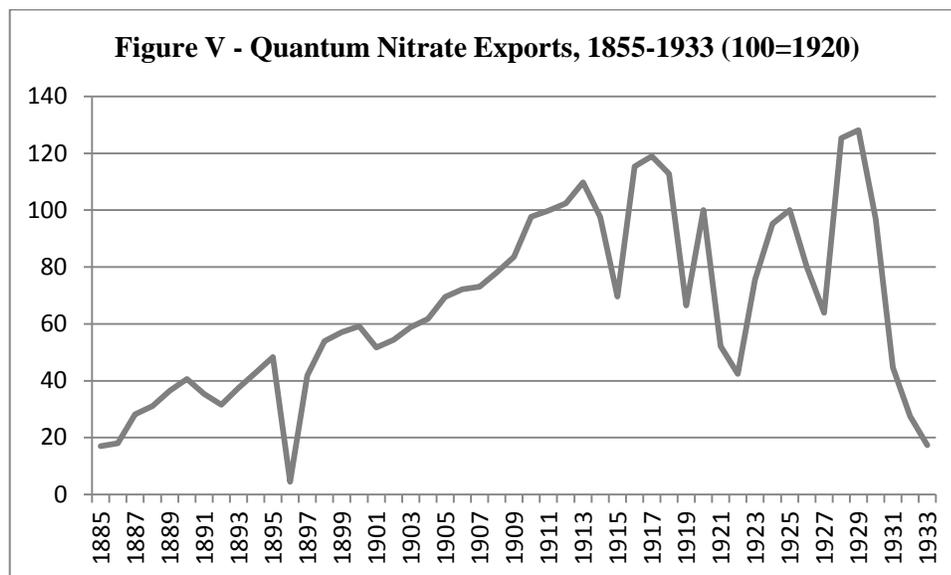
The expanding role of the state in promoting economic modernization was continued in the 1930s as governments grappled with the catastrophic social and economic effects of the Great Depression. As was the case with most countries in the region, Chile reacted slowly to the effects of the Depression, in part due to the continued influence of orthodox economic thought and in part due to the memory of inflation produced by the “inconvertibility paper standard” of the late-19th century. As the crisis deepened, however, governments began to respond with ad hoc policy measures, such as devaluation and multiple exchange rates (which then became a source of state revenue), tariff increases and quantitative controls, and fiscal and monetary stimulus, in addition to new state agencies such as the Exchange Control Commission, which was granted extraordinary control over imports and exports. Despite the negative revenue effects of two economic crises, government expenditures rose 7.7% per annum and employment in the central

government nearly doubled from approximately 27,000 in 1919 to 45,000 by 1939 (Cariola & Sunkel, 1982, 141; Correa Sutil, 2004, 153). As the economy began to recover, moreover, inflation picked up again, and the General Commissariat of Subsistence and Prices was established in 1932 during the 'Socialist Republic' with a wide range of powers not only to set prices but also to expropriate agricultural lands and industrial firms producing articles of "prime necessity" (Díaz Alejandro, 1984, 23-33; Ellsworth, 1945, 75-76).

Although industrial and agricultural owners welcomed the enhanced role of the state in the provision of credit and market protection, they were fiercely opposed to the extension of state influence into other areas, particularly in the countryside. The issues of land reform and rural labour relations had been simmering since the early twentieth century, but landlords were successful in impeding the establishment of any legal foundations for the expansion of state influence into the countryside, as evidenced by the fact that the "Social Laws" of 1924, which laid the groundwork for the state regulation of labour relations, systematically excluded rural workers. State intervention would finally break through the wall of landlord power in the countryside, however, under the guidance of Ibañez, who passed two key pieces of legislation that would break the landlord monopoly over power in rural spaces: Law 4496 in 1928, which declared land a "public utility" and established the Agricultural Colonization Bank with expropriation powers to purchase unused lands for landless families; and the Labour Code of 1931, which extended labour laws to the rural workers (B. Loveman, 1973, 56; Wright, 1982, 131). Although Alessandri never used the expropriation powers of the bank and suspended the extension of the labour regulations to rural workers, the period established the principle of state regulation over the countryside that would play a central role in national politics from the Popular Front onwards. What is more, the extension of state authority into the dominions of landlords

made property owners increasingly wary of the threat posed by the expansion of state influence in the national economy and labour relations.

The economics of the 1920s and 1930s was very much a tale of two interrelated crises. The first is the crisis triggered by the sharp decline in nitrate exports in 1919. Although nitrate exports would recover and even reach historical highs by the end of the 1920s, it is the volatility of exports that augured the shift in developmental strategy towards industry as the principal economic driver. As we can see in Figure V, there is a stable and secular rise in quantum nitrate exports from the mid-1880s until 1919, with the exception of falls in 1896, when the government briefly suspended the convertibility of the peso, and 1914 with the onset of World War I. What we see from 1919, however, is a marked rise in the volatility of export levels, until the final collapse of nitrates in 1929.



Source: Elaborated from data in Braun et al. (2000).

It was the sharp increase in the volatility of Chile's principal export in the 1920s that pushed the Ibañez administration to put into place the institutional architecture for the promotion of economic modernization. The Great Depression, therefore, was not the origins of import-substitution industrialization but rather the definitive nail in the coffin for the mining-led

expansion of the previous five decades. What distinguished the 1930s from the 1920s, moreover, was not only the severity but also the permanence of the collapse in exports. According to the League of Nations, Chile was the country most affected by the Great Depression in the world, with the gold value of its exports falling 88% between 1929 and 1932 and its capacity to import only recovering its 1929 level in 1966 (Braun et al., 2000, 148-149; Cárdenas et al., 2000, 14; Hirschman, 1965, 79). Because the country had already built an important industrial base prior to the 1920s, however, it was able to transition towards an industrialization-led model that would allow Chile to rebound quickly from the shock of the Great Depression, with GDP recovering quickly from its 1932 trough and surpassing its 1929 level by 1937, led by the growth of industry and government expenditures.

The rise of industry in turn begot a significant internal transformation of the sector towards the substitution of previously imported goods. As Palma found, between 1914 and 1935 Chilean industry shifted unmistakably towards consumer durable, intermediate, and capital goods and away from current consumption goods, with the former group increasing its share of industrial output from 17.4% to 37.4% while the latter fell from 82.6% to 62.6% (2000a, 51). Whereas industry prior to the 1920s was organized primarily around the processing of agricultural production, the import substitution of consumer goods accounted for 43% of industrial expansion between 1914/5 and 1927 and another 73% between 1927 and 1937/8 (Muñoz, 1968, 82). Import substitution, in turn, was driven not by new investments but by the expansion of existing capacity, as is evidenced by the decline in the capital-labour ratio and the labour productivity of industry, which fell 1.3% and 0.4% per annum respectively between 1914 and 1938, in stark contrast to their increases of 4.5% and 2.5% per year between 1938 and 1961 (Muñoz, 1968, 99-100). The early stages of ISI in the 1920s and 1930s represented not a fundamental break but rather the fuller utilization of the industrial capacity built up between 1880 and 1914. By the 1930s

industry was the unquestioned motor of the national economy, growing at twice the rate of agriculture and triple the rate of mining (Braun et al., 2000).

The modernization of industry and its conversion into driver of the national economy bolstered the size and organization of the labour movement. As large-scale factories ramped up production to meet the increased demand generated by the decline of imports, industry became increasingly centralized and more and more workers found themselves employed in modern, large-scale factories (Monteón, 1998, 119). Following the failed attempt by Ibañez to integrate urban labour into the state in 1929 through the Republican Confederation for Employee and Worker Civic Action, the persistent repression and harassment of the labour movement throughout the 1920s and 1930s, including the use of assassinations and exile, and the state supervision of the internal affairs of unions written into the Labor Code of 1931, served to drive urban workers into the hands of the left political parties. The Communist Party (PC), formed in 1921, and the Socialist Party (PS), formed in 1933, thus became the main political vehicles for the working class and together helped to unify the union movement into the CTCh in 1936 and seek alliances with the middle class via the Popular Front. By 1940, the CTCh represented 150,000 urban workers and the PC and PS combined commanded nearly 25% of the popular vote (P. W. Drake, 1978b).

The threat from below did not simply emerge from urban areas but importantly from the rural sector as well. As argued in the previous chapter, the period between 1880 and 1920 witnessed a significant if partial process of capitalist transformation in the countryside. When combined with the appalling conditions under which rural workers toiled, where wages were half those of industry and there was no state supervision of working and living conditions (Monteón, 1998, 173), the proletarianization of rural labour created conditions ripe for unrest. Because labour mobilization in the mining and industrial centers had been underway for decades by the

1920s, the 1919 crisis triggered the organization of rural labour into unions by nitrate workers returning from the north and unemployed factory workers migrating back to the countryside (Wright, 1982, 149). In 1921, the FOCH established the Federal Council of Agricultural Workers and that same year the first strike of rural workers took place in Culiprán, in which workers demanded higher wages, improved housing conditions, and the right to vote freely (Robles-Ortiz, 2009, 521). By 1935, Socialist Representative Emilio Zapata was organizing rural workers on a national scale, in open defiance of landlords and the Alessandri government (B. Loveman, 1992, 60).

It is no surprise, given the role of rural labour as the backbone of landlord and conservative political power, that both urban workers and landlords perceived the rural labour force as the key battleground from the 1920s onwards, with the SNA persistently warning against the extension of labour rights to rural workers and railing against “the threat of social legislation not sufficiently mature and adapted to our situation” (1920b, 234). As was the case for their urban counterparts, then, rural organizers were systematically repressed by both the Ibañez and Alessandri governments, and landlords responded by firing and blacklisting agitators, shifting production towards dairy farming, with its minimal labour requirements, and increasing the use of machinery. Rather than reversing the transformations under way in rural labour relations, however, the landlord responses simply exacerbated them by furthering the proletarianization of rural labour. In his classic study, Loveman observed “...the tendency for labor conflicts to induce changes in the mode of production...Whether by replacement workers with machinery or shifts from inquilinos to sharecroppers, landowners frequently changed production patterns to decrease dependence on workers and to eliminate labor leaders” (1973, 372). As the struggle in the countryside intensified, the proletarianization of rural labour accelerated, and by 1935 over 60%

of the rural labour force consisted of wage labourers, whether in the form of resident or external workers (A. Bauer, 1992, 22).

When combined with the collapse of the nitrate industry, the rise of the middle class and urban and rural labour forced property owners to accept two basic facts: (1) that they had lost their vice-like grip over the presidency and (2) that state institutions would expand into nearly all aspects of economic life (Cavarozzi, 1975, 110). In response to these new realities, the propertied class adopted two broadly restorationist approaches. The first was the extension of the memberships of the main peak associations and their consolidation behind what Wright called the “national upper class strategy” of support for limited reforms tailored towards compromise with middle-class parties and candidates (1982, 48). The SNA, in particular, sought quite aggressively to extend its membership into the south in order to defend its rural base by means of a hub-and-spokes system of influence, whereby regional councils could select members to sit on the national council. Although tensions remained between Central Valley landlords, who had more diversified economic interests and tended to see agrarian issues as one component of the broader upper-class interest, and southern landowners, who tended to hold more narrow, sectoral perspectives, the expansion into the south was largely successful and membership rose rapidly from 787 in 1918 to 2,000 in 1926, and then doubled in the 1930s, while the percentage of members from the Central Valley fell to under 50% (Carrière, 1981, 44; Wright, 1982, 56-57).

In addition to expanding their organizational reach into the south, the SNA spearheaded the formation of the Confederation for Production and Commerce (CPC) as the political vehicle of the property owners. While authors such as Correa Sutil have interpreted the formation of the CPC as indicative of the existence of a capitalist class with unified interests and a coherent developmental plan (2004, 53), it is the contention here that the CPC was fundamentally a defensive organization whose general ineffectiveness clearly confirms the absence of class

leadership from the owners of property. Indeed, the President of the SNA, Jaime Larraín, who would become the first President of the CPC in 1934, described the proposal for the creation of the CPC in the following terms: “The origins of this proposal obeys a natural and instinctive impulse – the defensive attitude one adopts when his life is endangered” (SNA, 1933, 613). An analysis of the political program of the CPC, moreover, reveals its fundamentally defensive character, as a reaction to the “restrictions of the markets of other countries” that “have forced in Chile a rapid growth of the manufacturing industry”, and its main policy proposal was not the aggressive expansion of industry into new sectors to engender rapid economic transformation but rather that “protection should be conceded only to established industries” (CPC, 1937, 2,12). The members of the CPC did concur on numerous matters, but these were largely defensive measures to restrict state intervention to the protection and subsidy of existing industries and the curtailment of social policy (P. W. Drake, 1978a, 102).

In addition to the consolidation of the defensive lobbying strategy, the second tactic adopted by the propertied class to the crisis of the oligarchic regime was the penetration of the burgeoning semi-autonomous agencies of the state. The attempt by Ibañez to utilize corporatist forms of representation to control employer and worker associations and head off unrest by making membership in centralized functional organizations compulsory largely failed, but his efforts did result in the integration of representatives from the major employer associations into a variety of semi-autonomous public agencies (Wright, 1982, 90-91). Moreover, as reformist parties such as the Radicals and the Socialists gained in electoral strength, property owners slowly began to shift their focus away from the realm of party politics towards integration into the increasingly byzantine state bureaucracy to advance their agenda, where the particulars of public policy were more and more being decided (P. W. Drake, 1978a, 101).

Between 1920 and 1940, then, the propertied class was thoroughly integrated into the state apparatus by means of semi-autonomous agencies. In fact, by the end of the 1930s the SNA alone had permanent representation on the directorates of twenty-nine state agencies and eighteen ad hoc committees, ranging from the Central Bank, the Exchange Control Commission, and the General Tariff Board to the Mortgage Credit Bank, Agricultural Colonization Board, and the Agricultural Export Board (Muñoz Delaunoy, 1991, 25-27; Wright, 1982, 92). The effects of this assimilation of the property owners into state agencies charged with interest intermediation and policy making, however, were mixed. On the one hand, the owners began to soften their outright public opposition to reform, as the bureaucratic system of representation ensured they were able to shape the particulars of the reform agenda in their favour. But on the other hand, the explosion of semi-autonomous agencies, each responsible for a myriad of policy items, served to balkanize the state bureaucracy and protect vested and sectoral interests, thus impeding the processes of capitalist-class formation and economic transformation. Ibañez had conceived of corporatist forms of representation as a means of imposing the unity of the state upon the divided and recalcitrant civil society. In the end, however, he succeeded merely in assimilating and reproducing the divisions of an underdeveloped civil society into the state apparatus.

With the property owners adopting a defensive posture in the face of working-class mobilization, the 1920s and 1930s saw the middle class transformed into the chief protagonists of the political system. From their beginnings as the junior partners of the Alessandri coalition, the coalescence of the political vision of the middle class during the Ibañez regime pushed the political system towards a stronger and more reformist state developmentalism. By the mid-1930s, the middle class and its chief electoral vehicle, the Radical Party, had grown powerful and assertive enough to break away from the right and make the first overtures to the working class and its political parties, the Socialists and Communists, which led to the formation of the Popular

Front in 1937. As opposed to some readings, however, what the Popular-Front strategy represented was not the entrance of the working class into a developmentalist coalition (Moulian, 2009, 30). On the contrary, the mere attempt to bring the working class into the formal system of political representation would usher in two decades of political stalemate and instability as the revolutionary pressures at work within the Chilean political economy threatened to destabilize the political order.

Class Rule and Economic Development: The Rise of Middle-Class Substitutionism

The election of Arturo Alessandri in 1920 and the subsequent concentration of power in the hands of Ibañez represented the crisis and demise of the oligarchic regime and the incorporation of the middle class into representative politics that had previously been dominated by elite interests. What made Alessandri significant was not his programmatic agenda, which was not particularly radical, but rather his recourse beyond the narrow propertied elite for popular support (Moulian & Torres, 1986, 9). Indeed, it was in no small part this appeal beyond the elite that led congress to oppose him so adamantly. What Alessandri represented was the recognition by modernizing elements of the economic elite, located primarily in the Liberal Party, of the need to forge alliances with the middle class in order to head off more radical reforms, or in Gramscian terms of the first wave of transformismo in the Chilean political system that was completed in the figure of Ibañez, under whose stewardship the pressures for reform would find their way into the state apparatus. Ultimately, however, neither Alessandri nor Ibañez was able to deal with the crisis adequately because the social movements they sought to lead were not yet ripe: the bulk of the property owners were not ready to support even a nominally reformist agenda in 1920, while the urban working class was not yet strong enough in the late 1920s to support the middle class in a more determined reformist campaign. What characterized the period was more a groping for

solutions in the context of the pressures emanating from an external economic crisis and a civil society not yet developed enough to support and to sustain the necessary reforms.

The account provided here of the political scene in the 1920s and 1930s contradicts the recent work of Sofía Correa Sutil, who contends the capitalist class had by the 1930s overcome its sectoral focus and developed a coherent class organization and developmental platform (2004). Correa Sutil, however, overstates her case. She cites the CPC as evidence of the supersession of sectoral interests (Correa Sutil, 2004, 37), but she fails to mention that the CPC was largely ineffectual and that most property owners sought to influence policy through sectoral associations such as the SNA and the SOFOFA. Moreover, Correa Sutil explains the emergence of a coherent capitalist class as the response to the rise of a left pole in the 1930s comprised of the Radicals, Socialists, and Communists. But the Radicals were themselves divided between a left and right pole and were never consistently part of the political left. It is true the candidate of the right would not win a presidential election from 1938 to 1958, but this paints a misleading portrayal of national politics. From 1938 to 1959 the Radicals shifted habitually from coalitions with one pole to the other, including within the same presidential administration, and it was Radical Presidents Aguirre Cerda and González Videla who suspended rural unionization and outlawed the Communist Party in order to suppress the left vote. Contrary to the claim of Correa Sutil, the political system prior to 1958 had not yet polarized, but rather would revolve around the axis of middle-class protagonism and whose stability would rest upon the suppression of the left vote.

The central role played by the Radicals, far from representing the threat around which the capitalists would overcome their sectoral logic, was unmistakable evidence of the unwillingness and inability of the large capitalist owners to exercise its leadership within civil society, retreating instead into a defensive politics of congressional obstructionism and policy-making via assimilation into semi-autonomous state agencies. The weak position of the property owners in

the world market was thus transposed into a restorationist posture in its domestic politics and relations with other social classes. From 1920 onwards, the right sought to use its electoral capacity (legal and otherwise) to defend its interests against the center and left that controlled the presidency, reflecting the absence of hegemony in the sense of the ability to articulate and universalize a developmental vision and program for the country to overcome the crisis of the 1920s and 1930s. Echoing Marx's analysis of the French bourgeoisie of the mid-nineteenth century, Moulian and Bravo astutely observed that "...to present themselves as the subjects of modernization would have brought the dominant classes face-to-face with their own destruction as a bloc of latifundistas, financial-commercial bourgeoisie, and industrial bourgeoisie dependent upon state protection" (Moulian & Bravo, 1981, 20-21). And much like the French bourgeoisie of Marx's time, Chilean capitalists retreated into a less complete, less developed, and less dangerous form of defensive rule.

As the property owners retreated into the state, over the course of the 1920s and 1930s the middle class became the main protagonist of national politics. The key figure in the transition of the middle class from junior to senior partner was Ibañez, who weakened the control of congress – and thus of the landlords – over policy making by strengthening the presidency, expanded the state bureaucracy that was the economic and political base of the middle class, and extended the domain of state regulation to include macroeconomic management and labour relations. One must be wary, however, of exaggerating the "progressive" character of Ibañez. For instance, although the Labour Code provided formal recognition of unions and the right to strike, it was highly paternalistic. Labour legislation imposed onerous requirements in order for a strike to be considered 'legal', so that illegal strikes far outnumbered legal ones in the 1930s and most strikes were met with intense repression; labour petitions and strikes were restricted to the plant level; and state bureaucrats exercised significant influence over the internal affairs and

financial dealings of labour unions (see Morris, 1966). The political objective of labour regulation was to fragment the labour movement and subject it to state tutelage, with the middle class brought into the political system and the working class controlled via minimum concessions and repression, as evidenced by the distinction between white collar (*empleado*) and blue collar (*obrero*) workers, with the former enjoying most of the legal benefits and the latter subjected to persistent violence and repression.

The entrance of the middle class into the political system as junior partner would ultimately fail because the property owners themselves lacked a coherent developmental project around which the middle class could be effectively mobilized. As a result, by the mid-1930s the Radicals had abandoned Alessandri and were making overtures to the leftist bloc of Socialists and Communists to push forward a more aggressive reformist agenda. As we shall see in the next section, however, middle-class substitutionism would not provide the answer to the contradictions that were rapidly spreading throughout Chilean society. As the role of the state in the economy expanded, its internal structure became increasingly disarticulated by the proliferation of semi-autonomous agencies, which rendered the implementation of a coherent developmental project near impossible. What is more, the assimilation of property owners into the state apparatus further retarded the process of capitalist-class formation, as sectoral interests consistently triumphed over the need to organize and project capitalist hegemony. The vicious circle set in motion in the 1880s was thereby accelerated from the 1920s, whereby the assimilation of the propertied owners into the state apparatus to defend their weak economic base undermined the capacity of state managers to construct a capitalists class capable of exercising its hegemony within civil society, which in turn undermined further the economic base of the nation in the world economy. The reforms of the 1920s and 1930s, therefore, would ultimately fail to resolve

the crisis of the Chilean political economy because they would fail to construct a hegemonic capitalist class.

1939-1958 – Second Wave of the Passive Revolution: The Industrial Working Class

The victory of the Popular Front in the presidential election of 1938 was a watershed in Chilean politics, but not for the reason generally cited. The popular front phenomenon did not usher in the era of the “compromise state”. As we shall see, the Front was an unstable coalition from the beginning, whose presidential candidate, Pedro Aguirre Cerda, had opposed the Popular Front strategy at the Radical Party convention in 1936. Although the middle class and urban labour shared a common agenda of public investment and social service provision, there was a significant split over the mobilization of rural labour. On the one hand, the urban working class wanted to mobilize rural workers to break the landlord control over the rural vote and end the rightist veto in congress. On the other hand, the mobilization of rural workers was perceived as a menace not only by the southern landlords from whom much of the Radical leadership came, but also by the urban middle class who perceived the mobilization of rural workers by urban labour unions tied to the Socialist and Communist Parties as a threat to their protagonism.

In addition, the Popular Front was vociferously opposed by both landlords and industrialists. Despite the fact that the 1938 electoral platform of Aguirre Cerda was relatively moderate, focussing on public investment and employment, urban working conditions and salaries, and the extension of social and labour legislation to agricultural workers, the opposition of the propertied sectors was unambiguous (Stevenson, 1942, 84-85). Although the right took a more subdued approach during the campaign, secure that bribery and landlord domination of the countryside would ensure victory for their candidate, foreshadowing the events of 1970, their reaction to the election result was telling, with conservative candidate Gustavo Ross and former

President Arturo Alessandri calling upon the military to intervene and nullify the electoral result. The call fell upon deaf ears, however, as the military immediately made clear their support for a peaceful transition of power to the new president (P. W. Drake, 1978b, 206; Monteón, 1998, 229). More than the advent of a new developmental coalition, the Popular Front represented the definitive rise of the substitutionist middle class as the driving force for capitalist transformation against the reactionary pole of capitalists that sought to contain and restrict the process.

The centerpiece of the Popular Front period was the formation of the Industrial Promotion Corporation (CORFO). The original plan was to use the Central Bank to modify the existing policies of economic promotion, organized around the credit-bank system dominated by the Agricultural Credit Bank, which accounted for 65% of the total funds dispersed by the credit bank system (Ellsworth, 1945, 45). All that would change, however, with the devastating earthquake that rocked south-central Chile in January of 1939. Aguirre Cerda used the reconstruction effort to justify the creation of the new agency and pressure the opposition parties to accept greater autonomy of the agency from congressional control. As Aguirre Cerda pressed to get CORFO past the congress, however, the Popular Front coalition was beginning to show cracks in the countryside. Agrarian reform had played key role in the 1938 election, with the Communists and Socialists favouring the mobilization of rural labour and the expropriation of haciendas to weaken the landlords, while the Radicals favoured the limited extension of labour rights to rural workers and the acceleration of the activities of the Agricultural Colonization Bank to buy up unutilized lands. Almost immediately after the ascension of Aguirre Cerda to the presidency, the rural schism within the Popular Front erupted as the Communist Party flanked into the countryside to expand their political base and weaken the Right. In 1939, the Labour Department registered 170 labour petitions from rural workers, compared to six in 1938, and some 250 rural unions were set up in the first three months of 1939 (Carrière, 1977, 39). Under

intense pressure from landlords across the country and members of his own party, Aguirre Cerda suspended rural unionization via the same mechanism used by Alessandri, a ‘temporary’ ban that would last until 1946.

The suspension of rural unionization in March of 1939 was accompanied by the formation of a mixed commission, composed of employer and worker representatives, to examine the issue and make recommendations. When it became clear, however, that landlords would block any substantive rural unionization, the Communists and Socialists again fanned into the countryside to agitate and organize (Wright, 1982, 161). The first public split occurred when Emilio Zapata, head of the Trotskyite “National Poor Peasants League”, broke with the government over its move to suspend rural unionization and called for an intensification of class struggle in the countryside and the end of the hacienda structure. Intra-left tensions similarly mounted, between and within the more moderate Socialist Party, whose radical faction split off to found the Socialist Workers Party, and between the Socialists and the more radical Communist Party, who continued to organize in the countryside, leading the Socialists to demand the expulsion of the Communists from the Popular Front. In early-1941, Aguirre Cerda reshuffled his cabinet to bolster his support within the Radical Party and intensified his repression of dissident movements in the countryside, but the coalition was in a state of disrepair. The Socialist Party soon left the government, followed by the CTCh and by mid-1941 Aguirre Cerda had lost the support of his own party. He would die in office later that year. As Loveman observed: “The heterogeneous electoral support that gave Aguirre Cerda the presidency, involved political contradictions incapable of resolution within the framework of formal democracy” (2001, 211). Indeed, much the same could be said of the so-called “compromise state”.

The breakdown of the Popular Front was followed by two Radical presidencies characterized by constant turmoil and oscillation between coalitions with the left and the right. In

the election of 1942, the Radical candidate Juan Antonio Ríos won with 55% of the popular vote. Despite his having spearheaded the Popular Front strategy within the Radical Party in the 1930s and being supported by the Communists in the 1942 election, Ríos shut out the Communists of his “Democratic Alliance” cabinet of Radicals, Socialists, Liberals, and Democrats. This ‘compromise’ cabinet, however, would fall apart within six months, divided over the application Law 7,200, passed in July 1942, which allowed the government to declare emergency zones where constitutional rights were limited and strike activity repressed. Ríos responded by shifting to the right and relying upon prominent industrialists and landlords in the Liberal Party, such as Arturo Alessandri and Benjamin Matte Larraín. The rightward drift of the Ríos government, however, would eventually cost him the support of his own party, who openly broke with Ríos and declared all members who served in his cabinet would be expelled from the party. Ríos suffered a fate eerily similar to that of Aguirre Cerda when he died before the end of his term, having lost the support not only of the coalition that elected him but of his own party (Collier & Sater, 2004, 245-246).

Ríos was succeeded by González Videla, whose term in office was characterized by even more extreme oscillations in coalitions and public policy. In the 1946 electoral campaign González Videla cultivated the support of the left, and the Communists in particular, by promising to rescind the suspension of rural unionization. Because he won with a plurality of 40%, however, González Videla was forced to make concessions to the Liberals in order to gain congressional confirmation, which consisted of three cabinet positions and the assurance not to submit legislation on rural unionization without prior consultation. The dependence of González Videla upon the Communist and Liberal Parties, in turn, led him to make to contradictory declarations in November of 1946: first, to appease the Liberals he declared he would leave the issue of rural unionization to the right-dominated congress; and second, to appease the

Communists González Videla repealed the administrative order of Aguirre Cerda suspending rural unionization. Bolstered by their three cabinet positions in the new government – two of which were Land and Colonization and Agriculture – and the pending resolution of the rural unionization issue by the conservative congress, the Communists immediately unleashed a wave of rural mobilizations that saw labour petitions in the countryside climb from 74 to 422 and agricultural worker strikes rise more than fourfold from 1945 to 1947, while 400 new rural unions were created in the months after the rescission of the administrative suspension (Carrière, 1977, 41).

The intensification of the class struggle in the countryside drove González Videla to the right in an attempt to maintain order. As the Communists intensified their organizational efforts, the president kicked the Communist Party members out of his cabinet and threw his weight behind the repressive Law 8,811 on rural unionization, which was signed into law in July of 1947. Law 8,811 placed an inordinate number of conditions for the formation of rural unions that made rural unionization for all intents and purposes impossible. As even a conservative analyst admitted, “Few observers outside the landowners and the rightist parties saw it [Law 8,811] as anything other than a sham” (Carrière, 1977, 49). The de facto prohibition of rural unionization, however, only drove the Communists to intensify their organizational efforts, and González Videla responded by passing Law 8,837 that recreated the “emergency zones” of Ríos. As the conflict continued to escalate and the Communists extended their mobilizations to urban areas, fomenting strikes in strategic industries like coal, the president took the dramatic step, under pressures from the United States, of supporting Law 8,987 in 1948, the infamous “Law for the Permanent Defence of Democracy” that banned the Communist Party, excluded its members from the labour movement, and setup zones of ‘banishment’ (B. Loveman, 2001, 215-219).

The sharp turn to the right was consecrated with the appointment of Jorge Alessandri, son of the former President Arturo Alessandri, former director of SOFOFA and President of the CPC, and head of one of the most powerful and influential industrial firms, the Paper and Carton Manufacturing Company (CMPC), to the position of Finance Minister. Under the stewardship of Alessandri, the government moved to cut public spending, impose wage and price controls, and postpone public-sector wage increases in an attempt to contain inflationary pressures. Labour uprisings in 1949, however, forced González Videla to retreat. In early 1950 he pushed Alessandri out, which cost him the support of the Liberal Party. As his rightist base collapsed, González Videla veered back towards the left by seeking the backing of the social Christians in the so-called “Sensibility Cabinet”, in which Carlos Vial assumed the finance post and immediately began to attack capitalists for using inflation to redistribute wealth away from labour and prepared a new legislative agenda that sought to increase wages above inflation, hike income taxes to expand public spending, and condition credit to output expansion (Correa Sutil, 2004, Chapter III).

As the 1952 presidential election loomed, the country was growing increasingly weary of unstable coalitions and ineffective and patronage-driven governments. In this context, Carlos Ibañez re-emerged to exploit popular discontent as an ‘anti-party’ candidate supported by a heterogeneous coalition that brought together the Agrarian Labour Party, Popular Socialists, a splinter group of the Socialist Party that favoured authoritarian politics to break the power of the elite, dissident Radicals, and members of what would become the Christian Democratic Party in 1957. Ibañez swept into office by appealing beyond the parties and directly to the people on an anti-parliamentarian and anti-oligarchic platform, promising institutional reforms to reduce the power of congress and policies to strengthen the hand of state managers in its dealings with the propertied sectors, including the creation of a State Bank and the reform of CORFO to expand the

influence of bureaucrats over investment decisions. Although Ibañez drew support from nearly every part of the country, as Cavarozzi observed, "...no organized sector of any politically significant social group was in the coalition that brought Ibañez to power" (1975, 215).

Ibañez began with a series of measures favourable to labour (family allowances for blue-collar workers, automatic adjustments for the public sector, a minimum wage in agriculture, and the National Health Service (NHS), in addition to the appointment of Socialist Clodomiro Almeyda as Minister of Labour. The president then enacted a series of measures to expand the autonomy of state institutions from property owners, including the creation of a State Bank, reform of the Central Bank to enhance its powers to control the distribution of credit by private banks, and the strengthening of the Superintendency of Supplies and Prices, the agency responsible for price controls (Cavarozzi, 1975, 227-230). The growth of state expenditures and the antagonism of the private sector, however, would result in inflation, which rose from 12% in 1952 to 84% by 1955 (Braun et al., 2000). As inflation accelerated and strike activity spiked, Ibañez moved to control labour, radicalized under the stewardship of the Ministry of Labour, by firing Almeyda and moving to expand his control over the recently created Chilean Workers Central (CUT), the result of which was the loss of the Popular Socialists. With inflation rising to politically unsustainable levels and his left support eroding, Ibañez veered right.

The move to the right was facilitated by the request for technical assistance from the U.S. consultancy firm Klein Saks in early 1955, headed by former Vice-President of Citi Bank Prescott Carter, by means of which Ibañez hoped to curry favour with the U.S. State Department for economic and political support (W. F. Sater, 1990, 128). There were four main elements stabilization program proposed by the Klein Saks Mission: reduction of private and public demand (wage and salary rises of half the rate of inflation, reduced public expenditures and taxation, and curtailment of the money supply); reduced state intervention (eliminate price

controls, eliminate subsidies, free and unified exchange rate); administrative reorganization (eliminate several state agencies and reduce personnel); and the promotion of exports and the improvement of credit standing (New Deal for foreign copper companies, negotiate foreign loans) (Cavarozzi, 1975, 278-279; Hirschman, 1965, 205). Although several aspects of the Klein Saks recommendations were passed in the 1956 Stabilization Law, such as exchange-rate simplification and the elimination of state agencies, and inflation fell rapidly from 1956 to 1958 while foreign investment expanded, the program ultimately failed for several reasons.

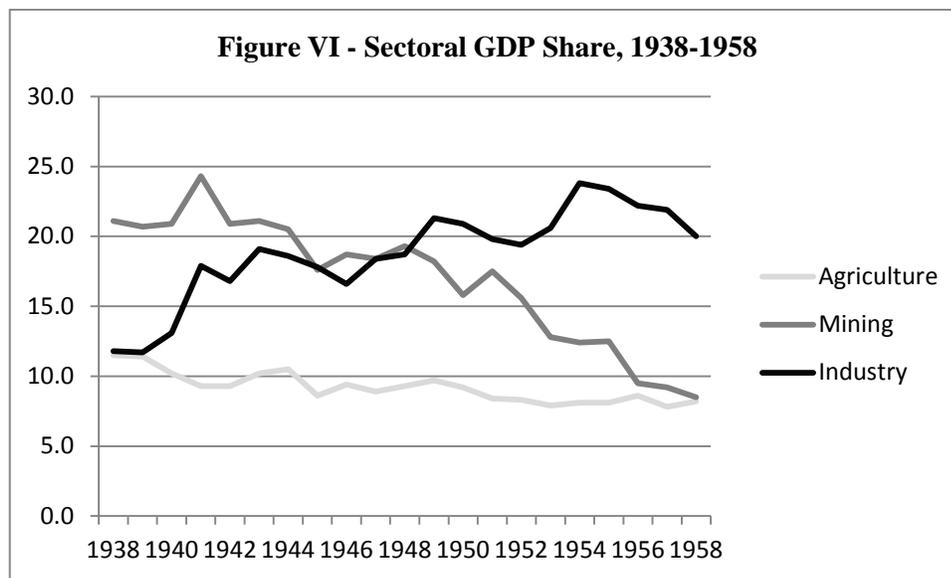
First, the price of declining inflation was economic stagnation, as industrial output languished and the construction market collapsed. Second, and more importantly, both capital and labour opposed key aspects of the reform package and moved to mitigate their effects. Industrialists and landlords were stridently opposed to the removal of protectionism, the reduction of credit and subsidies, and tax reform, on the one hand, while workers were against wage and fiscal restraint. What the stabilization program represented therefore was not a compromise position but a plan unacceptable to nearly all organized groups. As a result, peak associations and labour unions worked publicly and privately to cripple the implementation of key areas of the program, including fiscal deficits, which proved most intractable given that the policies required to reduce the deficit, cuts in spending and tax reform, were opposed by both sides of the political spectrum (Cavarozzi, 1975, 275-285; Grunwald, 1961, 105).

As the economy stagnated under the deflationary pressures exerted by the stabilization program, the political system began to unravel. The recession of 1956-1957 drove Ibañez back towards a left that was now more organized and radicalized than ever. One of the principal lessons the left had taken from the early Ibañez presidency was the importance of mass mobilization to overpower the institutional inertia. With the right gaining in the 1957 congressional elections, the left, recently united under the Front for Popular Action (FRAP),

joined with the Christian Democrats, the Radicals, and the remaining left-wing Ibañez supporters to form the Bloc for Democratic Reform and pass two key laws to weaken the right for the 1958 elections: first the abrogation of the Law for the Permanent Defence of Democracy that banned the Communist Party; and second the electoral reform that introduced the Australian ballot (single official ballot), which reduced significantly the ability of landlords to control the rural vote via the selective distribution of party ballots to workers. These two measures combined to undermine the electoral power of the right, the result of which was a 1958 election that would initiate the polarization of the political system and set the stage for the final phase of the passive revolution.

Economy, State, and Class in the Radical Years

The structural changes to the Chilean economy that had been shaping the nation since the 1880s continued and intensified from 1938 to 1958.



Source: Elaborated from data in Braun et al. (2000).

As we can see from Figure VI, from a similar GDP share in 1938, industry expanded from around 11% to over 20% by the early 1950s, surpassing mining by the late 1940s as the largest component of national output, while agriculture continued its secular decline, reaching 8% by

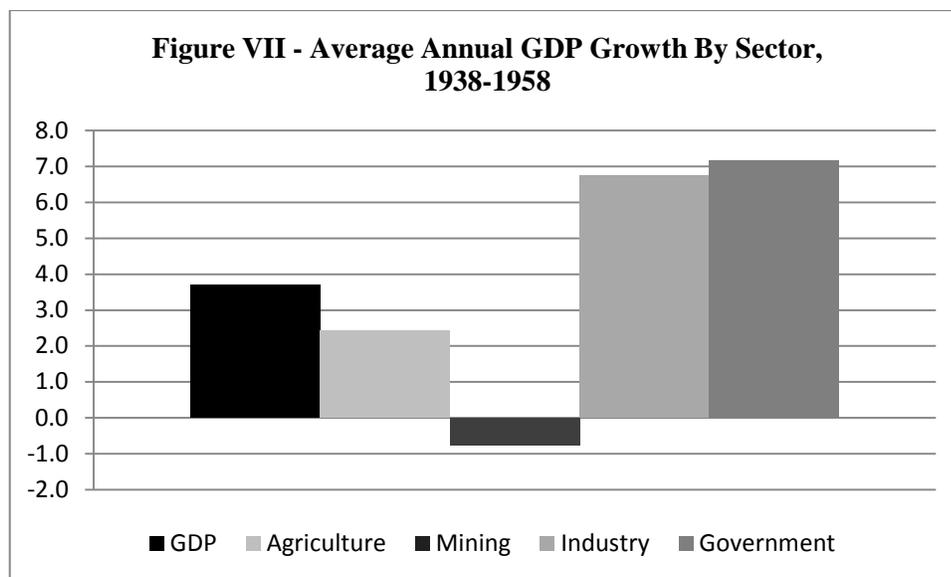
1958. As industrial output rose, it became increasingly concentrated in the hands of fewer conglomerates. Grunwald estimated that in 1952, 5% of manufacturing firms accounted for 87% of production in the paper industry, 83% of basic metals, and 73% of non-ferrous metals (1957, Table 16). Similarly, Stallings found that in 1965, 27% of corporations controlled 80% of industrial assets (1978, 36).

Agriculture underwent important structural transformations of its own. On the one hand, landholdings were even more concentrated than industrial property. By 1955, 4.4% of landlords controlled 80.9% of total farm land and by 1955 Chile had the most concentrated system of land tenure in Latin America (Sternberg, 1962, 33-36). And in contrast to the structuralist and Marxist thesis that haciendas were technically backwards, landlords responded to the social and political pressures for modernization by mechanizing agricultural production. For instance, there was a dramatic acceleration in the utilization of tractors from the 1930s: by 1955 over 92% of all imported tractors in use had entered the country in the previous two decades, with more than 40% having entered since 1950 (Instituto de Economía, 1962, 29).

The mechanization of agriculture was accompanied by continued transformations in the social relations of production. The most significant was the fall in the share of *inquilinos* as a percentage of the rural economically-active population, declining from 21% (35% in the Central Valley) in 1935 to 6% by 1965. However, the decline of *inquilinos* did not simply mean their replacement with external wage labour. Rather, landlords responded to the extension of state regulation over rural life by squeezing the *inquilino* economy, with tenant production falling from 20% of land and 25% of hacienda output in 1955 to 14% and 20% by 1965, replaced by sharecropping arrangements and greater labour service requirements for the landlord. As Kay found, by the mid-1960s *inquilinos* accounted for 46% of the days worked in the agricultural sector (with *peones* accounting for 23%), despite the precipitous decline in the share of the

economically-active population (1992a, 48). The response to rural unrest and state intervention into labour relations of the landlords was to modernize agricultural production, squeeze inquilinos by asking for more labour hours from them and their family members, and investing in managerial control.

The structural transformations of the economy were in large part driven by the continued rapid expansion of the role of the state.



Source: Elaborated from data in Braun et al. (2000).

As Figure VII demonstrates, the motor of the Chilean economy was not simply industry but state-led industrialization, with the growth of government services outstripping even industrial output. Not surprisingly, an important part of the growth in state expenditures was related to the rapid expansion of public investment in the industrial sector. Between 1940 and 1954, the heyday of import-substitution industrialization, the public-sector share of total domestic investment averaged 47% (CORFO, 1957, 48). And as fast as public investment was rising, public consumption rose even more rapidly as the public-sector labour force expanded and wages for state employees exceeded inflation. The number of employees in the central administration, which had been growing in a secular fashion from the 1880s, exploded from the 1930s, more than

doubling from 41,266 in 1935 to 109,699 by 1965 (B. Loveman, 2001, 201). The salaries of public employees correspondingly increased from 33% of total expenditures in 1940 to 42% by 1954 (Grunwald, 1957, Table 22). Although tax revenue as a percentage of copper production rose sharply from 5% in 1925 to 33.6% by 1954, the sluggish expansion of mining and the inability of the state to collect taxes from domestic sources in the face of escalating spending commitments – income tax as a percentage of GDP rose barely three percent from 1935 to 1955 while social security expenditures tripled – meant that budget deficits became the norm by the late 1940s (Ffrench-Davis, Muñoz, Benavente, & Crespi, 2000, 140-144).

Beyond the general expansion of size and scope of the state bureaucracy, the period saw several institutional innovations, the most important of which was the founding of Industrial Promotion Corporation (CORFO) in 1939, the first industrial development agency in Latin America. CORFO was conceived as a means of rationalizing the diverse agencies responsible for the financing of industrialization in Chile and bringing greater institutional coherence and planning to the industrialization effort. CORFO “dominated economic life from 1939...as a financier, entrepreneur, investor, innovator and researcher, and frontiersman,” controlling as much as 8% of the total national budget at its peak (M. Mamalakis, 1969, 118). Over the next two decades, CORFO would help to found over eighty major corporations, including many of the largest in the nation, such as the National Electricity Company (ENDESA), the Pacific Steel Company (CAP), the National Petroleum Company (ENAP), across a range of fields from copper refining and tires to pharmaceuticals and domestic appliances (see Ortega, Norambuena, Pinto, & Bravo, 1989). CORFO likewise laid the foundations of scientific research and development, setting up the Technical Cooperation Service, the National Institute for Agricultural Development, the Nuclear Energy Commission, and the Technological Research Corporation (Ffrench-Davis et al., 2000, 126-127).

The structural transformations that were reorganizing the economy and state in Chile manifested themselves in the evolution of the working and middle classes, as well as the peasantry. The acceleration of industrial production and its concentration in fewer and fewer large factories provided a major boost to the formation of a militant working-class identity. The legalization of unions and the rapid expansion of modern, large-scale industry brought with it the rise of a large and organized working class as trade union membership rose from 29,442 in 1932 to 155,054 by 1952 (Petras 1969, 171). Because of the inability of the economic structure and political system to incorporate the interests and demands of urban labour, moreover, trade unions became increasingly linked to the Socialist and Communist parties, and the pressures of capitalist transformation mutated into revolutionary socialism as the means to transcend the passive-revolutionary dialectic. The radicalization and politicization of the trade union movement, and the connections between mining and industrial workers and rural labourers, moreover, meant urban workers recognized very quickly the strategic political value of rural labour, with the Communists organizing rural workers at the national level from the mid-1930s, culminating in the electoral reforms of 1958.

The middle class and its political representatives likewise underwent important transformations in the period. Although the Radicals voted to enter into the Popular Front coalition in 1936, the party remained split over joining forces with the left and would oscillate between its left and right wings over the course of two decades. What is more, one must be wary not to overstate the promotion of labour interests during Radical administrations. As will be discussed below, beyond industrialization and unionization, the Radical years benefitted blue-collar workers little. Labour legislation remained paternalistic and Radical presidents generally left more conservative politicians and bureaucrats in senior positions in the state bureaucracy, ensuring the unfavourable application for workers of existing laws (Cavarozzi, 1975, 154-155). It

also must not be forgotten that Radical presidents consistently deployed the coercive apparatus of the state against urban and rural workers, twice passing legislation to suspend civil rights in order to quell worker mobilizations.

The inability of the Radicals to integrate the interests and parties of the working class into the government resulted in an important shift in the party system. Having lost the urban working class to the leftist parties, middle-class parties began by the 1950s to turn to rural labour as the vehicle through which to expand their electoral base. In particular, the social Catholics emerged in 1952 as a significant political force to compete with the Marxists in the countryside, led by Emilio Lorenzini, who led the famous Molina rural workers strike in 1954. In the 1957, the Social Christian Conservative Party and the Falange Nacional formed the Christian Democratic Party (PDC) under the guidance of Eduardo Frei Montalva, whose political program was based upon the structural analyses of the ECLA and whose political strategy sought to mobilize rural areas and urban shantytowns in competition with the leftist parties. By the early 1960s, the PDC would replace the Radicals as the main centrist party in a political spectrum that was moving sharply to the left. The removal of the ban on the Communist Party and the electoral reform of 1958, the rapprochement of the left via the FRAP in 1956, and the shift in strategy of the middle class towards popular mobilization would signal definitive arrival of political polarization.⁹

The propertied class, for its part, responded to the threats from beyond and below by retreating even further into its sectoral associations – and increasingly sub-sectoral associations – in order to defend entrenched positions and privileges, with two main effects. First, the intensification of sectoral interests did produce tensions within the propertied class, particularly between the SNA and SOFOFA over protection for agriculture, which increased the wage bill for industrial employers, and protection for industry, which increased the costs of agricultural

⁹ See (Furci, 1984) on the efforts to unify the left under Allende in the 1950s.

machinery (Carrière, 1981, 112, 117). Intra-elite tensions likewise spilled over into the realm of party politics, with social Conservatives splitting from the Conservative Party, eventually founding the PDC, and the Conservatives and Liberals running separate presidential candidates in 1946 (see Correa Sutil, 2004, Chapter III). However, the interlocking kinship and economic relations and the awareness of a common threat from below in the form of a potential coalition between urban and rural workers ensured the basic unity of the propertied class was never broken. As Constantine Menges, a consultant on Latin America for the RAND Corporation, observed “...conflicts – whether intra- or inter-sector – rarely seem to spread beyond particular issues or ‘escalate’ in an unpleasant manner” (1966, 363).

And second, the kinship and economic interlocking of the property owners may have safeguarded against the emergence of permanent divisions, but the predominant strategy of defending sectoral privileges impeded the formation of a positive developmental plan for the nation. It was not capitalist leadership but international economic crisis and pressure from below that drove state-promoted industrialization and capitalist transformation. The logic that governed the industrialists and landlords was not expansive and accommodative but insular and defensive, aimed at protecting ensconced positions. Import-substitution industrialization was from the beginning seen by industrialists not as a positive program but as a reaction to external crisis, “a classic defensive system that makes it possible to avoid greater ills” in the words of SOFOFA (1938, 429). Nor was ISI seen by industrialists as the preparatory phase for manufacturing exports, as both ECLA and CORFO had envisaged. As SOFOFA itself argued “...because our entire industrial base developed under the cover of protectionism... protective tariffs and import licences must become an immovable economic doctrine” (1938, 429). The shift into export markets was more risk than reward, when compared to the comfort of the protected local market:

“you cannot always successfully promote articles for export...but there are many lines where imports can be replaced by national production” (SOFOFA, 1939a, 380).

The defensive economic posture of the property owners extended to their handling of the threat from below. The SNA fought persistently against rural unionization, not only on economic but more importantly political grounds. Following the election of the Popular Front in 1938, the SNA warned that rural unionization would provoke dramatic transformations in labour relations in the countryside “...since the utilization of the mass of labour will have to be avoided in order to maintain the foundations of peace in the countryside” (SNA, 1939a, 121-122). In 1947, as the rural unionization debate reignited, the SNA again warned that “To bring labour unions to the countryside, with the pretext of improving the social conditions of the workers, would be a crass error, because the permanent state of agitation introduced by labour unions and revolutionary political parties would shake agricultural production to its foundations, disorganize it, and bring greater proletarianization of workers and their families”(SNA, 1947, 14). Industrialists, far from the progressive bourgeoisie many have imagined, were similarly opposed to worker demands, as evidenced by the persistent complaints in the SOFOFA bulletin against any state intervention that favoured workers (SOFOFA, 1938, 431; SOFOFA, 1939a, 380; SOFOFA, 1939b). And when industrialists did favour reform, it was generally to contain and control worker movements, such as the call by SOFOFA to legislate industrial wages in order to dispense with “the excessive petitions that are paralyzing our factories” (1940, 29).

The continued assimilation of property owners into the state reproduced clientelistic state-society relations and impeded the capacity of state managers to organize civil society. The proliferation of semi-autonomous agencies and sectoral institutions reinforced the role of peak associations in the setting of public policy. By the early 1960s, for instance, SOFOFA had voting members on twenty-six government policy-making boards and eight advisory councils (Menges,

1966, 349). Indeed, the SNA openly bragged of how the expansion of the semi-autonomous agencies had increased its influence over public policy and the distribution of public resources: “Profound operational changes have granted the National Agricultural Society representation in diverse state and semi-state agencies through which we have not only achieved political linkages but also practical linkages for the purpose of obtaining credits and subsidies for our members” (1940, 743). The informal connections between representatives of the peak associations and elected representatives and state managers likewise facilitated the influence of sectoral interests, as legislation was frequently drafted by peak associations and submitted to Congress, such as the 1962 law creating the Industrial Development Bank that was drafted by SOFOFA and submitted “nearly unaltered” by President Alessandri to the legislature (Menges, 1966, 352).

The close interpersonal connections between property owners, on the one hand, and elected representatives and state managers, on the other, itself the result of the decline of political parties in the formulation of economic policy (Menges, 1966, 364), led to the proliferation of the infamous ‘laws of first and last names’ that granted special privileges to specific individuals or firms, whether in the areas of taxation, tariff exemptions, or other private benefits (Lavín I., 1980, 61). In fact, between 1938 and 1952, it is estimated that over 55% of the laws passed were related to *asuntos de gracia*, or personal favours (A. Valenzuela, 1977, 138). Rather than responding to an overarching and coordinated logic, public policy was the result of private decisions and personal favours, much of which was decided within the confines of the major peak associations and social clubs, what Louie Lefeber, author of the Alliance for Progress report on Chile, dubbed “country club capitalism”.¹⁰ As Menges observed with respect to decisions to seek investment support from CORFO or other benefits from state agencies:

...in the case of the SOFOFA, it is customary that no major new capital investment is made in a line of production where facilities already exist until the association has

¹⁰ Interview with Louis Lefeber, Toronto, Ontario, April 5, 2011.

investigated whether the Chilean market can ‘support’ competitive production”; members also use the association to allocate among themselves quotas for authorization, such as export permits and FOREX resources, which shifts the locus of decision-making to the internal bodies (1966, 348).

It was not state intervention per se that the property owners opposed, but state intervention they could not control, as evidenced by SNA support for the transfer of responsibility for agricultural prices from the Agricultural Export Board, where SNA representatives were in the minority, to the Institute for Agricultural Economics, where the interest of agriculturalists were better represented (SNA, 1943a, 109).

The rapid growth of the state apparatus and the integration of property owners via sectoral associations into semi-autonomous state agencies in turn served to balkanize the state and restrict its capacity to organize and shape civil society and capitalist transformation. As private interests became entrenched in the state apparatus, the powers of state agencies became increasingly discretionary and politicized. For instance, the National Council on Foreign Commerce was established in 1950 to authorize and control exports, imports, and foreign currency operations, and control the prices of imported goods. Quotas and licences, however, need not be used by the original recipient, who could turn around and sell the permit on the black market for a profit (Lavín I., 1980, 63-66). Because so much of the economy was politically-controlled and subject to the discretionary authority of semi-autonomous agencies, the implementation of a coherent economic plan became practically impossible. And even when more comprehensive planning mechanisms were proposed, the pressure from domestic and foreign property owners ensured established interests were never seriously challenged. The history of CORFO, which represented a significant moment of challenge to the power of the restorationist pole of industrialists and landlords to control and restrict capitalist transformation, is instructive.

Despite the fact that a public institution to foment capitalist modernization had been proposed in the early 1930s by Desiderio García, advisor to the right-wing candidate Gustavo Ross, when Pedro Aguirre Cerda proposed the creation of CORFO Chilean industrialists were concerned about the scope and powers of the proposed new agency. Aguirre Cerda wanted to establish CORFO as an autonomous agency that would depend neither upon congressional approval for its budget nor peak association representatives for its investment and loans decisions, to reduce political interference in the selection of projects. The decision to approve particular projects was made not by the 23-member Board of Directors, where industrialists could count upon considerable representation of their views, but rather the senior administrators of the sectoral agencies of the corporation, staffed by technical functionaries in many cases not linked to specific industries (Cavarozzi, 1975, 122). These senior functionaries, moreover, approached the Weberian bureaucratic ideal, as a meritorious and cohesive group organized around a strong normative developmentalist ideology, which Cavarozzi contends helped to substitute for the absence of a positive developmental vision on the part of industrialists (1975, 140-145).

The concerns over the autonomy and power of CORFO related primarily to two issues: first that CORFO would use direct capital investments instead of loans to exercise managerial influence in the internal affairs of firms; and second, that CORFO would use its resources to promote internal competition within the protected national market in order to improve the efficiency of firms in preparation for trade liberalization and exports to foreign markets. Indeed, the first CORFO planning document made clear that state support for a firm was designed to “...prepare it to achieve success in foreign markets” (1939, 5). An analysis of SOFOFA’s annual reports reveals that most of the internal debates at the time revolved around these two issues. In fact, so significant was the opposition of some industrialists to direct investment by CORFO that SOFOFA members debated whether members should be permitted to receive investment from

CORFO, the outcome of which was that participants would not be sanctioned so long as state bureaucrats do not intervene directly in the management of firms (SOFOFA, 1943). Opposition from industrialists would soon dissipate, however, once it became clear that the government had backed down from its initial position, and CORFO would neither intervene in the management of participant firms nor promote internal competition by firms in the same sector.

The relationship that eventually developed between CORFO and industrialists in fact was not very different from other funding agencies: an industrialist would approach CORFO regarding a capital investment to start a new business or a loan to purchase new equipment and expand operations. If CORFO found the venture advanced the broad targets of its sectoral plans, then it would invest funds (stock purchases or direct investment), but would waive the right to a share in the management and control of firm and would impose no conditions for the financial contribution. Once the company had proven itself profitable, CORFO would sell its investment back to its private partners, usually at a below-market price; and if the company was unprofitable, CORFO would absorb the loss, allowing industrialists to play heads-I-win-tails-you-lose with public funds (Cavarozzi, 1975, 145). The planning function of the agency, moreover, never went beyond broad production targets approved by the Board of Directors, and as such did not challenge the oligopolistic control of the conglomerates over existing industries. SOFOFA reports revealed that even the most strident opponents of capital investments and state planning, such as Jorge Alessandri, recognized quickly that, "The present direction of the corporation has avoided serious disruptions to the present system" and has not resulted in "the promotion of unfair competition between firms producing similar goods for the domestic market" (SOFOFA, 1942, 472).

The autonomy and effectiveness of CORFO was further compromised by the refusal of congress to increase domestic taxation in order to provide adequate funding, once it became clear

Aguirre Cerda would not allow congress to exercise budgetary oversight of the new agency. The result of the refusal to raise domestic taxation levels was that finances for CORFO would come primarily from three sources: credit from the Central Bank, taxation of copper companies, and most importantly external credits, primarily from the U.S. via the Export-Import Bank, the International Bank for Reconstruction and Development, and private U.S. banks, which together supplied over half of CORFO's financing (Instituto de Economía, 1956, 200-205; M. Mamalakis, 1969, 123). The reliance upon the U.S. for funding in turn limited the capacity of CORFO to develop a capital-goods sector, which coincided with the preference of Chilean industrialists to import capital goods (Kirsch, 1977, 151), because Export-Import Bank credits were conditioned by the requirement they be used exclusively for the purchase of U.S.-made inputs and U.S. technical experts (Ellsworth, 1945, 88).

Domestic opposition and U.S. influence therefore hemmed in even the more ambitious design of Aguirre Cerda to build a more autonomous industrial planning and promotion agency. National plans were never developed and planning was restricted to sectoral production targets, themselves approved by the Board of Directors upon which the private sector interests enjoyed considerable representation; the oligopolistic control over the protected national market of the large industrial conglomerates was correspondingly never challenged.¹¹ As Ellsworth observed in his 1945 analysis, CORFO simply continued to trend of subsidizing inefficient firms: "Evidence that the Development Corporation may be tending to overlook the importance of cost considerations and to concentrate upon the mere utilization of natural resources and the reduction of purchases abroad is to be found...in the large number of its beneficiaries and the dubious nature of some of its investments" (1945, 91). What is more, the dependence of CORFO upon foreign

¹¹ One might object that the majority of the members of the Board of Directors of CORFO were heads of ministries and public agencies and not representatives of the private business associations, but this ignores the fact that most of the heads of public agencies, and many ministers, were themselves linked to and worked closely with the main economic conglomerates of the nation.

loans and the taxation of copper, when combined with the requirements to purchase U.S. industrial inputs, meant by the late 1960s "...the crucial producer durables sector" was "still locally missing" while "...efforts towards greater economic 'independence' have not succeeded; actually dependence has increased" (M. Mamalakis, 1969, 135).

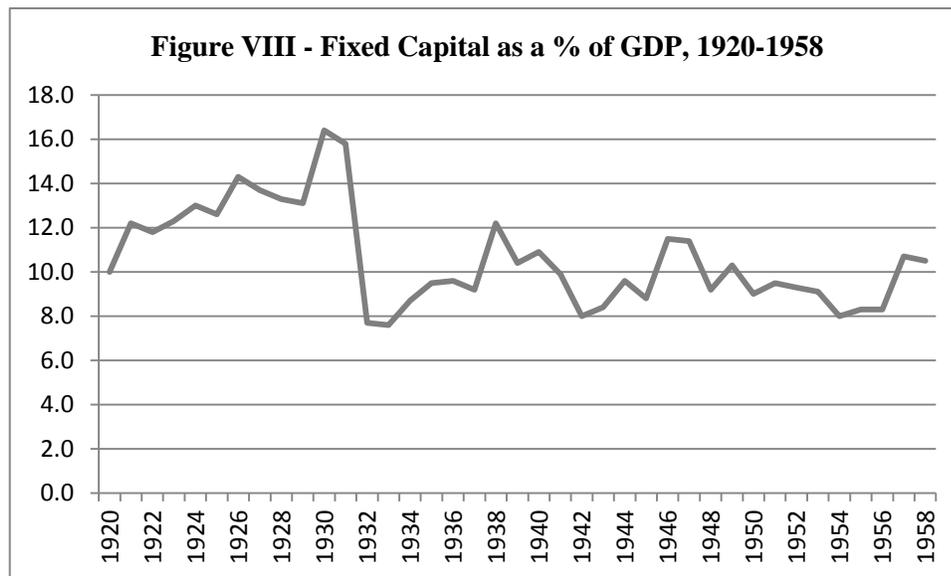
The story of CORFO is representative of state-society relations during the period as a whole. Rather than design and implement a coherent industrial plan, CORFO merely added another layer on top of the already incoherent and byzantine state apparatus. The protagonism of the middle class and the expansion of the state therefore failed not only to challenge the power and influence of the main business peak associations, but also to expand the autonomy of the state apparatus viz-a-viz domestic and foreign investors and its capacity to elaborate and implement a developmental program. Moreover, the further integration of the property owners into the sectoral decision-making organs of the state retarded the process of capitalist-class formation, as individual capitalists focussed upon obtaining state privileges while sectoral associations focussed their energies upon defending entrenched positions against encroachments by state institutions, on the one hand, and the working class and peasantry, on the other.

Class Rule and Economic Development: The Failure of Substitutionism

The years from 1938 to 1958 saw significant advances in capitalist development, national income, and public investment. Real GDP rose by nearly 4% per annum. Industrial output grew by over 6% per year and the manufacturing share of GDP nearly doubled from 11.8% to 22%. The role of the state likewise expanded dramatically. Public investment account for nearly 50% of total investment over the period and the national road network expanded by over 40%, with paved roads increasing fivefold. Public services were extended to most parts of the country and the share of government services in GDP rose 60%. Investments in education increased primary-

school coverage to near universal coverage, while secondary school coverage doubled and the percentage of the population with postsecondary education tripled. Investments in public health care saw the mortality rate fall by half (Braun et al., 2000).

As in the nitrate period, however, beneath the veneer of progress lurked persistent structural imbalances characteristic of the restricted and partial capitalist transformation. In spite of high levels of profits and property income as a percentage of national income, and a sharp real increase of profits by 56% between 1940 and 1954, levels of savings and investment remained very low (Kaldor, 1964, 266).



Source: Elaborated from data in Haindl (2007, 45).

As we can see from Figure VIII, fixed capital as a percentage of GDP hovered around 10% from the 1930s to the late 1950s. Indeed, between 1940 and 1959, the net fixed capital rate (investment rate minus depreciation) in Chile was an abysmal 3%, leading the Economic Institute to affirm, “One of the principal problems of the Chilean economy is the very low rate of fixed capital investment” (Instituto de Economía, 1963, 9). Investment in fixed capital was not only low compared to developed countries; it was low by regional standards. As CORFO observed by the late 1950s, “It is difficult to understate the importance of the fact that while the levels of total

and per capita investment in the majority of Latin American countries has increased considerably, in Chile they have grown little” (1957, 38).

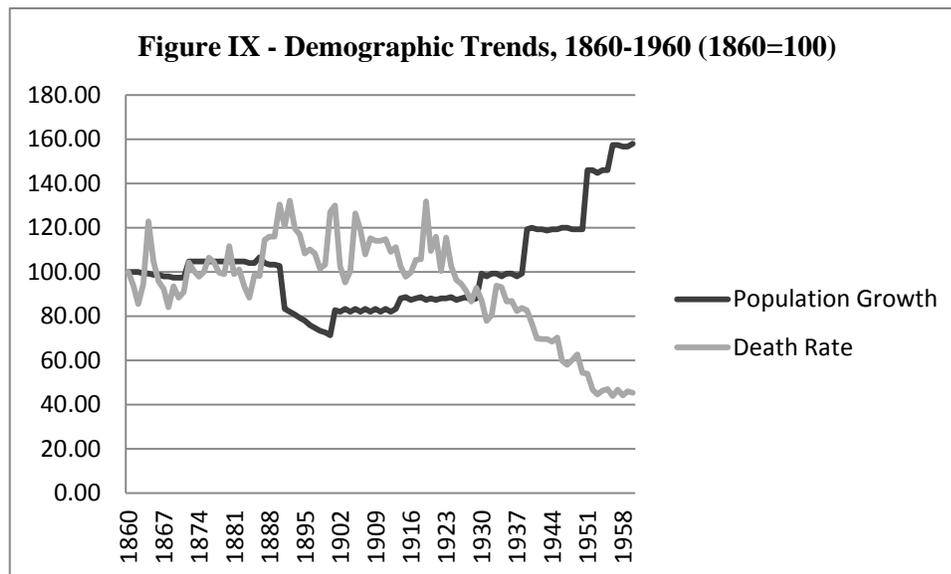
Rather than saving and reinvesting in a virtuous cycle, Chilean property owners consumed a disproportionate percentage of the national income.¹² Nicolas Kaldor found net savings were “remarkably low” and that private consumption was financed in important measure by the decapitalization of firms, the result of which was that Chilean property owners consumed about 21.2% of gross national income, nearly three times the rate of 7.4% in the United Kingdom (1964, 259-261).¹³ The findings of Kaldor are supported by studies of industrial financing that found very low levels of internal financing and a correspondingly high degree of dependence upon external financing, more than double the rate of industrial firms in the United States and France (Instituto de Organización y Administración de Empresas, 1962, xix). Because oligopolistic and protected firms were able to dominate domestic markets, they used loans not to finance productivity improvements or expand capacity – there was excess capacity in most sectors – but rather as working capital, which account for nearly 73% of industrial capital, compared to less than 40% in the United States and France (Instituto de Organización y Administración de Empresas, 1962, xvii). The public sector likewise provided little in the way of savings, as its wage and entitlement bill exploded, driven by the expansion of salaries and benefits. As CORFO noted: “One could say, therefore, that in Chile, in order to enjoy a higher

¹² High levels of consumption on the part of the owners of property were not a phenomenon unique to Chile, moreover, revealing the fundamental error on the part of the early development economists, who assumed the existence of fully-formed capitalist class that would simply re-invest the resources directed towards them by public policies designed to concentrate the distribution of national income in order to encourage investment. As Palma observed in his cross-regional study of savings and investment behaviour in developing nations: “Latin America had during the period [1965-1990] by far the highest income elasticity to consume (and the lowest to invest) in the Third World” (G. Palma, 1996, 37).

¹³ There is legitimate debate as to the reliability of the national-accounts estimates upon which Kaldor based his calculations, but as Palma and Marcel found in their review of the literature, “...the weight of the available information for this period, and even more so for recent years, still remains firmly on Kaldor’s side” (1989, 270).

standard of living today, we sacrifice...the development of our economy and future progress” (1957, 37).

Industry may have been dominated by monopolistic and uncompetitive firms focussed on maximizing present returns rather than dynamic growth, but the performance of agriculture was worse. At first blush, the rate of expansion of agricultural output seems reasonable, given that its 2.4% per year increase between 1938 and 1958 approximated its historical average (Braun et al., 2000). The problem, as we can see in Figure IX, was that the fall in the mortality rate resulted in an unprecedented doubling of the rate of population growth.



Source: Elaborated from data in Braun et al. (2000).

As a result, by 1957 agricultural output *per capita* was 16% below its level in 1940, despite the fact that land productivity had increased 20% (Felix, 1961b, 295). By the early 1940s, Chile, a country with abundant agricultural resources per capita, became a net food importer and agricultural and livestock imports doubled each decade for the next twenty years, so that a positive commercial balance of US\$11 million in 1936 had turned into a deficit of over US\$50 million by 1958 and foodstuffs represented 1/6 of total imports (Grunwald, 1957, 61; ODEPA, 1968, 18).

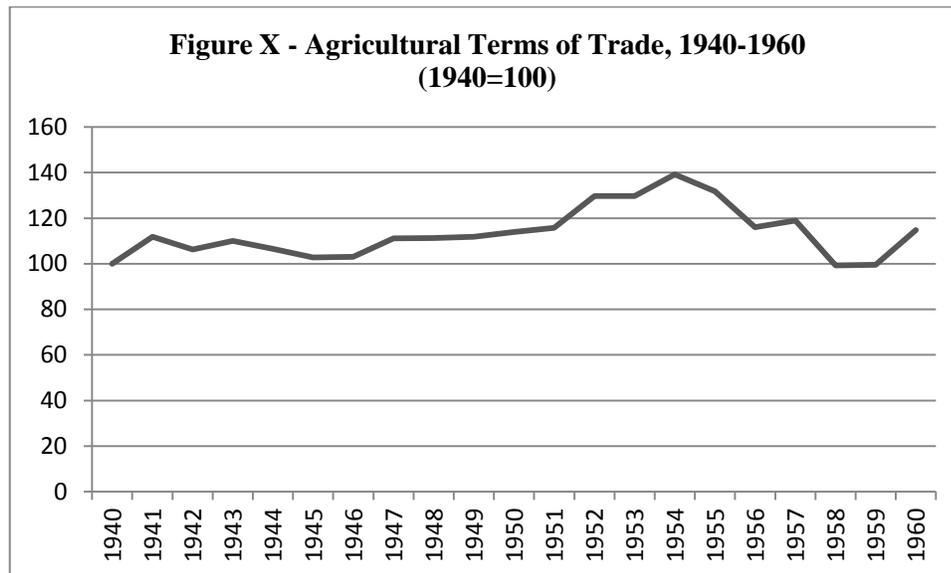
As was the case for industry, landlords preferred consumption to investment and the maintenance of excess capacity and inflation to the expansion of output. Sternberg found net investment in agriculture barely covered replacement costs and large landowners consumed about the same share of income as Kaldor's estimates (1962, 92). At a time when the demand for food was rising and Chile was in fact importing food to meet its domestic needs, landowners kept substantial productive resources idle. Numerous studies from the period confirm the inefficient use of land in Chile. ODEPA calculated, for example, that Chile utilized productively only 2.8 million of the 5.5 million hectares of land available for agriculture and livestock (1968, I14). Similarly, the CIDA mission found "...enormous wastage in the use of land, not only arable but also irrigated, without effective demand or the absence of irrigation as the principal cause" (1966, 146). The same report later placed responsibility squarely on the shoulders of the large landlords: "In sum, large farms have had high potential marginal returns on capital and the conversion of natural pasture to crops. Nevertheless, they have failed to intensify production" (CIDA, 1966, 158). Even the SNA was forced to admit that "...more than three-fifths of the agricultural lands of the country are unexploited and that, working in rotations of three to five years, they could produce more than is necessary for domestic consumption" (1943b, 43).

So why did the structural transformations outlined above fail to generate a self-propelling growth trajectory? There are several explanations. The first lays the blame squarely upon agriculture, whose stagnation limited the internal market for capital and consumer goods and drained valuable foreign exchange. There are in turn two explanations for the agricultural-stagnation thesis: the first is the structuralist explanation that poor agricultural performance is explained by the land tenure structure of the hacienda. According to this hypothesis, the concentration of land in the hands of absentee landlords relying upon semi-feudal labour relations produced supply rigidities and represented one of the chief structural sources of inflation (Felix,

1961a; Grunwald, 1961). The second explanation is the urban bias/low rate-of-return hypothesis, argued most forcefully by Mamalakis (1965, Chapter III; 1976, Chapter VII), that agricultural output failed to keep pace with population growth because public policy systematically discriminated against rural producers via price ceilings, the discriminatory allocation of loans and subsidies that favoured industry, and high tariffs on agricultural machinery. Simply put, agriculture did not expand more rapidly because it was not profitable to do so.

There are significant shortcomings with both explanations, however. As we saw above, the technical and social relations of production on the large estate changed dramatically from the 1930s to the 1950s. Agricultural mechanization increased 7% per year between 1945 and 1955 while the physical volume of fertilizers expanded from an index of 100 in 1956 to 209 by 1965, with the pesticide index exploding from 100 to 700 (ODEPA, 1968, I23). Inquilinos as a percentage of the rural labour force likewise fell from 21% in 1935 to 6% by 1964, replaced largely by seasonal wage labour, while labour productivity rose 2.2% per year, barely below the 2.6% per year registered by industry (Kay, 1992b, 103-104). Bellisario provides a partial corrective to the figures of Kay, showing that inquilinos as a percentage of the labour force held steady at around 10% from the mid-1950 to the mid-1960s, but this finding is not inconsistent with the general trend towards agricultural modernization, and Bellisario likewise notes the rapid increase of temporary wage workers (2006, 184-185). Given the significant capitalist modernization of agricultural production that took place in the decades from the 1930s, it is difficult to sustain the structuralist thesis.

The urban bias/low rate of return hypothesis, however, is similarly unsubstantiated by the data. If pricing policies had discriminated against agriculture, we would expect to see the terms of trade favour industry. However, as we can see from Figure X, the terms of trade did not turn against agriculture during the years in which output stagnated.



Source: Elaborated from data in Instituto de Economía (1963, 71).

The real price of wheat, moreover, remained stable throughout the period, and the real prices of traditional crops actually increased modestly, further supporting the view that price discrimination was not a significant factor (ODEPA, 1968, see appendices). Nor did credit policy discriminate against agriculture. Ellsworth found in 1942 that the Agricultural Credit Institute dispersed \$377 million pesos worth of loans, compared to \$109 million for the Industrial Credit Institute or \$90 million for the Mining Credit Institute, and agricultural credit doubled between 1956 and 1965 (Ellsworth, 1945, 95; ODEPA, 1968, 17). By the early 1960s, agriculture was receiving 35.6% of all credit from private banks and major state institutions, the same percentage as industry, despite the fact that in 1960 agriculture accounted for only 7.5% of GDP, compared to the 22.3% for industry. What is more, agricultural credit was concentrated in the hands of the largest landholders, 23.1% of whom received 93% of all agricultural credit in the early 1960s (CIDA, 1966, 174-178). If anything, credit policy consistently discriminated in favour of large landlords.

Taxation policy favoured agriculture as well. Between 1945 and 1957 agricultural taxation as a percentage of total direct taxation averaged less than 6%, below the 8.8% average

GDP share of agriculture over the same years (Instituto de Economía, 1963, 76). And labour policy was similarly favourable. The real wages of rural workers declined by around 18% between 1940 and 1952 and then another 38% between 1953 and 1960; and the share of agricultural income captured by the owners rose from 61% to 71% between 1940 and 1954 (Instituto de Economía, 1963, 26; B. Loveman, 2001, 201). It is true there were policies, such as trade protections for industry, that did discriminate against agriculture, but industrial protectionism was offset by numerous exemptions, as evidenced by the fact that the imported component of agricultural machinery actually rose from 79.9% in 1940 to 87.5% by 1954 and input prices did not rise faster than agricultural prices (Instituto de Economía, 1963, 174; Kay, 1992b, 93-94). Given the neutral relative prices and favourable credit and labour policies, it is not surprising that agricultural profits actually increased by around 50% between 1940 and 1955 (Wright, 1982, 178).

Another common explanation for why Chile was not able to generate a more dynamic and sustainable developmental trajectory is rooted in the subfield of comparative politics that seeks to explain policy decisions and developmental patterns via class or interest-group coalitions. In Chile, this tradition is represented by the “compromise state” thesis. Basically, the argument is that from the 1930s there emerged a broad coalition of industrialists, the middle class, and the urban working class, organized around a program of state-led industrialization and the expansion of public services, whereby industrialists benefitted from state protection and subsidies while the middle and working classes benefitted from the expansion of state and industrial employment, on the one hand, and state regulation and service provision on the other (Boeninger, 1997; Garretón, 1983; Montero, 1997; P. Silva, 1987; E. Silva, 2007; Velasco, 1994). The initial economic success of the 1940s, however, would turn to stagnation by the 1950s as the class coalition began to unravel and the political system destabilized, whether because of the

exhaustion of the ‘easy phase’ of ISI (E. Silva, 2007, 75; Stallings, 1978) or the decision by the PDC to abandon the traditional centrist role of mediator in attempt to seize power for itself (A. Valenzuela, 1978).

The compromise-state thesis, however, suffers from many of the same shortcomings as the neo-institutionalist literature on the developmental state. Because its proponents assume a set of common interests and shared developmental vision, they are forced to rely upon ad hoc explanations for why the class coalition that undergirded the compromise state fell apart and ignore or downplay the abundant evidence of class conflict. For instance, the contention that the ‘easy phase’ of ISI was exhausted by the mid-1950s is belied by the investment data that shows fixed-capital investment was stagnant from the mid-1930s (see Figure VIII). To lay the blame on the PDC for abandoning the centrist role of mediator, on the other hand, is to mistake cause for consequence: it was not the PDC that abandoned the role of mediator but the loss of rightist control over the countryside and the unification of the left that polarized the system irreparably from 1958. The fundamental problem with all these explanations is that they seek to explain the collapse of a phenomenon – the compromise state – that never existed.

In addition to their reliance upon ad hoc explanations, proponents of the compromise-state thesis disregard the voluminous evidence of class conflict and discord. For instance, a brief survey of the SOFOFA bulletin shows clearly that industrialists were opposed to concessions to workers, with most of the commentary involving complaints about the “loss of respect for hierarchy”, the “unrealistic and exaggerated petitions” of the workers, the ‘political’ nature of state regulations that seek to subject industry “to the majority judgement”, and the condescending self-references to the industrialist as “patrón” (1938, 431; 1939a, 380; 1939b). And the actions of industrialists spoke louder than their words. Any appeals to compromise positions were routinely rejected, whether the call by Ibañez for “shared sacrifice”, blocked by the congress opposed to

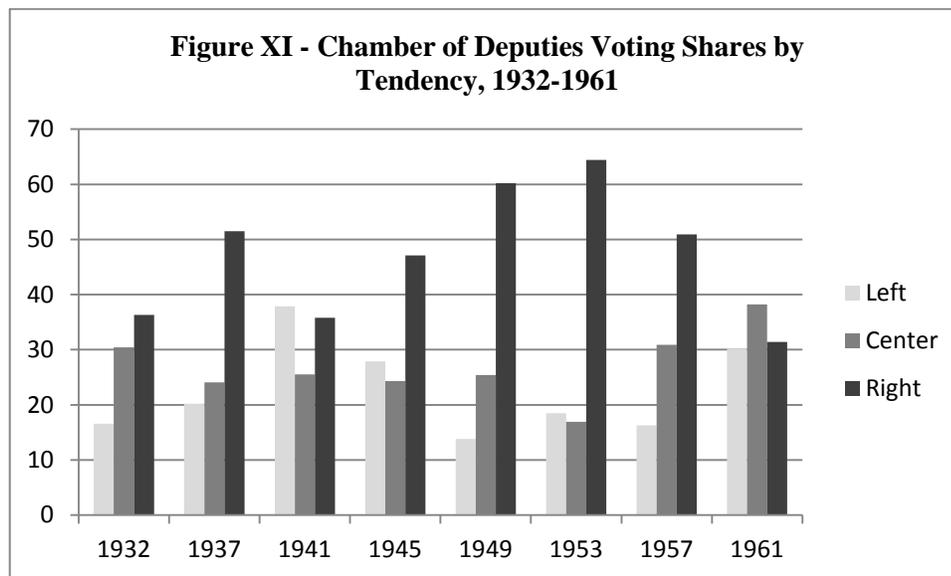
limits on dividends and tax increases (Hirschman, 1965, 195), or the Klein-Saks mission, which failed largely because it could not get congress to approve the proposed “structuralist” components, such as tax reform and credit restrictions for business, as capitalists tried to shift all the burden of adjustment onto labour in the form of austerity and wage restraint (Ffrench-Davis, 1973, 36-40; Grunwald, 1961, 103).

The statistics on concrete outcomes similarly support the view that industrialists were little interested in compromise with their workers. Beyond the rapid increase in the number of unionized workers, itself the result of legislation passed for all intents and purposes by the military, the Radical presidencies yielded few benefits for industrial workers. Between 1940 and 1953, real national income rose 40%, but the income of property owners and entrepreneurs rose 60% while the wages of blue-collar workers rose a meagre 7%, and by the end of the 1950s real industrial wages were 32% below 1940 levels (Pinchot, 1991, 538; Pinto, 1973, 273). As a result, the blue-collar share of national income actually fell from 27% to 21% from 1940 to 1954, despite the rapid increase in the number of industrial workers (Grunwald, 1957, Table 10). It is no surprise, then, that the political parties representing urban workers themselves showed little sustained interest in compromise, undermining the two presidencies of which they were key partners, Aguirre Cerda and González Videla, by challenging the conservative base in the countryside. Rather than the working class, it was the middle class who were the main beneficiaries of the Radical years. At the same time as the share of blue-collar wages in the economy fell, the share of white-collar salaries increased from 15% to 21% between 1940 and 1954 (Grunwald, 1957, Table 10). The data presented here is far more compatible with the analysis of the period as not a tripartite coalition but rather the passive-revolutionary absorption of the demands of the middle class.

The persistent instability and wild oscillations within and between administrations further undermines the compromise-state thesis. The Popular Front is generally considered the formal origins of the compromise state as it brought the left parties into government and ensured the right would no longer serve as the axis of national politics (Pinto, 1971, 83). Indeed, as Cecilia Montero wrote, “The political expression of the Compromise State was the Popular Front” (1997, 89). But did the Popular Front usher in a period of compromise and stability? Immediately following the 1938 victory of Aguirre Cerda, the two most prominent rightist politicians, former president Arturo Alessandri and presidential candidate Gustavo Ross, called for military intervention to nullify the election result. The Socialists and Communists, moreover, immediately fanned out into the countryside in an aggressive push to break the congressional power of the right, the result of which was the decision of Aguirre Cerda to suspend rural unionization that precipitated the collapse of the Popular Front (A. Bauer, 1995, 34).

After the collapse of the Popular Front, each presidency oscillated wildly between coalitions with the left and right. The general pattern was that Radical presidential candidates would campaign on the left but then veer sharply to the right when congressional obstructionism and economic instability radicalized urban workers. The coalition between the center and the right, however, would likewise prove short lived with the presidential period generally ending with a sharp turn to the left prior to the election. This pattern holds for the Aguirre Cerda/Ríos, González Videla, and Ibañez presidencies. The only genuine attempt at a political compromise (the “Democratic Alliance” of Ríos consisting of Radicals, Socialists, Liberals, and Democrats), fell apart within six months. To the degree there was political stability, in the sense of democratic and constitutional continuity, it was the result not of the incorporation of worker interests into the political system, but the ability to suppress the left vote.

Contrary to the dominant characterization of the Chilean party system as consisting of an even distribution between the left, center, and right (J. S. Valenzuela & Valenzuela, 1986), Figure XI demonstrates that leftist parties rarely reached 30% of the popular vote.



Source: Elaborated from data in Esteban Montes, Mainwaring, and Ortega (2000, 810).

And more importantly, the periods in which the left did achieve the status of ‘third’ within the electoral system were precisely those moments in which the political system began to destabilize. The first destabilizing sequence was initiated by the election of 1938, when the presidential election produced a surge of leftist mobilization in the countryside and electoral support in 1941, forcing Aguirre Cerda to suspend rural unionization and effectively terminate the Popular Front. The threat would persist and flare up again 1946 with the shift to the left under González Videla and the race by the Communists to radicalize the countryside after the solid showing of 1945, the result of which was the prohibition of the Communist Party in 1947. The second and definitive destabilization sequence was set off with the electoral reforms at the end of the second Ibañez presidency and the unification of the left under the auspices of the FRAP, which polarized the electoral system from 1958 until the military coup. Behind the veneer of common interests, then,

lay the reality of two decades of constant conflict and highly unstable coalitions, with constitutional stability depending upon not the incorporation of the left but its suppression.

The explanation for the developmental failure provided here is rooted in the social pressures that were emanating from the passive-revolutionary dialectic and its processes of substitutionism and statolatry and the incapacity of state institutions to accelerate economic transformation and address social demands. In Chile the capitalists were not the revolutionary force of capitalist transformation but the conservative force of restoration. Facing powerful transformative pressures from beyond and below, landlords and industrialists doubled down on their defensive positions within the state to protect a weak economic and political base. Indeed, Chilean capitalists were acutely aware of the need for protection and state subsidies to reproduce their increasingly precarious class positions, without which “agriculture would be irredeemably destined to die” (SNA, 1939b, 280). Even the relatively mild liberalization measures proposed by the Klein-Saks mission were met with strong rejection on the part of SOFOFA President Domingo Arteaga: “...while it is true that the free interplay of economic laws would eventually assign the appropriate value to our currency, it would also produce a series of disruptions whose consequences would be irreparable for an economy with as weak a structure as ours” (SOFOFA, 1957, 6). In the absence of bourgeois leadership, it was the substitutionist middle class that sought to guide the process of capitalist transformation.

Attempts by the middle class to integrate the demands of the working class and accelerate the capitalist modernization of state and society, however, were fiercely resisted by the right, whose control over the rural vote, facilitated in large part by a distribution of congressional seats that into the 1960s continued to be based upon the 1930 census despite massive urbanization (Correa Sutil, 2004, 80), allowed it to block reforms to incorporate working-class interests and enhance the institutional autonomy of the state from the property owners. The Radicals,

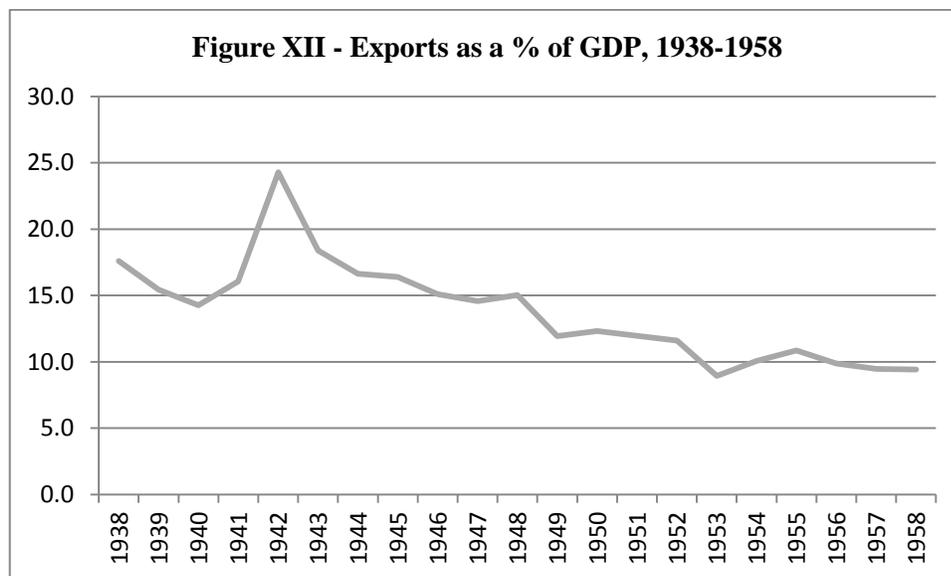
moreover, were wary of policies, such as rural unionization, that would strengthen the left and undermine their protagonism. Rightist obstructionism and centrist diffidence, in turn, radicalized the leftist parties, who persistently sought to mobilize rural workers and break the power of the right in congress. The resultant political gridlock consolidated the shift in the locus of state power towards semi-autonomous agencies, to the detriment of coherent state planning and to the benefit of the bureaucrats and propertied interests that dominated policy decisions.

The private capture and disarticulation of the policy-making process had two main results. The first was that Chile failed to develop the kind of institutional autonomy and centralized state capacity necessary to design and implement a coherent developmental program. As a result, the state lacked the necessary autonomy and capacity to discipline investors and compel them to pay taxes and improve national productivity. Instead, tax collection was porous and there were few controls over state loans and subsidies. For example, Kaldor found the effective rate of taxation on property income to be a mere 8.8% (1964, 258), a system so patently regressive it led Grunwald to observe that “Only wage and salary incomes, which are subject to a withholding tax, seem to pay their full share” (1957, 95). On the other hand, state funds were distributed with little oversight. One study of state agricultural lending found a “...lack of control over utilization” and a “...high level of concentration of credit in the hands of a few large producers” (ODEPA, 1968, 17), while another study found nearly 70% of loans went to finance operating expenditures instead of capital improvements (Feder, 1960). In effect, CORFO was turned into a mechanism to convert hard foreign currency loans into soft domestic loans whose real value could be inflated away, leaving the state on the hook for the amortization of the dollar-denominated debt (M. Mamalakis, 1969, 123-124).

The corollary effect was that public policy was generally incoherent and contradictory. State finances, in particular, suffered under the pressure of the demands of property owners and

the middle class. From the early 1950s expenditures began to outrun revenues, driven by the rising cost of the salaries and benefits of the state-based middle class. From 1940 to 1952, for example, salaries as a percentage of public expenditures rose from 33% to 42% as public employment ballooned 60% (Correa Sutil, 2004, 153). At the same time, transfer payments and subsidies, related to programs like social security, increased from 1.4% of total expenditures in 1940 to 10% by 1959 (M. Mamalakis, 1976, 119). As a result, public investment in fixed capital declined over the course of the 1950s, replaced by public consumption, which increased nearly 30% between 1953 and 1960 (Alliance for Progress, 1962, 37).

Trade and exchange policies were also incoherent and contradictory. The system of five different exchange rates, heavily influenced by particular interests, produced notorious inefficiencies in the allocation of resources and provided a powerful disincentive to export. Despite the specific objective of CORFO to promote exports, and its significant investment in industries such as forestry and fruit that would eventually drive export expansion from the 1970s, exports as a percentage of GDP declined secularly, as we can see from Figure XII.



Source: Elaborated from data in Braun et al. (2000).

The inability to foment exports, in turn, heightened the dependency upon copper, with its attendant implications for export volatility (the average annual fluctuation of copper sales was 22.1% between 1926 and 1959), balance of payments crises, and dependence upon the United States (M. Mamalakis & Reynolds, 1965, 345). Trade protections, for their part, were similarly incoherent, simply layering one protectionist measure on top of another with little consideration given to a global strategy (Ffrench-Davis et al., 2000, 131). Indeed, in so far as there was logic to protectionism, it was to protect the weakest firms controlled by the large economic groups.¹⁴ As Grunwald observed in the late 1950s, "...there is little doubt that a large part of the import prohibitions are based, not on balance of payments considerations but merely on the objectives of protectionism" (1957, 7).

The private capture and fragmentation of the state therefore reinforced the incomplete capitalist transformation and the weak economic foundations of Chilean society. Protectionism and subsidy facilitated the expansion of industry under the control of a small number of economic groups with little interest in internal or external competition or productivity enhancements. Industry thus expanded in a series of 'boomlets', whereby a temporary expansion of output was stimulated by new protectionist measures and loans. Once the new line was established, the interest of the owners was not to expand but protect. As Montero wrote, "The business families, linked by familial relations, protected each other's interests and developed conservative habits in the management of companies and capital. Once an initial investment was made, the primary concern became how to protect and administer the profits, rather than long-term strategic planning" (1997, 108). The interests of property owners tended to coincide with stagnation rather than dynamism. The concentration of incomes, in turn, resulted not in greater saving and investment but simply greater consumption: "The increasing share of incomes of the upper

¹⁴ Interview with Louis Lefeber, Toronto, Ontario, April 5, 2011.

income groups, however, does not seem to have given rise to a larger amount of savings...The upper income groups have increased their consumption perhaps even in a greater proportion than the increase in their incomes” (Grunwald, 1957, 8-9). Industrial expansion and capitalist transformation were carefully controlled and managed to protect established economic interests.

Similar processes were taking place in agriculture, where most of the growth was the result of import-substitution. In fact, practically all of the increase in land utilization from 1940 to 1960 is accounted for by the state promotion of sugar, oil, and dairy industries (see ODEPA, 1968). One riddle that remains to be resolved, however, is why agricultural producers, on the one hand, were actively modernizing the technical and social relations of production in the countryside, while on the other hand leaving enormous tracts of land uncultivated, despite rapidly rising demand for traditional agricultural products. We have already considered the structuralist and rate-of-return hypotheses and found them wanting. It is not possible to settle this matter here; indeed to do so would require a separate dissertation. The basic analytical approach utilized here, however, does suggest a possible explanation: mechanization is explained by the efforts to mobilize and organize resident labour into unions, which led landlords to substitute capital for labour and discipline agitators; and uncultivated land in the face of rising demand is explained by the fact that rural agitation gave landlords a clear and present reason not to expand output and thus the rural labour force, particularly when they could increase prices and inflate away their debts.

As I contended in the previous chapter, the basic developmental model that emerged from the 1880s contained significant built-in pressures towards inflation, pressures that would become increasingly acute from the 1940s onwards. Property owners continued to have an important material interest in inflation, which not only reduced the value of the loans used to finance operating expenditures, but also helped to mask the mounting excess capacity and inefficiencies:

“This mushrooming of manufacturing enterprises and excess capacity did not matter very much in an economy dominated by an accelerated inflation... Thus, even the most inefficient firms could subsist handsomely while the more efficient ones made enormous profits” (Grunwald, 1957, 2). As Kaldor observed, inflation “...invariably operates so as to buttress the relative position of the dominant economic groups” (1964, 238). In addition, the rapid expansion of state expenditures to pay for indexed salaries and social provision for the middle class, as well as the funnelling of short-term loans to the private sector, resulted in the rapid expansion of the money supply and the monetization of foreign debt, given the limited tax base (Velasco, 1994). Finally, rising inflation became a self-fulfilling prophecy as unionized workers clamoured for wage increases to match expected inflation, thus setting off period wage-price spirals and distributive struggles to see who would bear the burden of deflation.

The pressures towards capitalist transformation were in many ways choked off so that industrialization ultimately exacerbated the underlying weakness of the Chilean economy and accentuated its foreign dependence. The revolutionizing pressures of the dialectic of passive revolution, however, could not be halted entirely. By promoting rapid industrialization, the Radicals ultimately dug their own grave. Between 1940 and 1960, the number of unionized workers increased from 29,442 to 271,141 and the unions were firmly under the influence of the Marxist political parties (Petras, 1969, 171), so that by the 1960s there was a strong negative correlation (-0.48) between employment in the industrial sector and support for the Radicals (Aldunate, 1985, 128). By the late 1950s, the urban working class had become a powerful and autonomous political force. Much as the middle class shed its role as junior partner to the capitalists in the 1920s to assume the leading role in national politics by the late 1930s, so did the urban working class transform itself into the central protagonist of national politics from the late-1950s. The unification of the left in 1956 under the aegis of the Front for Popular Action (FRAP)

and the passage of electoral reform that broke the control of the landlords over the rural vote swung the balance of power dramatically towards the left and polarized the political system irreparably. The center of the political spectrum, for decades the moderating force, was compelled to mobilize voters in the countryside and the urban shantytowns or face extinction, and the Christian Democrats supplanted the Radicals as the party of a 'center' moving rapidly to the left. The election of 1958, nearly won by Salvador Allende, announced the arrival of the final stage of the passive revolution, in which the revolutionary pressures would overwhelm the extant order and plunge the country into an organic crisis of the state.

1958-1970: Third Wave of the Passive Revolution: Peasantry

The narrow election of Jorge Alessandri in 1958 was the first time a rightist candidate had won a presidential election since 1932 and would represent the final opportunity for the property owners to lead a project of capitalist modernization. Like his father before him, Jorge Alessandri represented a more modernizing faction of the right, also known as the "economic right", as opposed to the more conservative "political right". Blaming the party system for the malaise of the nation, Alessandri ran as an independent and vowed that his "government of the managers" would restore the confidence of domestic and foreign investors. The main planks of the Alessandri agenda were price stabilization, by means of fiscal austerity and the linking of wages to productivity rather than inflation, and modest deregulation and liberalization, particularly the simplification of the exchange-rate system (French-Davis, 1973, 41-43; Ortega et al., 1989, 137-143; Stallings, 1978, 82-88). As in previous attempts to introduce austerity and

liberalization, however, the immediate impact was ruinous, as fixed-capital investment collapsed 13.7% and GDP fell 5.3% in 1959 (Braun et al., 2000).¹⁵

Austerity and the poor economic results of 1959 reignited labour mobilizations and forced Alessandri to back down and seek the support of the rightist parties and the Radicals. The policy agenda shifted accordingly towards recovery based on public investment, which peaked at 68.3% of total investment in 1962 (Sierra, 1970, 164). The continued gains of the left and center in the countryside, moreover, resulted in the catastrophic 1961 congressional elections in which the FRAP gained more votes than any other party list and the PDC outpolled the Conservatives for the first time. Under pressure from a U.S. government increasingly concerned about popular support for a radicalized left, Alessandri sought to pre-empt more radical measures by passing land reform legislation in 1962 that created the Agrarian Reform Corporation (CORA) to redistribute inefficiently managed lands. Although the landlords could count on Alessandri not to use the expropriation powers of the new law, the same could not be said of the subsequent government that would use the 1962 law to mobilize the rural workers. The failure of Alessandri to transform the basic political and economic trajectory of the nation – public investment continued to predominate and exports as a percentage of GDP languished, despite some gains in non-traditional agricultural and manufacturing exports (Banco Central de Chile, 2001) – fuelled popular discontent and set the stage for the last gasp of reformism.

The 1964 election fielded four candidates: Eduardo Frei Montalva for the PDC, Salvador Allende for the FRAP, Julio Durán from the Democratic Front (center-right coalition of Conservatives, Liberals, and Radicals), and Jorge Prat, an independent. The victory of the FRAP in a by-election in traditional Conservative stronghold of Curicó, however, led the right to throw its support behind the PDC as the lesser of two evils. The PDC was likewise supported by the

¹⁵ Investment data from the website of the Economic Commission for Latin America and the Caribbean (ECLAC): <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp>

United States, which had been involved through the Central Intelligence Agency and the Peace Corps in providing support for Christian organizations working in the countryside to mobilize rural workers against Communism. An estimated half of PDC campaign expenditures, including a fierce anti-FRAP propaganda initiative, were financed from the United States, with millions of dollars funnelled via the CIA and the Business Group for Latin America, established by David Rockefeller in 1963 (Faúndez, 1988, 128-129; Muñoz & Portales, 1991, 33; Stallings, 1978, 93-96).

In addition to its general concern over the possible election of a Marxist president, the United States had a material interest in supporting the PDC as a means of defending its copper companies. For much of the 1950s and 1960s, the two great boogymen of Chilean politics, allegedly responsible for the underdevelopment of the nation, were the feudal landlords and the imperialist copper companies. With both land and copper reform on the agenda in the 1964 elections, the United States government threw its support behind the more aggressive land reform proposals of the PDC, likely in hopes of minimizing the exposure of its copper interests. And indeed the “Chileanization” of copper under Frei, while increasing the stake of the state to 51%, to be reinvested in production, proved an excellent deal for U.S. copper companies under the circumstances, as it reduced the effective tax rate, revalued assets upwards, and provided for U.S. control over management (Sigmund, 1993, 26). The strategic calculation would later backfire, however, when the Chilean property owners repaid the betrayal in spades when the rightist parties unanimously supported the expropriation of the U.S. copper companies in 1971 without compensation, hailed as the “Day of National Dignity”.

The apparent failure of liberal and monetarist prescriptions brought the structuralist analyses of the ECLA to the fore. The PDC program was based upon the concept of an “integral crisis” as developed by prominent ECLA and Christian-Democrat intellectual Jorge Ahumada.

According to Ahumada, the integral crisis consisted of three parts: an economic crisis of slow growth and inequality in the distribution of income; a sociopolitical crisis marked by an excessive concentration of power in the hands the elite; and a cultural crisis characterized by the lack of solidarity and common ends (see Ahumada, 1966). The structural obstacles to capitalist modernization identified by the PDC were the monopolistic and inefficient industrial sector, the highly concentrated and backwards land-tenure system, the dependence upon copper exports, and an unequal distribution of income (Molina, 1972). The program of the PDC consisted of industrial modernization by means of public and foreign investment and the rationalization of protection; land reform that limited the size of landholdings in order to redistribute more land to rural workers; greater Chilean control over copper rents and the diversification of exports; and shared redistribution, whereby price and wage controls were combined with measures to redistribute income towards to poorest segments and expand the domestic market. The “Revolution in Liberty” was the final and fullest expression of the substitutionist and statist effort of the middle class to eliminate the structural obstacles to capitalist modernization that had shaped and distorted the Chilean political economy from the 1920s onwards and complete the transition towards capitalist hegemony.

Despite the fact that the developmental program of the PDC incorporated proposals from all sides of the political spectrum and was supported by intellectuals of the left and the right, the contradictions within the Chilean political economy overwhelmed the efforts of the Frei Montalva government, laying bare the polarizing pressures that were tearing Chilean society apart.¹⁶ On the right, the strategy of the PDC to siphon off the modern and progressive industrialists against the landlords proved fanciful as SOFOFA and the CPC immediately closed ranks with the SNA to

¹⁶ Several of the early ‘Chicago Boys’ played prominent roles in the PDC and former Minister of Finance under Pinochet Rolf Lüders spoke highly of the PDC platform in an interview with the author on July 19, 2011.

oppose agrarian reform (Stallings, 1978, Chapter V). Conflict with the right was furthered by the decision of the government to advance a mild copper reform in order to secure U.S. foreign investment in the mining and industrial sectors and U.S. support for land reform. In fact, the right held up copper reform in the Senate, not because of their opposition in principle, but because they wanted to slow down and eventually weaken any land reform legislation. As Loveman observed, “...no way existed for the Christian Democrats to implement their program without alienating the support of the rightist parties whose votes had elected President Frei” (2001, 237).

The pressure for radicalization emanating from left pole in turn generated conflicts not only with urban and rural workers but within the government itself. Tensions between the PDC and the Marxist-controlled unions were immediately visible in the appointment of William Thayer, an advocate of restricting the strike capacity of unions, as Minister of Labour, the refusal of the government to recognize the CUT, and the implementation of a compulsory savings scheme, the Capitalization Fund, that would withhold 25% of the annual wage increases for workers, to be invested in CORFO projects (Angell, 1972, 178-200). Leftist agitation in the countryside, which intensified with the formation of the Left Revolutionary Movement (MIR) in 1965, likewise aggravated tensions with rural workers over the scale and pace of land reform. The radicalization of urban and rural workers, moreover, led labour militancy to escape the bounds of the state, resulting in a wave of factory and land seizures. Pressure from the two poles and the close ties between the government and Washington – USAID accounted for about 15% of the national budget in 1964-1965 – eventually began to divide the PDC itself, with the left wing seizing control of the party directorate in 1967 and calling for a “non-capitalist” development program and the anti-imperialist youth wing splitting off to form the Popular Unity Action Movement (MAPU) in 1969 (Molina, 1972, 144-145; Sierra, 1970, 107-119).

From the ambitious land reform bill passed in 1967 that would provide the juridical foundations for the liquidation of the landlords and the extension of unionization and collective bargaining rights to rural workers to the massive investments in health, education, housing, and the promotion of non-traditional exports, the Frei Montalva government was arguably the most productive and accomplished government in Chilean history. However, the demands generated by the mobilization of rural workers and urban shantytowns simply could not be met within the present political and economic framework of institutional gridlock and intense opposition from both the left and right poles of the political system. As Loveman noted: “For every successful program there were more people left out than included” (2001, 239). The overflowing of popular demands beyond the absorptive capacity of the political and economic system in turn aggravated mounting tensions within the military, culminating in the strike of the army regiments at Tacna and Yungay, the so-called “Tacnazo”, the first major breach of military discipline since the Popular Front that held significant parallels to the military uprisings that began in 1924. Class conflict was bursting at the seams, and the confrontation between the forces of the left and right was about to begin.

Economy, Class, and State in the Age of Polarization

There were several significant transformations in the economic structure of the country during the period. In the urban economy, the main transformation was the influx of direct foreign investment and the heightened dependence upon the United States for loans and direct investment. Incentives to foreign capital such as profit remittances and liberalized import regulations for firms investing in Chile unleashed a flood of foreign direct investment. Beyond copper, the main destination of foreign investment was industry, linked to the chemicals and metals sectors. Over the 1960s, United States investment in industry more than tripled and over

100 U.S. corporations had investments in the country by the late 1960s, controlling 40% of industrial assets (Mattelart et al., 1970, 120; Stallings, 1978, 43). And despite the important expansion of Non-Traditional Agricultural Exports (NTAE) from US\$61.1 million in 1964 to \$105.5 million by 1970 (see Banco Central de Chile, 2001), it was the foreign-controlled mining industry that drove the improvement in the trade balance, which shifted from a deficit of US\$17.9 million in 1964 to a surplus of US\$155.9 million by 1970: of the nearly US\$490 million in export expansion during the PDC government, 90% was accounted for by mining (see Banco Central de Chile, 2001).

The most dramatic structural transformation, however, took place in the countryside. The rapid changes in the social relations of production in the countryside from the mid-1950s had generated a mass of radicalized rural workers pressing for land reform. Driven by mechanization, non-resident wage labourers doubled as a percentage of the rural labour force between 1955 and 1965 (Zeitlin & Ratcliff, 1992, 80). In response to the rising demand for land redistribution, the Frei Montalva government, armed with a more aggressive land-reform law passed in 1967, expropriated 1,406 estates and created 910 provisional settlement (transitional organizations that would last from 3-5 years before being subdivided) that benefited 21,290 peasant families. The problems, however, were twofold: first, the redistribution of land was grossly inadequate not only to the demands of rural workers but also to the commitments made by the government, which had promised land reform would benefit 100,000 families; and second, because the government privileged the settlement of resident labourers with families to create a new farmer class, they ended up excluding most of the non-resident workforce, further radicalizing the most radical component of the rural population and playing into the hands of the radical left (Bellisario, 2007a, 10-11).

The structural transformations initiated by the Christian Democrats thus accelerated two key processes of class formation. The first was the mobilization and radicalization of rural workers. From the first labour reforms from the 1920s until the 1960s, the needs of rural workers had been systematically ignored, even as changes in the social relations of production in the countryside proletarianized resident workers into precarious seasonal labourers. From 1953 to 1964, for instance, the mechanization of agricultural production drove a decline in real agricultural wages of 24%. At the same time as governments invested considerable sums in public housing, the living conditions of rural labourers and their families remained abysmal, particularly non-resident workers who did not have land and housing provided by the landlord. In 1960, 90.2% of rural houses were classified by the government as in “poor condition” (*mal estado*), 92.4% lacked an indoor bathroom, and only 19.4% had electricity (CIDA, 1966, 193-196). As a result of the increasingly proletarianized and precarious position of rural workers, union organizers found fertile ground after 1967 Law on Agrarian Unionization legalized rural unions: in 1964, there were 18 legal unions with 1,800 members; by 1970, however, there were 488 legal unions with 140,293 members (P. Silva, 1992, 217)

The proletarianization of rural labour also favoured the left political parties, who found the countryside ripe for revolutionary politics. Numerous studies have demonstrated the strong positive correlation between the proletarianization of rural labour and support for leftist political parties. In interviews with over 200 rural workers, Chinchilla and Sternberg found that 60% of non-resident wage labourers voted for Allende in 1970, compared to only 35% of resident wage labourers, 22% of *inquilinos*, and 5% of smallholders (Chinchilla & Sternberg, 1974, 112). Aldunate for his part found a positive correlation between agricultural productivity and support for the Socialists and Christian Democrats, reflected in the strong positive correlation between *inquilino* labour and rightist party support, on the one hand, and transitory labour and the

Communist Party on the other (1985, 127). Much as the Radicals sowed the seeds of their own demise via industrialization, so did the Christian Democrats undermine their own cause by expanding the voting universe and favouring the more conservative inquilino sectors in their land reform. As Meller found, an increase in ten percentage points in the population eligible to vote saw the greatest gains made by the left, whose support increased on average 7.7%, and the congressional support of leftist parties rose dramatically from 22.1% in 1961 to 34.6% by 1969 (Meller, 1998, 101-102).

The other key process of class formation was the advent of radical-capitalist forces on the right. Traditionally, Chilean property owners represented the restorative not the revolutionary pole of the passive-revolutionary dialectic. From the 1960s, however, there began to emerge bourgeois-revolutionary forces that would slowly achieve intellectual, political, and economic predominance within the Chilean right and would eventually lead the institutionalization of capitalist hegemony under the Pinochet dictatorship. The origins of the revolutionary right can be found in an academic exchange agreement signed between the Catholic University of Chile and the University of Chicago in 1956. The agreement was part of the wider geo-political shift in U.S. foreign policy towards Latin America, and Chile in particular, the new frontier of the Cold War. The agreement with the University of Chicago was “to contribute directly and indirectly to the attainment of all the objectives of the Mutual Security Program” signed in 1957, whose objectives included strengthening resistance to Marxist influences and promoting appreciation for the benefits of economic and political liberty, put more explicitly in the 1959 revision as supporting the move towards “free-market capitalism” (Valdés, 1989, 117-120).

Despite the clear ideological and political objectives of the United States, the Catholic University signed the agreement largely unaware of the economic theories that predominated at Chicago. In fact, the agreement had initially been offered to the University of Chile, who

declined on account of the exclusivity clause and the objection of left-wing economists to the monetarist theories that predominated at Chicago. The UCC, on the other hand, was primarily motivated by the need to address their glaring weakness in the field of economics and the prestige of the University of Chicago (Fontaine Talavera, 1992, 94; Valdés, 1989, 56-58). At first, the ‘Chicago Boys’, as the graduates of the program would come to be known, found few interested audiences within the Chilean right. Even in the confines of the conservative and elitist Catholic University, the newly returned graduates clashed not only with other departments (particularly sociology), but also with their students and the Dean of the faculty. As Valdés observed in his classic study: “In reality, the only indications of contacts with the world beyond...were the conflicts with the Dean and several economists from the University of Chile” (1989, 249).

From their base in the Economics Department at the Catholic University, however, the Chicago Boys would slowly begin to expand their influence in the 1960s, the key component of which was the early support of the Edwards group. One of the most venerable economic groups in the country, the Edwards group was far more ideological and politicized than most business groups, and was an early supporter of more radical liberalization, likely explained by the predominance of non-industrial enterprises (finance and media) in their asset portfolio and their close ties to U.S. political and economic interests. The Edwards clan used their resources to finance the establishment of the first liberal think-tank, the Center for Social and Economic Studies (CESEC) in 1963, and invited several Chicago Boys to start an economics section in their flagship paper *El Mercurio*, the most influential conservative daily in the country. With the Edwards group as benefactor, the Chicago Boys fanned into the world of politics during the Frei Montalva administration and in particular in the Central Bank where a group of liberal

economists would meet to discuss politics and economic policy (Fontaine Talavera, 1992, 96-98).¹⁷

At the same time as the Chicago Boys were growing in influence in the intellectual and political communities, they were establishing a foothold in the business world that would prove crucial to the implementation of the radical neoliberal plan of the 1970s. Graduates from the economics program at the Catholic University would go on to become not only the first generation of radical liberal economists but the first generation of radical liberal businessmen. In addition to joining the various enterprises of the Edwards group, graduates from the Catholic University, many of whom went on to do postgraduate degrees abroad, began to build an economic base in the financial-services sector. In particular, a core group who came to be known as “The Piranhas” identified the banking sector as an area in which one could expand with relatively little capital, as a result of the financial repression that resulted in low book value and share prices for banks. The piranhas targeted an emitter of mortgage bonds, BHC, described as “colonial” in character, buying up shares and eventually engaging in a hostile takeover of the directorate (Fernández Astorga, 1984, 27-33).

From their base in the BHC, the piranhas deployed the new theories of corporate organization and management whereby a core group of five could exercise direct influence over the management of firms via minority shares and directorates, supplemented by a group of twenty others who implemented the management directives, which allowed the core financial conglomerate to exercise direct control over subsidiary companies without committing larger quantities of capital: “this control mechanism produced a highly cohesive management group that identified with the global interests of the conglomerate” (C. P. Rozas, 1981, Appendix 18). The secondary management group, moreover, included key political figures such as Sergio de Castro,

¹⁷ For a history of the promotion of liberal economic ideas by the Edwards group, see Soto Gamboa (1995).

Pablo Baraona, and Rolf Lüders, who would go on to control the centers of economic-policy making under the dictatorship. The Chicago Boys are often portrayed as state technocrats who designed and implemented the neoliberal reforms from the 1970s, but they were much more. As two key members themselves observed, the Chicago Boys were much more than intellectuals and technocrats; they were a radical capitalist cadre with roots in all sectors of Chilean society:

Upon their return to Chile, many entered academic life. Others entered the public service, especially in the Frei administration, while still others joined the private sector. But they were all part of a greater community, growing every year with the formation of new generations of economists in Chilean universities. They shared a technical language, a common rationality, and the desire to contribute to the construction of a free and prosperous society. The majority of these economists are known today, whether they like it or not, as “Chicago Boys” (Ibañez O. & Lüders, 1985, 21).

In the next chapter, I will suggest that in addition to their key roles within the policy-making apparatus, it was Chicago Boys in key positions within the civil society who helped to carry out the radical neoliberal reconstruction of Chilean society in the 1970s and 1980s.

The Chicago Boys, moreover, were not the only new forces developing within the Chilean right. Two virulent strains of political nationalism, fiercely critical of liberal democracy, began to gain momentum: the first was the nationalist-conservative movement, which advocated authoritarian government; and the second was the gremialista movement, originating in the law program of the Catholic University and inspired by conservative Catholic social theory and the concept of subsidiarity, in which society is organized around “intermediary organizations” that were to have autonomy from the state to pursue their particular objectives (see M. Pollack, 1999). It is the Gremialista movement, in particular, that would become the ally of the Chicago Boys and provide the political complement to their economic theories. Although the corporatism of the gremialista would seem incompatible with the individualist ontology of neoclassical economics, there was considerable cross-fertilization at the Catholic University during the 1960s, with key figures like Miguel Kast having origins in both movements, and more importantly both

Chicago Boys and Gremialistas shared world views that were profoundly anti-statist and depoliticized, consistent with the Hayekian belief that the state must be restricted in order to allow the spontaneous organization of society to emerge (Fontaine, 1988, 30-32; Valdés, 1995, 201-205; Vergara, 1985, 168-173).

The fermentation of new movements within the right helped to drive the fusion of the Conservative and Liberal Parties into the National Party in 1966. Although the founding of the National Party represented an important step in the construction of a hegemonic project on the right, and called for a 'national' politics that transcended the 'special interests' that had captured the state, the party ultimately lacked a positive vision and organized around nationalist calls for order and the defence of private property (M. Pollack, 1999, 28). Despite the growing consensus around the necessity of economic liberalization, with the National Party criticizing "...the erroneous policy of industrialization 'at all costs'", in reality there was still considerable internal disagreement over the pace and depth of reform. These disagreements came to the fore, first in the CPC Conference of 1967, and then subsequently in the 1970 electoral campaign, where the more radical reforms advocated by Sergio de Castro and the Chicago Boys were trumped by the more pragmatic and gradual reforms of Carlos Hurtado (Fontaine Talavera, 1992, 102). As de Castro himself observed, "The group of businessmen leading the Alessandri campaign declared their general agreement with the plan, but felt the reforms needed to be implemented much more gradually. Our feeling was that gradualism would lead to failure and abandonment of the program" (1992b, 9). By the early 1970s, the Chicago Boys were convinced their capitalist revolution would have to come at the expense of much the traditional economic elite.

The polarization of civil society not only produced radical transformations in the processes of class formation, it also placed powerful and contradictory pressures on the state apparatus. On the one hand, the acceleration of state-led development and redistribution under

the PDC saw a significant expansion in the size and scope of the state. State investment and expenditure exploded and between 1964 and 1970 the public share of fixed-capital investment would average 70% while public consumption would rise 45% (Banco Central de Chile, 2001; Zucker, 1988). The Central Bank turned to printing money to meet the needs of the government as public holding of total financial liabilities surged to 63% and the Central Bank share in total bank credit nearly doubled to 55% and its share of public-sector credit surpassed 85% (Hermes, 1995, 91; L. F. Lagos & Díaz, 1992, 11). While the rapid expansion of public investment and consumption placed Chile among the most socially-developed countries in Latin America in terms of education, health, and housing by 1970 (Ffrench-Davis et al., 2000, 139), it also created a series of new clientelistic networks and demands, particularly in the countryside where state managers replaced the landlord as benefactor, that more than doubled the public external debt (Braun et al., 2000).

The increased demands upon the state, propelled by the near doubling of the voting population between 1958 and 1964 (Borón, 1971, 428-430), were not met by a commensurate increase in the capacity to meet those demands. There were important efforts to streamline the organization of the state bureaucracy and reduce the influence of private interests, such as the simplification of the exchange-rate system, but in most cases reform merely laid a new layer of regulations on top of the old ones (Parrish, 1973, 244-245). Eduardo Frei Montalva captured the unwieldy organization of the state in a speech on social security in 1968:

There are two thousand social-security laws in Chile...in addition to all the regulations and agreements of the different providers, that is to say, a monstrosity that only keeps growing...In each social-security grouping there are many laws of first and last names...employees of notary publics and judicial archives for example are covered by twenty-seven social-security laws for 2,100 workers (cited in Ibañez Santa María, 2003, 260).

And even when opportunities for substantial state reform did present themselves they were foiled by the opposition of entrenched interests. For example, in 1961 the Alessandri government

established the Committee for Economic Programming and Reconstruction (COPERE) to implement the developmental plan designed by the Alliance for Progress. But despite the clear calls from the Alliance that COPERE be "...invested with sufficient powers for it to coordinate the policy of various State agencies...and ensure that the economic policy decisions involved in administrative action were not incompatible with the objectives of the plan" (1962, 100), COPERE was never transformed into the nodal agency necessary to coordinate development efforts. The effort by Frei Montalva to create the National Planning Office (ODEPLAN) in order to centralize planning efforts was similarly frustrated by congress.¹⁸

Finally, the state was shaped in profound ways by the growing interest of the United States in Chile as the Cold War turned to Latin America. Between 1950 and 1964, the United States trained 2,613 Chilean military officers, figures that would accelerate during the Frei Montalva and Allende presidencies, with over 1,000 officers trained between 1970 and 1973 alone (Ortiz de Zárate, 2003, Chapter I). As a result, a significant breach within the military began to emerge, widening over the 1960s. On the one hand, there was the corporatist/integrationist wing, comprising most of the senior officials and imbued with the traditional view of the role of the military in Chilean politics as guarantor of the constitution. Indeed, the moments of civilian-military conspiracy over the past decades, such as 1948 and 1955, were related to the perfection of the existing constitutional order rather than its destruction. On the other hand there was the national security wing, trained by the United States and prone to place the struggle against communism ahead of the defence of the constitution. These two wings of the military would coexist uncomfortably during the Frei Montalva and Allende administrations, with the national-security wing only gaining supremacy with the consolidation of power in the hands of Pinochet.

¹⁸ Ironically, ODEPLAN would in 1973 and 1974 become the first major foothold of the Chicago Boys in the state.

Conclusion: The Limits of the Passive Revolution

The central contention of this chapter is that the period from 1920 to 1970 is best understood as the dynamic and open-ended working out of the passive-revolutionary dialectic unleashed by the process of capitalist transformation whose structural forces were set in motion in the 1870s and 1880s. The decision of the Chilean property owners to tax foreign-owned nitrate resources and use the proceeds to protect and subsidize production for the domestic market set-off a process of restricted capitalist development. The early and heavy reliance of the dominant propertied sectors upon the state, moreover, initiated a long period of statolatry – whereby civil-society was constructed within the husk of an ever-more extensive state apparatus – that would last until the end of the Pinochet dictatorship. The efforts by landlords and industrialists to control the process of capitalist transformation through the state and restrict its benefits from reaching the population at large, however, would generate counter-forces within civil society that by the 1920s would decisively weaken the control of the propertied sectors over the state.

The defensive response of the Chilean property owners to the pressures towards capitalist transformation rendered them unable to articulate and implement an alternative developmental model when the economic crises of 1919 and 1929 crippled nitrate exports. From 1920 to 1940, then, it was the substitutionist middle class that emerged to drive the process of capitalist expansion via import-substitution industrialization. The developmentalist efforts of the Radical years, however, were ultimately retarded by the vicious cycle that had driven the Chilean political economy from the 1920s, in which the weak economic base led to the assimilation of the property owners into defensive positions within the state. The defensive assimilation of the capitalists stunted the construction of the state-capacity required to discipline capitalist investors and construct a dynamic capitalist class, which in turn further undermined the economic foundations of the nation as high levels of protection and cheap credit resulted in cycles of import-substitution

boomlets, monopolization, and underutilization, the results of which were low-productivity and non-competitive industrial and agricultural structures. At the same time, the expansion of an inefficient industrial sector resulted in the rapid growth of a working class radicalized by the incapacity of political and economic systems to meet their demands, which fuelled the battle over a stagnant economic base that would drive inflation and demands for expropriation. From the revolutionizing pressures of a restricted capitalist development thus emerged revolutionary socialism.

The political order held together so long as the suppression of the left vote limited the working class to the role of junior partner in a series of unstable coalitions. The spread of capitalist transformation in the countryside and the electoral reform of 1958 would shatter the veneer of constitutional stability and order as the radicalization of rural labour polarized the political system irreparably. At the same time as the forces of socialist revolution gained momentum, moreover, bourgeois-revolutionary forces were beginning to emerge on the right. Despite the remarkable advances in the areas of social policy and agrarian reform of the Christian-Democratic government, the intransigence of the restorationist right and a radicalized left the Christian Democrats had helped to create but could not control¹⁹ overwhelmed the reformist efforts of the PDC to balance the revolutionary and restorationist poles of the passive-revolutionary dialectic.

¹⁹ On this point, the years 1965 and 1966 witnessed four times the number of strikes as the peak strike years of the preceding Alessandri government, 1959-1960, despite the fact that real wages increased significantly (see French-Davis, 1973, 73).

CHAPTER IV – THE CRISIS OF THE STATE AND THE RECONSTRUCTION OF THE CAPITALIST CLASS

The decade of the 1970s was the most tumultuous and transformative in Chilean history. The conventional reading of these turbulent years opposes Allende, the Marxist president who sought to place the economy under the democratic control of the state, and Pinochet, the neoliberal counter-revolutionary who quashed the institutions of democracy and reversed the state-led developmental trajectory of the nation. According to this narrative, the military dictatorship in Chile imposed an orthodox neoliberal rollback of the state-socialist development model of Allende, driving the pendulum back towards a market-led and externally-oriented development model. As suggested above, however, the conventional narrative conceals as much as it reveals. Allende and Pinochet were far more than historical rivals: they were manifestations of inseparable historical processes.

Instead of opposing Allende and Pinochet as representatives of socialist-revolutionary and neoliberal-counterrevolutionary forces, it will be contended the two governments are best understood as the expressions of intertwined revolutionary forces. Indeed, the 1970 election triggered a “revolutionary situation” in the Leninist sense that neither the bourgeoisie nor the workers could continue on as before, and marked the onset of an organic crisis of the state that would only be resolved following a military coup. The passive-revolutionary dialectic of revolution and restoration had left the country in what Moulian aptly described as a “catastrophic equilibrium of forces” (1983) and had spawned dueling revolutionary movements on the left and the right. Allende and Pinochet are therefore best understood as representative of entwined and competing revolutionary movements that emerged from the attempts to resolve the organic crisis of the state occasioned by the incomplete capitalist transition in Chile: Allende as representative of the socialist-revolutionary endeavour to supersede the stagnant and uneven process of capitalist

development via a state-socialist path to industrial modernity; and Pinochet as the manifestation of bourgeois-revolutionary forces determined to construct a hegemonic capitalist society and complete the century-long transition towards capitalist modernity.

The construction of a hegemonic capitalist society, however, required the construction of a hegemonic capitalist class. This chapter will examine a fundamental problem for Chile in particular and late-developing societies in general: how to complete the transition towards capitalist hegemony when many if not most of the capitalists themselves are opposed to and impede many of the necessary reforms? The developmental-state literature in general elides this issue by assuming the existence of fully-formed capitalist actors and a shared developmental project, restricting the debate to the questions of institutional configurations and public policy. It will be argued here that there were three basic conditions that facilitated the state-led reconstruction of a capitalist class in Chile. The first condition was the reforms of the Allende years, and in particular the expropriations of private property that dramatically weakened the economic power of capitalists and pressed them to organize beyond narrow sectoral interests.

The reforms of Allende, however, proved a necessary but insufficient condition. State-society relations are not a zero-sum game and weak capitalists do not a strong state make. For the state to develop the capacity to construct a hegemonic capitalist class, two additional conditions were required: first, the centralization of power within the state in the figure of Pinochet and the Minister of Finance, and the elevation of the Chicago Boys to the commanding heights of the economic decision-making apparatus that provided a degree of institutional and policy coherence absent in similar reform efforts in the Southern Cone; and second, the formation of a state-private sector nexus that linked the principal ministries responsible for economic reform with the financial conglomerates dominated by the Chicago Boys and channeled state resources to the latter who became the principal agents responsible for carrying out the restructuring from within

civil society, which provided the military regime with a social foundation for its radical agenda and helped to coordinate the broader reform project.

Historical Overview of the Popular Unity Government: 1970-1973

A three-way presidential race in 1970 was assured with the selection of leftist Radomiro Tomic as the presidential candidate of the PDC, on the one hand, which made an electoral alliance with conservatives near impossible, and polls predicting an Alessandri victory, which bolstered the renewed confidence of the right on the other. The rightist complacency would soon be shattered, however, with the surprise narrow victory of Allende that created a tense political climate in the ensuing days. Within hours Tomic recognized the electoral result and manifested the desire to arrive at an agreement to approve the outcome, as per the constitutional requirement that Congress select the president among the top two finishers where no candidate achieves a majority of the popular vote. The UP responded that its program was non-negotiable and that the internal heterogeneity of its coalition would ensure the democratic nature of the government. The emergence of a U.S.-backed plan, whereby Alessandri would agree to resign the presidency if selected by Congress and support Eduardo Frei Montalva in the subsequent presidential elections, however, pressed the UP to negotiate a series of constitutional guarantees with the PDC to protect civil liberties, private education, the armed forces and public employees against political purges, and the autonomy of the university system (Garretón & Moulán, 1983, 40-45).

While the more moderate business interests largely took a wait-and-see approach to the new government, the far-right civilian and military forces, such as the group Fatherland and Freedom, backed by the White House, the CIA, and hard-line U.S. business interests such as International Telephone and Telegraph (ITT), immediately developed plans to destabilize and overthrow the new government, including the kidnapping and assassination of the Commander-

in-Chief of the Armed Forces, General Schneider, who refused to lead a coup against Allende. The assault upon Schneider, however, backfired and ultimately fortified the constitutionalist wing of the military and further marginalized the far-right opposition in the public eye, providing social and institutional breathing room for Allende and the UP in their first year. The U.S. government, for its part, would continue to undermine and oppose the government from both beyond and within Chile. On the one hand, the U.S. sharply reduced non-military assistance and pressured international organizations like the IDB and the World Bank to deny new loans, while on the other hand funnelling more than US\$7 million to finance the civil-society opposition in 1972 and 1973 and boosting military assistance by nearly threefold in an effort to foment and organize opposition within the armed forces (Falcoff, 1989, 220-222).

The major structural constraints on national development identified by Allende and the UP – dependence upon foreign markets, concentration of property and income, and socio-economic and political marginalization – bore much resemblance to the ECLA-inspired analysis of the PDC. The difference was not so much the symptoms of the illness as its cause. Whereas the PDC identified an incomplete and distorted form of capitalism as the source of Chile's economic and political instability, the UP identified capitalism itself as responsible for the underdevelopment of the periphery, the logical conclusion of which was that only socialism could bring to Chile into industrial modernity. The UP thus rejected the PDC as “nothing but a new government of the bourgeoisie” and organized its platform around four oppositions: anti-imperialism, anti-oligarchy, and anti-monopoly, and anti-capitalism, the final representing the chief mechanism through which the first three oppositions were to be superseded. On the basis of these oppositions, the UP proposed the nationalization of copper to break the power of U.S. imperialism; the acceleration of land reform to wipe out the landlords; a social property area to expropriate the financial and industrial monopolists; and reforms to democratize the state by

means of a unicameral legislature (the people's assembly) and increased worker participation in public and private institutions and organizations. For much of the UP, capitalist reformism had been definitively discredited by the failures of Frei Montalva. In the words of the Minister of the Economy Pedro Vuskovic in November of 1970: "It is the structure itself that is in crisis" (cited in Meller, 1998, 138).

The logic of competition between the UP and the PDC drove the political process from late 1970 until 1972: on the one hand the UP needed to enact its program in order to build its bases of support while the PDC needed to hem in the government in order to prevent it from expanding its support among the popular masses and herd mobilized social forces into more moderate positions so that the PDC could exercise hegemony within the left pole (Garretón & Moulian, 1983, 59). After the election, the UP government made an immediate and critical decision: rather than negotiate policy with the PDC to consolidate and advance the gains of the left more broadly, it decided to act unilaterally in order to use state resources to build a political majority for the congressional elections of 1972. While the short-term program of the UP, to effect a significant redistribution of income through differential wage and salary readjustments in order to stimulate internal demand and reorient production towards basic consumer goods, complemented by a rapid expansion in state expenditures and the money supply, was broadly supported by the PDC, the longer-term transformations, and in particular the expansion of the social property area, a critical source of redistribution and employment in the construction of a popular majority, proved to be the wedge that divided the UP and the PDC irreparably.

Because Allende lacked a congressional majority, he deployed obscure legal mechanisms from the 'Socialist Republic' to advance his expropriation agenda, the source of much of the conflict between the PDC and the UP. The Constitution of 1925 permitted the expropriation of private property "when the interests of the national community so require", but stipulated that

expropriation required specific authorizing legislation, which could not be obtained given the minority position of the UP in Congress. Allende subverted this constitutional obstacle by recourse to a little-known law passed in 1932, Decree Law 520, that allowed (1) for the 'requisition' of productive enterprises in the instance of failure to produce items of basic need at adequate levels and (2) for the 'intervention' in firms where labour disputes could not be resolved by the parties in question. Both measures were designed to be temporary, but because the law did not specify the definition of 'temporary', Allende could use these provisions to pursue a de facto nationalization of the economy. The deployment of Decree Law 520 to advance the expropriation agenda, in turn, relied upon popular mobilizations – sabotage and strikes to justify the requisitions and interventions – that would eventually spin out of control into a hyper-mobilization that would tear the country apart and shatter the institutional order (Garretón & Moulian, 1983, 53).

The opposition to the UP government was characterized by three main stages: September to November 1970, in which the Right attempted to overturn the electoral result by legal means and destabilize the government by illegal means; November 1970 to October 1972, where the PDC assumed protagonism within the opposition and pursued a strategy of neutralization; and October 1972 to September 1973, where the Right consolidated its hegemony within the opposition and pushed for the overthrow of the government. Indeed, as Garretón and Moulian observed, an important part of the reason why the UP survived as long as it did was because of divisions within the opposition and the existence of a progressive center that could neither side immediately with the Right, lest it sacrifice its political aspirations, nor join the left (1983, 37-38). Following the acceptance of the electoral result by Jorge Alessandri and the moderate right, the PDC assumed a hegemonic position within the opposition, but the push by the UP to advance an aggressive and extra-congressional policy of expropriation quickly divided the PDC internally and rendered them unable to rein in the government.

At first, the PDC strategy was to bring the UP back within the spirit of the constitution in order to separate the more moderate elements of the government from the radical wing and regenerate its base in opposition to revolutionary Marxism (Garretón & Moulian, 1983, 65-66). Relations between the UP and the PDC would take a more confrontational turn in 1971, however, when municipal elections saw the UP increase its share of the popular vote to 49.8%, with the Socialist Party nearly doubling its popular vote to 22.9% and the radical forces within the UP coalition gaining the clear upper hand (Garretón & Moulian, 1983, 61-62). In response, the Christian Left split from the PDC and opened the lines of communication between Marxism and Christianity around the objective of socialism and the PDC came under intensified pressure to contain the UP or risk losing protagonism to the Right.

The PDC therefore drafted and submitted to Congress the “Hamilton-Fuentealba” amendment to the constitution in October of 1971. The amendment sought to establish a legal framework for the expropriation process and consisted of five main features: (1) the definition of those enterprises the government could control directly (social sector), those it could operate in conjunction with private actors (mixed area), and those that would remain under exclusive private control; (2) the annulment of Decree Law 520; (3) the requirement of separate legislation for every firm expropriated; (4) the declaration that all expropriations carried out from the time the bill was introduced to Congress to the moment of its passage would be considered illegal; and (5) that control over expropriated firms would pass not to the state but to workers (Falcoff, 1989, 145). The amendment was passed by Congress but vetoed by Allende in February, which resulted in a legal stalemate over the requirements to overturn a presidential veto.

With the constitutional amendment trapped in a legal limbo, the government accelerated its expropriation agenda, including setting its sights upon the iconic paper monopolist headed by Jorge Alessandri, the Paper and Carton Manufacturing Company (CMPC), which hardened

opposition among the economic elite and the PDC, who were concerned over the implications for press freedom. The mounting unity of the PDC and the PN, when combined with persistent shortages of basic necessities, drove the state-based middle class towards the opposition, where they were joined by the small and medium-sized business owners, concerned over the attempts to nationalize distribution channels in response to acute shortages and the acceleration of state control over private property. At the same time as opposition forces began to cohere around the themes of illegality and the defence of private property, internal divisions within the UP mounted, between the PC who wanted to rein in the reform agenda in order to consolidate the gains made, the bulk of the PS who wanted to push ahead, and the MIR, MAPU, and parts of the PS who called for a new strategy organized around the creation of parallel state powers to bypass the obstacles to the revolutionary agenda lodged within the state apparatus.

With the apparent validation of the extra-congressional approach of the UP in the 1971 municipal elections, the dominant capitalist interests became convinced of the need to polarize the tripartite political order and force a definitive confrontation between left and right. By the end of 1971, the President of the CPC, Jorge Fontaine, began to organize the statist middle class and the small and medium-sized business sector concerned over shortages of basic necessities, price controls, and the increasing state control over private channels of distribution, in addition to playing upon classist and racist sentiments among the middle class. The turning point in the new strategy of the CPC was the national strike on October 11, 1972, led by the National Confederation of Truck Operators in protest of the call for a state-controlled transport system in the southern region of Aisén, which represented the definitive assumption by the right of the role of opposition protagonist. The declaration of a state of emergency by the government and the arrest of strike leaders, moreover, only fuelled opposition fires as taxi and bus drivers, students, and a variety of professional associations (109 in all) mobilized against the government. The

rightist mobilizations, in turn, further radicalized the UP base, in the form of the industrial belts (cordones industriales), multi-factory organizations of workers that were independent of state, party, and trade union, to pressure the Allende government to accelerate the expropriation process, and the neighbourhood commands (comandos comunales) that developed not only in support of the government but more importantly in attempt to construct a parallel political institutionality to transcend the limits of the state.

Mobilizations in the neighbourhoods, factories, and streets of the nation were accompanied by a renewed congressional assault upon the government, with the proposed impeachment of four key ministers forcing Allende to deescalate the conflict by inviting the military into the cabinet, most prominently in the figure of the Commander-in-Chief of the Army, Carlos Prats, as Minister of the Interior. The incorporation of Prats and the military turned all eyes towards the March 1973 congressional elections, with the PDC and the PN forming the Democratic Confederation with the hopes of achieving the two-thirds majority in Congress required to impeach the Allende. The election, however, would prove a disappointment for the opposition that received only 55% of the popular vote and ended up with even fewer seats. The failure of all constitutional attempts to resolve the impasse resulted in the final polarization of the conflict from March to September 1973. On the one hand, the radical elements within the UP ramped up their attacks on private property and Socialist Carlos Altamirano threatened to infiltrate the military and subvert the armed forces. On the other hand, opposition forces accelerated their economic sabotage, with a second national strike scheduled for July 26, while CPC and SOFOFA officials held meetings with naval officials regarding alternative economic plans in preparation for the fall of the government (Bitar, 1986, 114-122; O'Brien & Roddick, 1983, 39-41). The final attempt at compromise collapsed in early August of 1973, in no small part because the demands of the PDC – a public declaration of the illegality of the government

and the formation of a Cabinet of Guarantees that excluded the Marxist parties – amounted to a de facto coup d'état.

The deterioration of the political climate was fuelled by and fed back into the deterioration of the national economy. Despite the political tensions and poor economic performance towards the end of the administration of Frei Montalva, the economic conditions towards the end of 1970 were generally favourable. After years of high copper prices Chile held over US\$300 million of foreign reserves, accumulated inventories and excess capacity on the heels of recession provided an ample supply to meet rising demand, and the harvest of 1970-1971 was the most abundant in recorded history. As a result, the first year of the Popular Unity government was a remarkable economic success. GDP grew at a rapid 9%, unemployment fell to 3.8%, and inflation actually declined from 36% in 1970 to 22% by 1971. Pro-labour policies increased real wages by 35% with the largest gains concentrated among the lower-income earners and the labour share of the national income rising from 50% to 59% (Falcoff, 1989, 58-59).

By the end of 1971, however, the economy began to decline rapidly as inventories and foreign-exchange reserves were exhausted. GDP fell 1.2% and inflation, driven by a ten-fold increase in the money supply between 1970 and 1972 and the ballooning of state expenditures by nearly 80%, reignited and prices rose 163% in 1972 (Braun et al., 2000). Private fixed-capital investment fell by nearly 50% from 1970 levels and was not offset by public-sector investment that declined in 1971 under the weight of strained state finances (Zucker, 1988). External accounts similarly deteriorated and a trade surplus of US\$135 million in 1970 had become a deficit of US\$427 million by 1972. Falling copper prices precipitated a decline in exports from US\$1.1 billion in 1970 to US\$849 billion by 1972, while imports surged from US\$956 million in 1970 to US\$1.5 billion by 1973, driven by rising domestic demand and stagnant investment and output, particularly in agriculture where wheat production fell 40% while food imports increased

four-fold (Falcoff, 1989, 62-63; Larraín & Meller, 1991, 203). By 1973 the Chilean economy was in a free fall: GDP fell 5.6%, inflation exploded to over 600%, and real GDP per capita was below its 1967 level. The trade and current account deficits continued their steady deterioration, reaching 4% and 4.2% of GDP respectively, while the public-sector deficit exploded to 23% of GDP, led in important part by the social-property area, whose losses consumed 1/3 of the state budget (Banco Central de Chile, 2001, 19; Larraín & Meller, 1991, 200).

In the context of political polarization and economic catastrophe, an abortive coup attempt by a tank regiment in Santiago in June 1973 initiated a period of pronounced decline in civilian-military relations. Under pressure from the Right for his inability to quell popular mobilizations and from the left for his inability to control the military, General Prats resigned his positions as Commander-in-Chief of the Army and Minister of the Interior, replaced in the former capacity by General Augusto Pinochet Ugarte. With the resignation of Prats – a stalwart constitutionalist and Allende confidant – the national-security wing of the military achieved hegemony within the armed forces and the final institutional obstacle to a military coup was removed. Allende attempted to form another emergency cabinet but failed when Air Force General César Ruiz resigned his post, reflecting not just the shifting balance-of-power within the military but also the shifting balance of power within civil society: whereas in October of 1972 the military could reasonably perceive its participation in cabinet as part of the effort to supersede political polarization, by August of 1973 it was clear the opportunity for compromise had passed and the UP was in effect calling on the military to support it against sedition and uprising (Garretón & Moulian, 1983, 129). On August 22 the Congress denounced the government as illegal. The UP was now so deeply divided as to render it practically incapable of action, regardless of the path. Allende refused to believe the military would abandon its responsibility to defend the constitution, even as the coup unfolded, but the writing was clearly on the wall. On

the morning of September 11, 1973, the navy, where the coup plot had been hatched in concert with the CIA and the U.S. military, took the port of Valparaíso; by early afternoon Allende was dead and the military has assumed control of the executive.

Transformations in the Economic Structure under Allende

Despite his brief time in office, Allende enacted sweeping transformations of the economic structure of the nation. Economic policy was carried out on two levels: macroeconomic and structural (Stallings & Zimbalist, 1975, 70-71). Macroeconomic policy in the first year sought to expand aggregate demand via wage and social-security increases, public spending and credit provision, and fixed-nominal exchange rates and strict price controls. The program was designed to wipe out excess capacity and strengthen support from the political base and appeal to the state-based middle class and small and medium-sized businesses (Bitar, 1986, 40-42; Larraín & Meller, 1991, 183). Wages and salaries were adjusted upwards by 100% over cost-of-living, with an even more considerable rise in the wages of the poorest-remunerated workers, with the objective of reducing labour-income differentials and fostering the broader class consciousness and solidarity of labour, while the pension contributions of employers were hiked in the first year from 8.4% to 10% of GDP (M. Mamalakis, 1976, 212). At the same time as consumer demand was unleashed, credit was concentrated in the hands of the Central Bank, which accounted for 75% of all bank loans between 1971 and 1973, and directed towards the public sector, which received 95% of all bank loans (Hermes, 1995, 98).

Structural reforms began with the Social Property Area (APS), the centerpiece of the Allende administration, designed to eliminate the most powerful domestic and foreign capitalists and pave the way for socialist transformation, coexisting at first with the mixed property and private property sectors. The basic idea was that because of the highly concentrated economic

structure of the country, the government could expropriate the commanding heights of the economy without alienating small and medium-sized businesses, whose support the government would require to build an electoral majority. The banking sector was immediately identified by government as critical to the success of the UP agenda: Allende stated in December of 1970 that “Only with the banks in the hands of the people by means of the government that represents their interests is it possible to fulfill our programme” (cited in Martner, 1988, 45). In early 1971 the UP set out to nationalize the banks via a carrot and stick approach: on the one hand, CORFO authorized the State Bank to use funds from the Central Bank to make attractive offers to private banks; and on the other hand, the government began to intervene in banks on the grounds of financial irregularities and labour disputes, the result of which was that by the end of 1971, virtually the entire banking system was in the hands of the government (Meller, 1998, 148).

The expropriation of industry, however, proved a more complicated task. Capitalists were relatively willing to jettison financial properties that ran losses to subsidize industrial and agricultural interests in the context of extreme financial repression, but they dug in when the UP came after the industrial heartland that was the remaining pillar of the economic power of Chilean capitalists. Attempts to nationalize industry were thus firmly resisted, as in the case of the CMPC, one of the iconic firms of the powerful Matte Group and upon whose board of directors sat former President Jorge Alessandri, where industrialists pooled a common fund to bid-up share prices and prevent state purchase. Compounding the greater resistance to nationalization was the absence of adequate legal tools for the expropriation of industry, which led the UP to rely upon requisition and intervention, a process that quickly escaped the control of the government and spilled into the take-over of small and medium-sized enterprises. As a result, while the state participated in or controlled over 500 companies by 1973, 52% of which without equity

investments, the largest industrial firms and the majority of output remained under private control (Larraín & Meller, 1991, 191).

Unlike in the industrial sector, the structural transformation of agriculture was well under way when Allende assumed the presidency. Nevertheless, the UP carried out several significant policy modifications. First, there was a dramatic acceleration in the process of expropriation, based upon Article 171 of the Agrarian Reform Law of 1967 that allowed land to be ‘intervened’ in the event of labour disputes. Initially conceived by the PDC as a measure to mitigate the economic effects of labour stoppages, the law authorized the state either to repress labour organizations or to takeover rural properties (B. Loveman, 1976, 271). Under Allende, it was the latter reading that prevailed and rural workers were able to use labour disputes to hasten land reform. In the six years of the Frei Montalva government, 1,406 estates and 3.5 million hectares of land were expropriated; in the nearly three years of the Allende government, 4,403 estates and 6.4 million hectares were taken over by the state. In total, the agrarian reform from 1964 to 1973 expropriated 5,809 estates and 9.9 million hectares of agricultural land, leaving practically no farms in the country over 80 BIH (Bellisario, 2007a, 15).²⁰ It was not only the large haciendas that came under attack, moreover, as half of the approximately 1,700 properties intervened in from 1970 to 1973 had fewer than 80 BIH (Falcoff, 1989, 103).

Allende also introduced a new transitional form of settlement called Agrarian Reform Centres (CERA) that were to lay the foundations for the construction of collective socialist farms and replace the transitional settlements (*asentamientos*) created by the PDC in order to manage the transition towards the reintroduction of private property. The CERAs represented a compromise position among the competing factions of the Popular Unity coalition that assembled expropriated properties into larger units and extended membership and voting rights to previously

²⁰ BIH stands for Basic Irrigated Hectare, a standard measurement unit that originated from the agrarian-reform period to control for land quality.

excluded groups such as women and landless workers within the given geographical area.

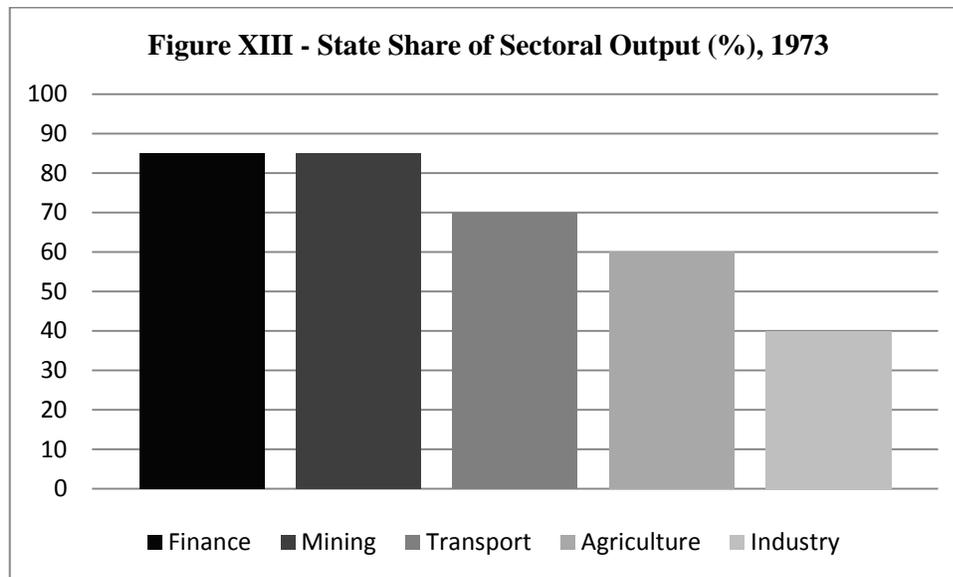
Resistance from the peasantry to the transfer of control over the surplus to bureaucrats, however, with fears stoked by PDC warnings of a Soviet-style collectivization scheme, meant that CERAs in practice became “combination of socialist morality and capitalist incentives” (Winn & Kay, 1974, 147), and Allende was forced to establish additional ‘transitional’ forms of landholdings, such as peasant committees and agrarian reform cooperatives. By the time of the military coup, only 207 of the expropriated estates had been assigned a definitive form of tenancy (Bellisario, 2007a, 15).

The expropriation of mining was the structural transformation that met the least domestic resistance. The Right in congress had for several years now been warming up to the nationalization of the U.S.-dominated copper industry, not simply for nationalist reasons but also to extract a pound of flesh from the United States for their support of agrarian reform under the PDC government. Shortly after assuming power, in December of 1970, the UP government sent a constitutional amendment to Congress for the nationalization of the mining industry. The amendment made the state the sole owner of all mineral resources in the country and declared null and void all contracts previously established with private companies. Although compensation to the former owners was provided for in the amendment, the formula calculated ‘fair’ compensation as market value minus ‘excess’ profits earned after 1955, as determined by the President of the Republic. Indeed, so high were the determinations of ‘excess profits’ that in the case of the two largest U.S.-owned copper mines, Chuquicamata and El Teniente, they exceeded the market value of the expropriated assets, meaning the owners in fact owed the government following expropriation. So overwhelmingly popular was the nationalization of the copper industry that the constitutional amendment was approved unanimously and declared “The Day of National Dignity”. By the end of 1971, the state was in control of all large mining

operations in the country, ranging from copper and coal to iron and nitrates (De Vylder, 1976; Ffrench-Davis & Tironi, 1974; Fortín, 1979).

State and Class Formation

The statist structural transformation initiated by the UP resulted in an unprecedented concentration of economic assets and output in the hands of the public sector. As we can see from Figure XIII, by 1973 the state controlled over 80% of the commanding heights of the national economy, finance and mining, as well as 70% of transportation, and 60% of agricultural land.



Source: Data from Larraín and Meller (1991, 191).²¹

In addition to the rapid expansion of control over the means of production, the state under Allende moved to seize control over the means of distribution, particularly once economic sabotage, shortages, and black markets became commonplace. The National Distribution Corporation, the Agricultural Marketing Corporation, and the National Corporation for Fuel

²¹ The figure for agricultural refers to total agricultural land controlled by the state rather than output share (Larraín, 1991, Table 10).

Distribution were set-up to control wholesale commerce, while Supply and Price Committees were established at the neighbourhood level, initially to assist the Secretariat of Industry and Commerce in the enforcement of price controls but whose role quickly spiralled into the distribution of “people’s market baskets” that threatened the viability of small-scale retailers and exacerbated the crisis as the distribution of scarce basic necessities was further politicized (B. Loveman, 2001, 251).

As the UP extended the reach of the state, however, the state apparatus itself began to fragment in an increasingly polarized manner. The initial support for the macroeconomic agenda provided by the PDC evaporated by 1971 and Congress became increasingly obstructionist and confrontational. The Congressional opposition sought to undermine the fiscal position of the government by rejecting tax increases and even promoting tax cuts to reduce revenues, moving impeachment articles against government officials, and bypassing constitutional restrictions on congressional authority by converting legislative bills into constitutional amendments to enable Congress to legislate in matters normally reserved for presidential initiative, such as the Hamilton-Fuentealba Amendment. Congressional opposition was joined by the Comptroller General and the Supreme Court, both of which persistently opposed the government, invalidating orders of requisition and property seizures, quashing the effort to bring charges against a conservative senator implicated in the assassination of General Schneider, and thwarting the creation of Neighbourhood Tribunals elected by universal suffrage to address local legal matters of lesser concern, with the President of the Supreme Court breaching protocol in 1971 to question the Neighbourhood Tribunals publicly (Garretón & Moulian, 1983, 56).

As the legislative and judicial branches hardened their opposition to the government, the national-security faction within the military began to assume greater influence. As discussed in Chapter III, a growing division within the armed forces began to emerge in the 1960s, between

the constitutionalist tradition of the army and police that dated from the modernization of the military in the nineteenth century along the Prussian model, and the more reactionary naval and air forces that had been the focus of U.S. military training and support throughout the 1960s and early 1970s. Institutional ideological traditions, moreover, were reinforced by class backgrounds, with the army and police forces drawing more heavily from middle and working-class families and the navy from the upper-middle class (North, 1976, 81-82). As the economy plummeted and the political system descended into polarized gridlock, the balance-of-power within the military began to shift towards the national-security faction and the apolitical and non-interventionist ethos of the military was undermined by its integration into political offices, particularly the incorporation of high-ranking officials into the cabinet. The resignation of Army General Carlos Prats from his dual positions as Minister of the Interior and Commander-in-Chief of the Army on August 23 removed the final obstacle to the ascension of the national-security faction to control over the armed forces.

At the same time as the balkanization of the state apparatus was transforming into polarization, the reforms of the UP government were accelerating processes of class formation and polarization within civil society. As we have seen, class formation among the propertied sectors had been limited to the corporate level from the 1920s onwards by the integration of capitalists into the myriad agencies of the state. Its opposition to even the moderate reforms of Arturo Alessandri following the collapse of nitrates in 1919 set off an acute social crisis and the arrival of the “social question” to national politics. From there, the dominant capitalist sectors consistently failed – despite the acceleration of social and political conflict and the patent unsustainability of the extant developmental trajectory, pressure from the United States via the Alliance for Progress, and the existence of a technical support in the form of the Klein-Saks mission – to develop, articulate, and support a coherent developmental vision for the country.

What was particularly interesting about the reaction of the peak associations of the business community to the election of Salvador Allende, moreover, was its initial timidity. While the PN immediately assumed a hostile and oppositional stance towards the new government, the business community adopted a more conciliatory and defensive posture that sought to negotiate through established channels to pressure the UP to define the “rules of the game” for nationalization and moderate its more radical positions, with the SNA going so far as to support “technical” agrarian reform to expropriate inefficient farmers (Campero & Valenzuela, 1984, 38; E. Silva, 1996b, 42). The timidity of the business community, as opposed to the strong opposition of the rightist parties, can be explained by three interrelated factors: (1) the absence of a strong class consciousness among capitalists, who tended to organize politically at the sectoral level and maintain distance from the Rightist parties; (2) the lack of a positive alternative program to address the acute social crisis; and (3) the dependence of business interests upon state protection and subsidy for their survival. Because the property owners and their peak associations sought to negotiate with Allende in the early months, moreover, they effectively ceded political protagonism to the PDC and its attempt to hem in Allende via constitutional guarantees and negotiations (Campero, 2003, 164; Garretón & Moulian, 1983, 57; A. Varas, 1977, 60-66).

The lack of interest on the part of the government in negotiating with the major peak associations, related to its decision to pursue de facto expropriations in order to increase public employment as part of their strategy to build a congressional majority, eventually forced the hand of the propertied sectors, whose opposition to the government accelerated following the municipal elections of March 1971, where the UP garnered nearly 50% of the popular vote. The first capitalist sector to move clearly into the polarized opposition was agriculture, which faced the most acute threat as the UP hastened and deepened the land reform in the face of rising direct

action and violent conflict in the countryside, threatening the very existence of the large landlords in Chilean society. Although the industrialists publically supported the landlords, behind the scenes they continued to negotiate with the government in hopes of institutionalizing the mixed-area economy and putting an end to state interventions in industrial property. That hope would soon fade, however, as the government accelerated the process of requisition and intervention, bolstered by the positive results of the municipal elections and in response to greater work agitation in the factories (Campero, 1984, 51-53).

By September 1971 the strategy of the business community was clearly shifting from behind-the-scenes negotiation to moderate the pace and depth of reform to open and hostile opposition. The spread of the existential threat from agriculture to industry helped to force the peak capitalist associations from their sectoral cocoons to rally around the defence of their most fundamental common class interest: private property. Financed by private-sector associations in Chile and Latin America and the CIA, the efforts to construct an ideologically coherent oppositional bloc culminated in the “Meeting of the Private Area”, organized by the CPC, SOFOFA, and the SNA on December 2, 1971, the same day Allende declared a state of emergency in Santiago Province following opposition marches and clashes between supporters and opponents of the government. At the meeting, Jorge Fontaine (CPC) and Orlando Saenz (SOFOFA) propose that opposition to the UP be framed not in terms of economic mismanagement or excessive popular mobilization but as the defence of private property, an idea quickly put into practice in the form of the National Front for Private Property, which brought together the major private business associations (Campero, 2003, 162). Although the trauma of the UP experience did not itself produce a clear developmental project supported by the business community, it did lay the foundations for the transformation of the class consciousness of

capitalists from the corporate to the economic level of common class interests that would provide the foundations for capitalist hegemony.

The decision by the most powerful business interests to frame and organize opposition to the UP in terms of private property was based not only on the very real threat of expropriation faced by the largest property owners, but also on the need to integrate small and medium-sized business owners into a counter-hegemonic bloc in opposition to the government. The class-coalition strategy of the UP government hinged importantly upon gaining the support of the small-business sector, or at the very least neutralizing its potential opposition. The hypothesis was that the UP could exploit the traditional social, economic, and political divide in Chile between monopoly capital and small-business owners by restricting their initial expropriation of private property to the domestic and foreign monopolists. This is why in their 1970 platform the UP proposed the maintenance of a private-property area of the economy, as a guarantee to the petty bourgeoisie that the social-property area would comprise only the holdings of the monopoly capitalists (Roxborough, O'Brien, & Roddick, 1977, 78-81).

At first the calculation bore fruit, as many small and medium-sized firms either supported or did not oppose the reforms of the government (Campero, 2003, 161-162). By the second half of 1971, however, small business was beginning to shift towards the opposition as the rapid growth of the first year began to mutate into inflation. The implementation of Supply and Price Committees in July 1971 – set up as alternative distribution networks in response to the advent of shortages and black markets – alienated small-scale retailers, as well as middle-class consumers who felt the new distribution channels favoured the poor supporters of the government (E. Silva, 1996b, 48). The growth of labour agitation in urban areas, moreover, accelerated the process of state requisition and intervention and expanded its reach beyond monopoly capital and into small and medium-sized businesses. The concomitant anxiety among the petty bourgeois sectors was

capitalized upon by the major peak associations, which by the end of 1971 were beginning to organize into a coherent opposition force (Campero, 1984, 58).

The mobilization of the petty bourgeoisie took the form of the Gremialista movement to create a parallel power to the state. Gremios were to be organized on the basis not of class but of function, not on the basis of political but rather technical criteria (Wright, 1982, 196). There were two key turning points in the second half of 1972: first, the collapse of negotiations between the UP and the PDC in June, which exposed internal fissures within each camp and provided an opening for the hard-line opposition to assume a more protagonistic role; and second, the announcement by the government of its intention to establish a state-owned trucking company in the Province of Aysén, which provoked a strike by the local trucker operators in early October (M. Pollack, 1999, 29). The major peak associations seized the opening created by the local strikes to finance and organize – with support from the CIA – petty bourgeois sectors across the country in a clear demonstration of its class power. By October 10, twelve thousand truck owners were on strike across the country and that number would quickly swell to forty thousand and continue to mount as truckers were joined by over one hundred professional and business associations. The national strike would last until November 6 and would precipitate the integration of senior military officers into the cabinet to restore order and public confidence in the government.

At the same time as the national truckers strike paralyzed the economy, the National Command of Gremio Defence, headed by transportation entrepreneur León Villarin, organized over 1,000 gremios into an anti-government movement. In late October of 1972, the National Command circulated a document titled “The Demands of Chile” (*El Pliego de Chile*), which was to serve as the basis for negotiations with the government. The document demanded the return of all companies requisitioned since August of 1972; a constitutional amendment to clarify and

formalize the three property areas; the elimination of the parallel distribution networks; property guarantees to small business; and the cessation of opposition radio closures, among other measures (Campero, 1984, 70-71). As the opposition to the UP within the private sector coalesced and hardened, the PDC found itself forced to join the opposition and adopt an ever more intransigent posture vis-à-vis the government. Although the Christian Democrats continued to negotiate with the UP into 1973, these negotiations increasingly took the form of demands for capitulation as the PDC tried unsuccessfully to reassert its leadership within the opposition forces, as the centre of gravity within the opposition shifted dramatically to the right (Garretón & Moulian, 1983, 148-150).

Allende firmly rejected the legality of the national strike, the legitimacy of the National Command, and made overtures to the PDC, but the class consciousness and counter-hegemony of the dominant capitalists that was giving shape to the opposition was now irreversible. As Montero observed, one of the principal effects of the Allende administration was that it helped to forge capitalists as a collective actor conscious of its class interests and class position (1997, 123). Whereas the political consciousness of capitalists had historically developed primarily at the sectoral level, with little effort made to integrate other sectors of society into a hegemonic project, by 1972 capitalists had increased transformed into a class for themselves, integrating the small-business owners that had historically been hostile to big business and the state-based middle class into an oppositional coalition. It is true that the dominant capitalist sectors still lacked a clear and coherent developmental program around which they could rally other sectors of the society, but the sense of class-for-itself provided the foundations upon which the state planners of the military dictatorship would construct a hegemonic capitalist class.

As the opposition took ever more organized and strident forms, the coalition of parties and social forces that comprised the UP began to unravel. Divisions with the UP coalition over

objectives and particularly over strategy existed from the beginning, between the PC, the PR, and the more moderate wing of the PS, represented by Allende, who believed the government must first lay the groundwork for socialism within and beyond the state and must in the near-term focus upon the formation of a broad anti-monopoly and anti-imperialist coalition, and the dominant and more radical wing of the PS and the MAPU, who insisted on the immediate construction of a socialist society in the belief that alliances beyond labour would simply paralyze the government in the face of the inevitable bourgeois reaction and result in counter-revolution (De Vylder, 1976, 38-40; García, 1979, 179-181; Tapia-Videla, 1979). As the initial success of the macroeconomic reforms of the first year turned into productive stagnation and mounting inflationary pressures, however, the internal divisions heated up after the municipal elections of 1971 in which the PS surpassed the PC in popular support, and boiled over at the coalition conclave in Lo Curro in June of 1972, between those who felt poor economic performance was the product of an inadequate socialist transformation and called for an acceleration of state control, and those who felt the UP needed to consolidate the gains made and address macroeconomic imbalances via concessions to the opposition on the question of the social property area and policies of fiscal austerity, wage restraint, and price liberalization (Bitar, 1986, 53-63; De Vylder, 1976, 78-80; Stallings & Zimbalist, 1975, 78-79).

The triumph of the consolidationist position at Lo Curro would simply exacerbate the contradictions between the coalition and the social forces that were driving the revolutionary process. Allende pivoted towards measures to rein in inflation, promote investment and production, and limit the fiscal deficit, including a sharp devaluation of the escudo and price liberalization for a range of goods and services in the hopes of incentivizing private-sector investment and reigning in the fiscal deficit. The negative effects of these policies upon workers and the poor, however, further radicalized the social base of the government, stoked by the radical

wing of the UP that sought to achieve its ends willy-nilly by fomenting labour uprisings and occupations. Public-sector strikes per firm more than doubled from 1971 to 1972, a year in which one of every two mining workers went on strike. Similarly, land takeovers reached 1,228 in 1972, compared to only 214 takeovers during the six years of the Frei Montalva administration (Falcoff, 1989, 136-137; Meller, 1998, 143).

In addition to labour unrest and property takeovers, the MAPU, the MIR, and increasingly the PS joined the radical social forces to push for 'popular power' and the construction of parallel forms of social power, such as the industrial belts (*cordones industriales*), groups of factory workers established to pressure the state to accelerate the requisition process, and the communal commands (*comandos comunales*) that linked industrial belts to peasant unions, student associations, and neighbourhood councils that were to serve as the foundations for a new popular assembly. Initially designed to pressure the government, the industrial belts in reality became an alternative political base for labour beyond the state. By 1973, as the probability of a military coup increased, industrial belts would be seen as laying the groundwork for an alternative system of military defence of the working class, a development fiercely resisted by Allende and the consolidationist wing of the UP. As the opposition congealed under the stewardship of the dominant capitalists, the Popular Unity coalition and its supporters in civil society were disintegrating. When the plot was hatched on the morning of September 11, 1973, the opposition fell in line behind the military junta while the UP government and its supporters in civil society, divided and weakened, were decimated by the coercive powers of the state.

Class Rule and Economic Development

The violent end of the Popular Unity experiment begs one of Latin America's great historical counterfactuals: was the democratic road to socialism doomed to end in a military

coup? An adequate answer to this question would require another dissertation entirely. We can nevertheless engage the question superficially as an introduction to the summary of the main arguments of this chapter thus far. There was unquestionably a litany of errors of strategy and execution that contributed to the collapse of the UP government. Many have questioned, for instance, the simplistic assumption of a common class interest between urban labour, rural workers, the state-based middle class, and small businesses against the domestic and foreign monopolists. Internal tensions quickly erupted into open conflicts over social and private property rights in urban and rural areas and between those calling for the acceleration of the socialist revolution and the radicalization of the blue-collar workers and popular sectors, on the one hand, and on the other the socio-political disposition and orientations of the state-based middle class (Campero, 1984, 53-61; Faúndez, 1988, 186-187; Garretón, 1983, 46-47). Others have pointed to the strategic contradictions between the short-term political objectives of constructing an electoral majority via income and property redistribution and the medium and long-term reality of generating the resources necessary to expand investment and output. It was this concern that supposedly led Fidel Castro to offer the following critique: “Marxism is a revolution of production; Allende’s was a revolution of consumption” (Falcoff, 1989, 57, 72).

Strategic miscalculations were compounded by numerous errors of execution. One of the principal shortcomings of the UP at the level of execution was the failure to direct mass mobilizations into state channels. For instance, the social-property area benefitted those sectors of the proletariat with high levels of socio-political organization, but offered less to the substantial populations in the peri-urban and rural areas where the mechanisms to institutionalize popular participation and interests simply did not exist. The result of this inability of the UP to contain the subsequent mobilizations and demands of the popular sectors and the formation of parallel political institutions such as the Industrial Belts and the Communal Commands that largely

escaped state control and influence and provoked concern within military circles (Garretón, 1983, 48-50).

Moreover, even where popular participation was institutionalized, it simply exacerbated the institutional incoherence of the state. For example, worker participation in the social property area, because it did not replace but was rather layered on top of existing forms of labour organization, not only undermined existing trade union hierarchies, but resulted in organizational forms that were described by one sympathetic observer as "...very complex and almost baroque. Fifty separate committees, often with overlapping membership, were to be setup in various shops, sections, and departments of an enterprise..." (Zammit, 1973, 199). Organizational incoherence within the state was furthered by the frequent insistence upon unanimity – for example in the Political Commission of the Popular Unity – and the appointment of party officials with little to no managerial experience to supervisory and decision-making positions within the state and productive apparatus that simply transposed the internal divisions of the governing coalition onto the state and aggravated the generally poor planning and economic mismanagement that plagued the government (Kaufman, 1988, 218-243; A. Valenzuela, 1978, 64-66).

The final factor frequently cited for the failure of the UP is the persistent opposition and intervention of the United States. The efforts of the U.S. state certainly contributed to the destabilization and fall of the Allende government, but one must be careful not to overstate the influence of the U.S. and to resist the temptation to draw a straight line between the 'overthrow' of Allende by the U.S. and the subsequent implementation of neoliberal reforms. It is true the State Department pressured the domestic and international international donors to withhold new foreign credits and projects (approved funds were distributed as planned), but the claim the U.S. imposed an "invisible blockage" that brought the Chilean economy to its knees is overstated. Credits provided by the U.S.S.R. and China, Western Europe, Canada and Australia, and Latin

America more than made up for the withdrawal of new U.S. financial support and the most crippling external financial restraint, the sharp decline in copper prices, was unrelated to U.S. influence (B. Loveman, 2001, 259; Sigmund, 1974, 322-340). There were two areas where the United States did play a significant role: the mobilization of planning and support for the coup within the Chilean military; and the provision of financial and logistical support to the opposition within civil society, but the U.S. role even here was in no sense determinant. Indeed, given the immediate hostility of the Nixon Administration to the election of Allende, the fact that the UP governed for nearly three years suggests the primacy of internal over external forces.

The problem with the more ‘voluntarist’ explanations that emphasize strategy, execution, or foreign intervention is that they downplay the deeper and profoundly contradictory structural-historical forces that had driven the Popular Unity to power in the first place. In a letter to Bertrand Russell, Trotsky commented, on the spontaneous and tumultuous nature of the revolutionary process: “Revolutions are as a rule not made arbitrarily. If it were possible to map out the revolutionary road beforehand and in a rationalistic manner, then it would probably also be possible to avoid revolution altogether. Revolution is an expression of the impossibility of reconstructing class society by rationalist methods” (cited in Deutscher, 2003, 187). In effect, revolutions cannot be properly planned because they represent the abject failure of planning in the face of contradictory social forces. Garretón argued the election of Allende represented only a partial crisis of the social system, as the institutional framework of formal democracy remained in place (1983, 41), but it is the contention here that the election of the UP to power represented not a partial but rather an organic crisis in which the contradictory socio-political forces and struggles could no longer be contained by the institutional boundaries of the state.

It has been argued many times by those on the left and right that the UP could have – indeed should have – reached a compromise with the PDC in order to save the institutional

foundations of the extant order and headed off the descent into military barbarism. But how viable would such a compromise have truly been? The claim Allende should have reached an agreement with Frei Montalva assumes not only that the leadership of the UP could have sold such a compromise to its party members and social base, a dubious proposition, but more importantly that there remained a middle path to be walked. If the compromise solution of the PDC failed in the context of an extremely favourable external environment of high copper prices and strong U.S. support, why ought we believe a compromise program could have succeeded in the post-1971 context of a deteriorating external environment and a domestic setting characterized by grave macroeconomic imbalances and a hyper-politicization and polarization of civil society and the state?

It is this 'revolutionary situation' triggered by the election of Allende to the presidency that captures the historical significance of the Popular Unity to our broader narrative of capitalist transition. The Chicago Boys saw Allende as nothing more than an acceleration of the historical tendencies towards statism that had been gaining momentum from the 1930s. But they were only partially correct. The historical forces that produced Allende had indeed been in motion for many decades, but the Popular Unity years represent not the linear culmination of statism but rather the historical marker of the limits of the passive-revolutionary dialectic. The pressures between revolution and restoration had escaped the boundaries of institutional stalemate and had divided civil society and the state irreparably.

Although the Popular Unity coalition would fail in its stated objective to construct a socialist society, the traumatic experience of the Allende government laid the dual foundations upon which the military regime would reconstruct civil society. The concentration of economic resources in the hands of the state and the existential threat to capitalist property posed by the UP provided the economic planners of the dictatorship with the power and autonomy to reshape the

economic structure of the nation and its principle actors. The galvanization of the class consciousness of capitalists beyond the sectoral gaze, around their most primal common interest of private property, erected the canvass upon which the state could transform counter-hegemonic class consciousness into capitalist hegemony. In his discussion of post-revolutionary France, Marx observed that the bourgeoisie came to power not “...through a liberal revolt of the bourgeoisie against the throne, but through a...mutiny of the proletariat against Capital. That which it imagined to be the most revolutionary, came about as the most counter-revolutionary event” (2005, 11). In Chile, it was the revolutionary proletariat that destroyed the old order, and capitalist hegemony was constructed not by the revolutionary bourgeoisie but by military reaction.

State Capacity and the ‘Coup within the Coup’

The sociopolitical stalemate of the final months of the Allende presidency fuelled a chaos and social disintegration that turned one of Latin America’s most stable and resilient formal democracies into “a nation of enemies” (Constable & Valenzuela, 1991). Into this tinderbox was unleashed the full coercive power of the state, “the weight of the night” in the memorable phrase of Diego Portales, the result of which was an intense and unmeasured repression of a country engulfed by a callous brutality. In the weeks, months, and years after September 11, 1973, thousands of leftists were rounded up and killed, tens of thousands more were imprisoned and tortured, and violence spilled across state borders, most famously in the form of “Operation Condor” and the assassinations of General Carlos Prats and his wife in Buenos Aires in 1974 and Allende minister and diplomat Orlando Letelier in Washington in 1976.

Beyond the reestablishment of order, however, there was little in the way of forward-looking consensus not only within the military junta but also amongst its supporters. The

principal internal conflict was between the restorationists, who broadly wanted a return to the pre-1973 democratic system that excluded the Marxist political parties, and the authoritarians, who wanted to use the military regime to transform the political and economic structures in the country in order to ensure the past would not repeat itself (see Garretón, 1984). There were also numerous additional divisions related to economic policy, between the radical neoliberals and the more pragmatic liberalism that had gained traction within the business community over the course of the 1960s, the form and function of a new political institutionality, between a corporatist system based around occupational associations or a protected and restricted liberal democracy, and the role of the military in politics (Vergara, 1985, 57-60). The only concrete policy agenda that united the restorationists and authoritarians was the necessity of reversing the popular mobilizations and policies of the Allende years (Campero, 1984; Garretón, 1983; Moulian, 1983).

The first phase of the military regime was dominated by ad hoc measures in two areas around which there was general consensus on objectives if not always modalities. First was the “normalization” of the political situation, which consisted of two main thrusts. On the one hand, democratic political activity was suspended and groups affiliated with the UP were severely repressed. The junta dissolved congress and the constitutional tribunal, declared of a state of emergency, banned Marxist doctrines, took control of the media, and formalized of the National Intelligence Directorate (DINA), a secret police force that had been operating extra-officially from late-1973. On the other hand, the military regime reached out to integrate members of the conservative wing of the PDC (several of whom became key members of the economic policy-making team) and moderate labour and peasant leaders into the formal channels of communication and decision-making (K. L. Remmer, 1989, 10).

The second area that required urgent action was the stabilization of the economy. By 1973, macroeconomic policy was an utter disaster. In addition to the decapitalization and

mismanagement of the state-run enterprises that comprised much of the economy, trade and exchange policy was totally incoherent: there were fifty-seven different tariff rates ranging from zero to 750%, a system of eight different exchange rates, the highest of which was ten times the lowest, and an elaborate system of non-tariff barriers such as the requirement for a ninety-day deposit of 10,000% of the CIF value of imported goods and the prohibition of more than 300 import items (Meller, 1994, 98). As Agosin starkly observed, “This particular system...did not respond to any developmental objective” (2001a, 109). It is no surprise, then, that the military regime inherited an economy on the precipice, with severe macroeconomic and fiscal imbalances that manifested in near hyper-inflation, deteriorating current account and balance of payments situations, practically no foreign reserves, and a budget deficit of nearly 25% of GDP, up from just 2.7% in 1970 (Corbo, 1993, 4).

Early economic policies focussed initially upon the repeal of the policies implemented by the UP and did not yet represent an outright repudiation of the pre-1970 trajectory. The main policy objectives from September 1973 to June 1974 were (1) the reduction of macroeconomic disequilibria by means of fiscal austerity, a massive 230% devaluation, and selective price liberalization; and (2) the “cleansing” (*saneamiento*) of the productive base by means of the return of property expropriated illegally and the reestablishment of labour discipline. The release of the “Declaration of Principles” of the military regime in March of 1974, however, signalled the rise of authoritarian refounders. Gone was the rhetoric of the need to “restore the broken institutionality” of the state, replaced by the call for a “new institutionality” (Fontaine Talavera, 1992, 108). Economic policy from July of 1974 to June of 1975 began clearly down the path towards radical and structural transformation. Non-tariff barriers were eliminated, the exchange rate was unified, and maximum tariffs were sharply reduced, from 220-750% to 160%, in order to eliminate the ‘water’ in the tariff, in the sense of maximum levels that far exceeded what was

required to protect domestic industry, thereby preparing firms for foreign competition. By the middle of 1975, neoliberal ideology dominated economic policy making and by the end of the decade its reach had extended to control nearly all areas of public policy.

Given that support for and the implementation of the radical neoliberal agenda emerged only gradually, it is important to ask why the military regime in Chile was able to implement such a thorough neoliberal reform when similar reforms effort in Argentina and Uruguay were repeatedly frustrated? Why was the Chilean state capable of the kind of strategic capacity that its neighbours in the Southern Cone lacked? After all, the military junta inherited not only an economy on the brink of collapse, but also a state apparatus riven by internal contradictions and incoherencies and thoroughly penetrated and disarticulated by sectoral interests that had thwarted the design and implementation of developmental programs from the reformist Popular Front to the more radical governments of Eduardo Frei Montalva and Salvador Allende. Part of the answer can be found in the reforms of Allende that dramatically weakened the capacity of entrenched capitalist interests to resist more radical measures while simultaneously placing control over much of the national economic in the hands of the state. The decision in 1976 to create the National Copper Corporation (CODELCO), moreover, proved critical as profits from CODELCO would finance around 20% of the national budget and in many ways underwrote the subsequent reforms.

The other part of the explanation, however, can be traced to three interrelated developments internal to the state itself: the consolidation of power in the hands of Pinochet; the hegemonic rise of the Chicago Boys across the state apparatus; and the centralization of the planning and implementation functions in a handful of state agencies organized around the Ministry of Finance. Perhaps the most critical difference between the military regimes in Chile

and other parts of the Southern Cone was the distribution of power within the military. In Argentina, divisions between the branches of the military and the social forces they represented encumbered the centralization of power and the implementation of a coherent vision. In Chile there similarly existed significant disagreements within the junta as to the direction of reform, from the more corporatist vision of the Air Force to the neoliberal vision of the navy, and policy in the first year was accordingly halting, inconsistent, and contradictory. The concentration of power in the hands of Pinochet, however, subordinated these internal divisions and made possible the rise of civilian planners over the objections of rival branches of the military (A. Varas, 1983, 11).²²

One of the more interesting features of the rise of Augusto Pinochet was that the Army had been the staunchest defender of the constitution throughout the years of the UP government – likely one of the main reasons Allende himself refused to believe the military would rise up against him – and Pinochet himself had been hesitant in his support for the coup throughout the planning stage. Indeed, the U.S. state department was concerned that Pinochet “...held the view that the military had no role in politics” and as late as August of 1973 had only been able to ascertain that “he [Pinochet] agreed not to interfere in the coup” (cited in Haslam, 2005, 211). The CIA and the State Department, moreover, were not the only conspirators concerned about the commitment and capacity of Pinochet. On September 9, 1973, Vice-Admiral José Merino, one of the driving forces of the coup within the Chilean Armed Forces, sent a letter to Generals Leigh and Pinochet, on the back of which he wrote: “Augusto: If all the forces in Santiago are not committed from the first moment, we will not live to see the future” (cited in Haslam, 2005, 220).

The ascension of Pinochet began immediately upon the seizure of the executive.

Although the military junta of Augusto Pinochet (Army), Gustavo Leigh (Air Force), José

²² For information on the rise of Pinochet, see Arriagada (1986; 1988), Cavallo et al. (1988), O’Brien and Roddick (1983), Valenzuela (A. Valenzuela, 1991), and Varas (1979).

Toribio Merino (Navy), and César Mendoza (Police) were to share and divide all legislative and executive functions, Pinochet was named head of the junta, on account of the traditional supremacy of the army within the Armed Forces. The titular position of head was initially conceived as a rotating position of first-among-equals, but Pinochet was quickly able to parlay his position into supremacy within and then domination over the junta. The keys to the rise of Pinochet were his control over the coercive apparatus and the flow of information. One of the first moves Pinochet made was to strengthen his grip over the army, where he perceived his authority as tenuous, given that numerous army officials had been more involved in the planning and execution of the coup. Ten days after the coup, Decree Law 33 provided Pinochet with complete authority over the promotion and dismissal of army officials. Originally designed to purge the military of UP loyalists, in practice it allowed Pinochet to staff the upper echelons with loyalists and remove any potential adversaries. With the army firmly under his control, Pinochet formalized the DINA in November of 1973, ostensibly to coordinate the intelligence activities of the armed forces but in reality as a secret police force controlled directly by Pinochet himself. By June of 1974, the DINA was turned into the official repressive apparatus of the state via Decree Law 521 and had become an agency feared both within and beyond the junta.

The second power base of Pinochet was his control over information. The Junta Advisory Committee (COAJ) was organized informally in September of 1973 (and formally from May 1974), again ostensibly to advise the junta. In reality, however, the COAJ was staffed by Army loyalists and reported first to Pinochet, which allowed him considerable control over the flow of information and the content of the Decree Laws presented to the junta. Early on, Pinochet instructed the COAJ to design an institutional mechanism for the centralization of power in his person, the result of which was Decree Law 527 of June 26, 1974, which separated executive and legislative power and vested the former in the office of the Supreme Head of the Nation (later

changed to President in December of 1974), to which Pinochet was appointed until death, resignation, or impairment. From his position as President, Pinochet began to make appointments and undertake initiatives without consulting the junta and dissolved the social, economic, and agrarian councils (headed by other members of the junta), after which time ministries submitted proposals directly to Pinochet, who in turn decided what was submitted to the junta for approval.

The centralization of power in the figure of Pinochet was not without opposition, however. Admiral Merino and General Leigh both resisted DL 527, for instance, but the concentration of repressive power and the control over information flows allowed Pinochet to gain their accession. Pinochet subsequently weakened Merino, until then in control of the economic portfolio, in early 1975 when he took advantage of the Admiral's health-related absence from the junta to consolidate economic decision-making in the "Super Ministry of Finance" without prior consultation with the junta. The most forceful internal opposition, however, came from General Leigh, which peaked in early 1978 when Leigh openly called for a change in the decision-making process of the junta and a return to civilian rule within a five-year period, upon the basis of the 1925 Constitution. Pinochet responded in July 1978 by forcing Leigh to retire via an executive decree that declared Leigh mentally incompetent to continue performing his duties. In order to prevent an uprising in the Air Force, Pinochet placed the Army, Navy, and police on alert throughout the entire country and forced most of the upper echelons of the Air Force (including eight generals) into retirement, eventually replacing Leigh with Fernando Matthei, who had been tenth in rank in the Air Force command. The removal of Leigh formally ended the internal opposition to the consolidation of power in the hands of Pinochet.

Before moving to the second component of the enhanced strategic capacity of the state under the military dictatorship, the rise of the Chicago Boys, it is important to emphasize that while Pinochet delegated considerable authority over economic and social policy to his civilian

planners, he always kept counterweights to the Chicago Boys within the state, regularly shifted personnel between ministries so as not to become overly dependent upon any one individual, and never ceded total control over economic and social policy (K. L. Remmer, 1989, 12). Military personnel controlled the CODELCO and CORFO, and military loyalists such as Coronel Gastón Frez and General Danús were strategically placed in key positions within the planning and economic decision-making apparatus to counterbalance civilian influence and provide replacements if necessary, as was the case in the crisis of the early 1980s. The visible hand of Pinochet and the military across the state apparatus overruled the Chicago Boys on several occasions, including the decisions to keep CODELCO public and other strategic industries in state hands and to index wages to inflation (Teichman, 2001, 76).

Although the ascendancy of Pinochet was critical to the development of the strategic capacity required to implement a radical transformation of state and society, the rise of the Chicago Boys was equally critical to give the refoundational mission of the military regime its direction, content, and coherence, in addition to facilitating the continuity of the policy direction even after the initial leadership group had left the government (K. L. Remmer, 1989, 11). The eventual hegemony of the Chicago Boys across the planning, economic, and social ministries and agencies, however, was far from a foregone conclusion. In fact, from the outset opposition to the radical program of the Chicago Boys existed not only within much of the military beyond the navy, but also within what remained of the business community. The political base of the dictatorship was similarly hostile to radical neoliberalism, from the petty-bourgeois *gremios* whose strikes had paralyzed the economy under Allende to the nationalist hard-liners (*duros*), a diverse group of ultra-rightists – including many military officials – who advocated indefinite military rule and a more statist resolution to the economic crisis, and whose leader, Pablo

Rodríguez, founder of Fatherland and Liberty, had played a major role in the opposition to the UP and enjoyed close contacts with high-level military officials including Pinochet.

There were two main components to the rise of the Chicago Boys to hegemony within the policy-making apparatus. The first and most important was the decision by Pinochet to opt for the radical plan advocated by De Castro and his allies. The Chicago Boys entered the military regime in subordinate positions via their connections to the Navy. Admiral Merino brought key Chicago Boys into the economic decision-making apparatus, from Baraona and De Castro in Economy to Zavala and Sanfuentes in the Central Bank, while Roberto Kelly, who had served as the interlocutor between the Navy and the Chicago Boys prior to the military coup, used his position as head of ODEPLAN to staff the agency with radical economists like Miguel Kast and Tomás Lackington (Arancibia Clavel, 2005, 168). In the narrative that emphasizes the role of ideas, the Chicago Boys – and De Castro in particular – were able to use their positions within the military regime to participate in internal debates within the junta and between its supporters, and by early 1975, after several key policy victories and a visit from Milton Friedman, who met with Pinochet while attending a conference organized by the Chicago-Boy conglomerate BHC, the President was convinced to support the radical reform agenda (Fontaine Aldunate, 1988, 62-63; Hira, 1998, 75-110).

The explanation, however, that De Castro and the other Chicago Boys simply ‘convinced’ Pinochet – with an assist from Friedman -- of the merits of their plan is unconvincing. After all, Pinochet had spent his entire adult life in the Army with its strong corporatist and integrationist ideologies. The decision to implement a radical neoliberal plan that was opposed not only by other members of the junta but by much of the social base of the military regime was itself a bold and risky move, and Pinochet had in the lead-up to the coup proven himself cautious and risk-averse. There are undoubtedly many factors that contribute to

decisions of such magnitude, in this case ranging from the prestige and clarity of the plan advocated by the Chicago Boys and the close personal relationship that emerged between De Castro and Pinochet to the objective allure of a plan that promised to de-politicize social relations, which undoubtedly appealed to the distrust of politics and politicians so common to the military mind. There is, however, a more fundamental explanation rooted not in the sway of ideas but rather in the more mundane reality of power politics: Pinochet sided with the radical economists because they provided him with a clear alternative program in his internal battle with General Leigh.

The struggle between Pinochet and Leigh was one of the defining features of the early years of the military junta. From early on Leigh tried to use his influence over labour and social policy, under the control of his friend and loyalist General Nicanor Díaz, to build a social and institutional base against the concentration of power in the hands of Pinochet. The implementation of the radical project, therefore, not only weakened Merino by coopting a key part of his institutional base and support, more importantly it undermined the social and institutional foundations of his main rival within the junta by eviscerating industrial and labour interests from the import-substitution era, marginalizing Leigh supporters within the regime, and rendering his corporatist and integrationist program moot. Indeed, the importance of the internal power struggle in the decision by Pinochet to pursue the radical agenda is suggested by two key facts: (1) that neither the junta nor the top economic advisors at the time, Raúl Sáez and Fernando Leniz, was consulted or even told in advance of the decision; and (2) that the enabling legislation that created the position of Super Minister authorized its occupant to designate and remove nearly any state functionary and granted Pinochet the authority to designate and remove ministers

unilaterally, a power previously shared by the junta.²³ The promulgation of Decree Law 966 and the shift towards the radical neoliberal program in 1975 completed the institutional foundations for the ‘coup within the coup’, formalized with the dismissal of Díaz in 1976 and the forced retirement of Leigh in 1978.

The second component of the rise of the Chicago Boys to hegemony within the institutional apparatus of the state was their ability to gain the support of other key civilian members of the military regime, which allowed them to consolidate their hegemony across the ministries and agencies of the state. In particular, it was the conversion of the *blandos* (soft-liners), gremialistas like Sergio Fernández and Jaime Gúzman, to the neoliberal model that solidified the hegemony of the Chicago Boys within the state.²⁴ While the Iberian corporatist foundations of the gremialista movement in many ways contradicted the atomistic ontology of the neoliberals, there was an important shared history between the two groups, from their time at the Catholic University in the 1960s to their work at ODEPLAN, which became the key agency that brought the ‘economic’ and ‘political’ wings of the refoundationalist camp together (see Huneus, 1998). Beyond their ontological differences, moreover, there existed considerable common ground at the level of political principles, chiefly anti-statism and de-politicization. The “neoliberalization” of the gremialista movement not only facilitated the spread of the Chicago Boys and their ideas into new realms like the Ministry of Labour, where Fernández took over in

²³ Sáez and Léniz, both supporters of gradual reform, had backed the ascension of Cauas and were surprised by his adoption of the radical neoliberal agenda, given his roots in Christian Democracy and the influence of PDC-intellectual Jorge Ahumada on his thinking. After serving in the Frei Montalva government, however, Cauas ended up at the Economics Institute at the Catholic University, where he worked closely with De Castro, Baraona, and other Chicago Boys and became influenced by their thinking, a process reinforced by a stint during the Allende years at the World Bank (Fontaine Aldunate, 1988, 80).

²⁴ The division between ‘blandos’ (soft-liners) and ‘duros’ (hard-liners) was one of the principal political schisms within the military regime and revolved primarily around the duration of the military regime (transitional versus indefinite) and the character (protected liberal-democratic versus military-corporatist) of the new institutionality. As Garretón warns, however, one should be careful not to overstate the profundity of this schism because for a more significant division to have emerged, the ‘blandos’ would have had to ally themselves with centrist forces beyond the military regime, a near unimaginable scenario (1983, 140-141).

1976, it also institutionalized the neoliberal order in the form of the Constitution of 1981, of which Gúzman was the chief intellectual architect (Fontaine, 1988, 30-32; Valdés, 1995, 201-205; Vergara, 1985, 168-173).

The final component of the internal reorganization of the state that dramatically expanded the strategic capacity of the state planners was the centralization and coordination of economic policy. Prior to the dictatorship, decisions over a range of economic policies from import licences and tariffs to social security and industrial subsidies were made in an ad hoc and contradictory fashion, absent a global developmental plan and with little consideration for the impact of decisions taken in one area of policy on other areas. Indeed, one of the central critiques presented by the Chicago Boys in “The Brick” was not the existence of state planning per se, which they recognized as a legitimate and necessary public function, but that state planning had been carried out in an incoherent and contradictory manner. This critique, moreover, was hardly restricted to the radical right: the inability of the executive to carry out developmental plans had been bemoaned by presidents of all stripes, from Alessandri to Allende.

One of the chief reforms of the dictatorship, then, was its relative disempowerment of sectoral ministries and semi-autonomous state agencies in favour of a handful of ministries organized around the nodal Ministry of Finance. As Pinochet concentrated power in his hands and began to appoint key Chicago Boys to the pinnacles of economic policy decision-making, private-sector peak associations found their traditional channels of influence shut down and access to policy makers greatly restricted (Schamis, 2002, 54-55). The initial node of centralization was ODEPLAN, a planning agency responsible for the coordination between ministries and institutionally linked directly to the presidency. Upon his assumption of its directorship in 1973 and after a thorough analysis of its organization and functions, Roberto Kelly described ODEPLAN as a “gold mine” and observed “I realized immediately that ODEPLAN

could be an important nexus between the liberal civilian economists and the military” (cited in Arancibia Clavel, 2005, 164). Recognizing the strategic centrality of ODEPLAN within the state, Kelly staffed the agency with Chicago Boys who would go on to prominent positions throughout the state apparatus, including Sergio de la Cuadra (Minister of Finance and President of the Central Bank), Álvaro Bardón (President of the Central Bank, President of the State Bank, Sub-Secretary of Economy), and Miguel Kast (Director of ODEPLAN).

Emboldened by its broad mandate, ODEPLAN began to release plans for tariff reductions, tax reform, trade liberalization, labour legislation, social security transformation, social spending and poverty reduction measures, and privatization that would serve as the foundation for the “Cauas Plan” – or “shock treatment” – of 1975 and the subsequent neoliberal reforms (Fontaine Aldunate, 1988, 45-46). In a sense, ODEPLAN became the “incubator” for the new state (Ruiz & Orellana, 2010, 30). With many of the concrete plans in place, the key moment was the promotion of Jorge Cauas to the position of Minister of Finance and the promulgation of Decree Law 966, titled “Special Powers of the Minister of Finance”. DL 966 established a Ministry of Economic Coordination and Development headed by the Minister of Finance. In effect, the legislation transformed Finance into a ‘Super Ministry’ responsible for the definition, execution, and supervision of the financial, economic, and social policies of the state. Whereas the Ministry of Finance was previously subordinated to the Ministry of Economy and the myriad of state agencies that actually set government policy, DL 966 placed Finance at the apex, in control of not only Economy, Agriculture, and Mining, but also Labour and Social Security, Public Health, Housing and Urbanization, and CORFO. Moreover, DL 966 granted the Minister of Finance the authority to recommend the removal of state functionaries in order to ensure compliance across the bureaucracy. The Ministry of Economic Coordination and Development thereby became the coordinating agency of state planning, integrating the Chicago-

Boy dominated Ministry of the Economy, Central Bank, and ODEPLAN under the tutelage of the Ministry of Finance.

The Chicago Boys and the Revolutionary Project

One of the central contentions of this dissertation is that the military regime represented not a counterrevolutionary rollback of the developmentalist state of the previous decades but a state-led capitalist revolution from above. As Schneider contends, one must distinguish between the overt and covert levels of policy, between the specific macroeconomic and sectoral policy objectives and effects, such as the reduction of inflation through fiscal and monetary restraint, and the deeper level at which policy impacts the formation and transformation of institutions and class actors (1984, 210). From the beginning the Chicago Boys were cognizant of the need for a radical transformation of state and society. Simply undoing the policies of the Allende government did not represent a viable resolution to the political and economic crisis of the nation because Allende was not the cause of the crisis but rather its most virulent symptom. As the intellectual leader of the Chicago Boys, Sergio de Castro, wrote, “Our problem at the end of 1973 was not to return to record inflation, record levels of state participation in the economy, and the traditional inefficiency and stagnation of the economy. The explanation of the social crisis was not the last three years of poor governance. These were rather the consequence of decades of mismanagement” (DIPRE, 1978, 362). Former Pinochet Minister of Finance Hernán Büchi echoed this appraisal of the origins of the crisis when he observed, “It may be uncomfortable for some to admit, but in reality the socialist government in Chile did nothing that was entirely distinct or against the evolution of the country from the 1930s” (2008, 57).

The deep structural causes of the crisis would in turn require a radical reconstruction of state and civil society that went far beyond the overt level of inflation reduction and trade

liberalization. The Chicago Boys knew full well, moreover, that one of the chief obstacles to their reform agenda was the entrenched business interests that, in the words of De Castro, “...cultivate close relationships with politicians and state officials” and “whose actions run contrary to the general interest” (1992a, 33-47). As a result, the neoliberal technocrats persistently and publicly chastised industrialists and other powerful business groups for their opposition to tariff liberalization and other measures that could threaten their short-term economic interests. As former Minister of the Economy and President of the Central Bank, Pablo Baraona, wrote, the task of the military regime was not only “...to restore in the eyes of the public the role of private enterprise in economic development” but also to transform the practices and mentalities of the dominant business actors by carrying out “...a transition towards an economic system better suited to the production of true businessmen” (DIPRE, 1978, 354-355).

When the Chicago Boys took control of the main economic policy-making agencies of the state in mid-1975, they found themselves in a position of extraordinary power from which to implement the radical restructuring. Not only had the dictatorship suppressed the opposition through fear, violence, and exile, the traumatic mass mobilizations and state expropriations during the Allende years of much of the financial, agrarian, mining, and industrial sectors had weakened the entrenched capitalist interests opposed to more radical reforms and constrained their willingness to break publically with the military government. The historical opportunity, moreover, was not lost on the Chicago Boys, who wrote in their neoliberal blueprint, *The Brick*: “It [the Popular Unity government] opens a wide channel for a real and profound correction and creates the necessary conditions for the adoption of political and economic measures that, motivating the work and effort of our human resources, will put us on the true path to social, cultural, and economic progress” (De Castro, 1992a, 29).

But contrary to popular interpretation, the objective was not to get the state out of the economy but rather to use state power to reconstruct state and society. In fact, former Minister of Finance Hernán Büchi rejected the term ‘deregulation’ to characterize the economic policy of the military regime, writing “...the word could not be more unsatisfactory”, because the objective of the military regime was not to deregulate but rather construct new regulations and norms to govern economic and political activity (2008, 63). In fact, the main critique of prior economic policy was not its reliance upon planning but rather the haphazardness of its plans: “One general argument used in favour of unrestricted state intervention is the necessity of planning the global activities of the country. We concur with this necessity. But it is necessary to clarify that planning should be carried out with clear objectives...In Chile the term planning has lacked content and precision and has been used to establish mechanisms of control whose only objective is control for its own sake...” (de Castro, 1992, 31).

As macroeconomic reforms were supplemented by the infamous seven modernizations, particularly the labour, social security, education, and health reforms, it became clear the inspiration of the Chicago Boys was not just the economic theories of Friedman but the social theory of Friedrich Hayek:

The spontaneous order of the market, based on reciprocity or mutual benefits, is commonly described as an economic order; and in the vulgar sense of the term ‘economic’ the Great Society is indeed held together entirely by what are commonly called economic forces. But it is exceedingly misleading...I have become convinced that this practice so constantly misleads people that it is necessary to invent a new technical term for it. I propose that we call...the market a *catallaxy*...derive[d] from the Ancient Greek verb *katallattein* which, significantly, means not only ‘to barter’ and ‘to exchange’ but also ‘to admit into the community’ (1984, 367).

De Castro would echo these sentiments when he observed that in the reconstructed Chile, “The community expresses itself through market prices” (DIPRE, 1978, 324). The Chicago Boys did not set out to construct a mere market economy; they set themselves a much more ambitious goal: to construct a market society.

Hayek was clear that the catallaxy was a constructivist project, observing that “government is of necessity the product of intellectual design” and that the market catallaxy must accordingly be constructed by intentional political action “to replace the tottering structure by some better edifice” (1981, 152). Hayek similarly supported the dictatorial construction of a market society as preferable to what he called “unlimited democracy”: “in a situation of rupture...rules have to be created...in such circumstances it is practically inevitable for someone to have almost absolute powers. Absolute powers that need to be used precisely in order to avoid and limit any absolute power in the future” (Cited in Quijada, D9). The construction of a new society was the job not just of counter-revolutionary but bourgeois-revolutionary forces, as José Piñera, architect of the labour, social security, and mining reforms recognized when he described the military regime as based in a “revolutionary legitimacy...to carry out profound transformations” (1979, 7), a sentiment echoed by Büchi, who wrote the Pinochet government carried out “...an authentic revolution in the productive and social structure, in the orientation of its development, and in the perceptions of the people” (2008, 237).

The Financial Origins of the Capitalist Revolution

Although Allende in many ways facilitated the implementation of the radical neoliberal agenda by enervating the traditional capitalist sectors that had opposed the Chicago Boys from the 1960s, at the same time the UP government left the military dictatorship without a stable and defined social foundation upon which to carry out its radical reforms, that is to say capitalist investors not only capable of but willing to lead the restructuring project from civil society. The dictatorship thus faced the same fundamental problem that had haunted governments from the 1920s onwards: how do you construct a hegemonic capitalist order without a powerful and dynamic capitalist class? The answer of the economic planners, as it turns out, was to construct a

new capitalist class, and financial reform and privatization were the two chief mechanisms (Moulian & Vergara, 1981; P. Rozas, 1984).

Most center-left analysts view the financial reforms of the 1970s as a disastrous experiment in neoliberal and deregulatory orthodoxy, but what such analyses overlook is the key role of finance in the restructuring of Chilean capitalists. Indeed, it is telling that the sequence of reforms undertaken by the military regime prioritized first the reconstitution of the financial sector before the privatization of the productive structure of the nation, given the minimal economic role played by private financial institutions for most of twentieth-century Chilean history. Rather than immediately privatizing the banks and other productive assets, therefore, in April and May of 1974 the military regime authorized the creation of new non-bank financial institutions (*financieras*) that could lend money without any interest rate restrictions and with very low reserve requirements, while subjecting the state bank, the nationalized banks, and private savings and loan institutions (SINAIs) to more stringent interest rate and reserve controls, the effect of which was to channel resources to the new financial institutions (Arellano, 1983, 7; Fortín, 1985, 167-168). Because the Chicago Boys were based not only within the decision-making apparatus of the state, but also within a handful of emerging firms in the financial sector, particularly the conglomerate BHC, members of the Chicago-Boy linked financial firms were able to participate in the deliberations that shaped financial sector reform, despite the objections of other policy makers, the insider information from which helped them to jump the gun on financial liberalization by setting up *financieras* and purchasing the privatized banks (Silva, 1996, 107-108).

With the financial sector firmly in the hands of the Chicago Boys, restrictions on foreign liabilities were eased beginning in 1977 and then eliminated entirely in 1979. The monopoly of the Central Bank to finance preferential loans was abolished and SINAIs were effectively wiped

out by regulatory impediments (Arellano, 1983, 7; Martínez Bengoa & Díaz, 1996, 58). Liberalization of the access to foreign credit in turn further bolstered the position of the radical financial conglomerates that could use their contacts in New York to gain access to credit and capture a large percentage of the national savings by means of the margins between foreign and domestic interest rates (E. Silva, 1996b, 106). As foreign loans trebled between 1977 and 1980, the percentage of the total captured by the financial-services sector rose from 4% in 1976 to 72.9% by 1981, compared to industry, whose share of foreign loans collapsed from 43.4% to 7.6% over the same period (Mizala, 1985, 6). The centralization of the financial sector in the hands of the Chicago Boys and their control over foreign savings facilitated a similar concentration in the control over domestic credit, with the two of the largest financial conglomerates controlled by the Chicago Boys accounting for 60% of domestic credit by 1981 (Mizala, 1985, 8). As a result of financial reforms, the share of finance in GDP more than doubled from 5.3% 1974 to 11.2% in 1982 while the real volume of credit to the private sector grew by more than eleven fold (Edwards & Edwards, 1991, 76).

The reconstitution of financial capital combined with the massive privatization efforts of the 1970s to place finance firmly at the commanding heights of the national economy. It is important again to highlight that privatizations were only carried out after the financial reforms and privatization of the banking sector had concentrated resources in the hands of the Chicago Boys and the first effects of the shock treatment on industrialists had begun to take effect, thus squeezing the resources available to compete in the privatization process. The sequence and timing of financial reform and privatization are therefore crucial because they placed the Chicago Boys in the financial sector in a privileged position to snap up the privatized firms. Whereas finance for much of the twentieth century operated as a dependency of industry, with banks running losses in order to subsidize industrial profits, by the mid-1970s financial capital –

dominated by a small number of Chicago-Boy controlled conglomerates – became the principal mechanism for capital accumulation and the construction of a hegemonic capitalist class (P. Rozas, 1984, 12).

Privatization was carried out in two phases. The first, which ran from 1974 to 1978, involved the return of the companies intervened or requisitioned under the UP government to their previous owners. CORFO created a Department of Corporate Management to undertake the necessary studies and negotiate the return of companies to the private sector, and subsidies were granted to intervened companies to normalize operations and compensate for losses incurred under the Allende government (Hachette & Lüders, 1992, 45). Firms were then returned to their previous owners on the condition they not sue the state, and in several cases with additional conditions related to employment, competition, and investment levels. The second phase, which began in 1975, consisted of the privatization of 207 firms in which the state held a controlling financial interest, valued at approximately US\$1.2 billion, with the exception of a handful of strategic companies and natural monopolies. By 1981, only 12 firms remained in state hands, though these firms still represented 24% of GDP, reflecting the continued state presence in strategic sectors like mining, utilities, and communications (Corbo, 1993, 22; Hachette & Lüders, 1992, 45-46).

There were several mechanisms through which the second phase of the privatization was carried out. Liquidation, whereby companies were closed and their assets sold off, was used primarily in cases where the sale of assets would have a greater value than the sale of the company, owing to the poor possibilities for success in a liberalized environment. Public tender was the most common mechanism (regulated by DL 1,068), whereby CORFO sold large blocks of shares to a controlling interest generally negotiated between the two bidders with the highest offers. Direct sale was used mostly for smaller firms where the costs of organizing a bidding

process were considered higher than the expected sale price (Corbo, 1993, 22). The decision by the military regime to provide credit to purchasers backed by financial assets (the purchased assets from which could then be used to guarantee future credit) favoured the large financial conglomerates and fuelled an unprecedented concentration of economic ownership in the hands of a few financial firms. As Hachette and Lüders noted, between 1974 and 1978 the state increased its loans to the financial sector by around US\$300 million and by 1982 loans the financial sector represented about 50% of total outstanding public-sector credit (1992, 48-49).

The privatization of the 1970s has been criticized for its nepotism (Schamis, 2002) and for the sale of state assets at well below market prices. Foxley (1983), for instance, calculated the implicit subsidy to the private sector at approximately 30% of asset value. Given the decapitalization of the state-controlled firms under Allende, the recessionary environment of the mid-1970s, and the absence of interest from foreign investors (which itself spoke volumes regarding the perceived viability of the firms to be privatized), however, the possibilities for the military regime to maximize the state return on privatizations were less than optimal. More than nepotism, it is suggested here that the privatizations of the 1970s were carried out with the objective of constructing the social foundation for the military dictatorship: a dynamic capitalist sector committed to the project of the military regime and capable of carrying out that project from civil society. In order to construct a dynamic and economically viable capitalist class in Chile, assets needed to be concentrated in the hands of those actors committed to the radical reform project, and the sale of assets below market value represented a form of primitive - accumulation to produce a stock of capital adequate for the restructuring project.

The redistribution and concentration of assets that resulted from the privatizations supports this interpretation. The three most important economic groups in 1970 (Anaconda, Matte, and Edwards) all suffered significant declines. After its nationalization by Allende,

Anaconda was the main group affected by the subsequent decision by the military regime to retain the copper companies in state hands. Meanwhile, the net equity controlled by the Matte and Edwards groups fell by 1979 to only 60.8% and 18.3% of their 1970 levels (P. Rozas, 1990, 55-56). The big winners, on the other hand, were the financial conglomerates controlled by the Chicago Boys. BHC-Vial and Cruzat-Larraín alone saw the number of firms under their control rise from 28 companies in 1970 to 174 by 1979; with assets valued at over US\$3 billion at their peak, these two conglomerates controlled over 37% of the assets of the 250 largest corporations in the country (see Dahse, 1979; C. P. Rozas, 1981). Profits were similarly concentrated in the financial sector, whose share of total profits rose from 1% in 1960 to 18% by 1980 while the share of industry fell from 30% to 20.9% (Fortín, 1985, 186). By the late 1970s, then, the industrialists remaining after the UP years had been effectively bypassed in favour of the constitution of a new dominant capitalist fraction based in finance.

From their modest beginnings via the takeover of the moribund mortgage lender BHC in the 1960s, by the end of the 1970s the Chicago Boys occupied the commanding heights of the national economy. Bolstered by the revolving door between the policy-making apparatus of the state and the largest financial conglomerates, what Patricio Rozas called the “state-private sector circuit” (1981, Appendix 19), the Chicago Boys initiated a radical restructuring of the capitalist class. The financial conglomerates were in effect the bearers of the new hegemonic power and rationality, whereby they rearticulated and subsumed the old industrial class, reoriented the economic base of the country, and restructured forms of corporate organization that maximized productive efficiency and subordinated labour within the workplace.

The rise of the new economic groups represented not the complete but the relative displacement of the old economic elite, who were not so much shut out as much as they were transformed (C. P. Rozas, 1980, 160). Indeed, the initial response of many capitalists to the new

macroeconomic framework was slow and supported the decision of the Chicago Boys to construct new dominant capitalist actors, "...since for most entrepreneurs old habits remained intact...Diversification under this form of organization is slow and difficult, requiring a break with established patterns based on social, economic and family traditions" (Schneider, 1984, 215). As a result of its oligopolistic control over foreign savings and significant swathes of the national economy, financial capital was able to assume the coordinating function within the economy, in lieu of the state, with the power to select the beneficiaries of credit and impose conditions of lending and investment, the result of which was the transformation of much of the older economic elite into modern capitalist owners, a transformation that would have proven far more difficult without the coordination and demonstration functions of the financial conglomerates (Schneider, 1984, 217).

The financial conglomerates used their preferential access to savings – what one author described as a “gravitational pull” – to provide credit for the old economic elite to restructure, diversify, and survive, which helped to modernize production and mute opposition to the radical macroeconomic liberalization (P. Rozas, 1984, 61; E. Silva, 1996b, 145). Financial conglomerates similarly recruited managers from other economic groups and encouraged cross investments, without ceding proprietary control over their interests, thus constituting interlocking alliances between economic groups that transcended the interests of each group and helped to transform the rationality of the capitalists and constitute the emergent and dominant capitalist class: “The conglomerate constituted a node of articulation for the large corporate interests. Early on, the young businessmen understood that hegemony over the social group (domination plus consensus) was achieved on the plane of concrete relations” (C. P. Rozas, 1981, Appendix 18). The best example of the process of articulation of the emergent capitalist hegemony was the

Cruzat-Larraín group, the nodal point of the state-private sector circuit that transcended purely economic interests into the realm of social and political power.

In addition to using their control over finance to rearticulate other capitalist actors and sectors, the financial conglomerates concentrated their productive holdings in the burgeoning export sectors, such as forestry, agro-business, and fisheries, which became the most important sectors of the new economy (Dahse, 1979, 140; Gálvez & Tybout, 1985; Rozas, 1984, 35). Inflows of fixed capital were channelled not into established sectors, as was the customary investment pattern of Chilean capitalists, but rather invested in the new export-oriented activities promoted by economic policy makers. As Agacino, Rivas, and Román observed, "...the greater part of new flows [of fixed capital investment] were destined for other sectors of the economy (forestry, mining and services)" (1992, 59). By 1978, seven of the twenty largest corporations in Chile were in the forestry and fisheries sectors and were owned by the four largest economic conglomerates, and by 1980 five conglomerates controlled over 60% of the total private sector export bill (Dahse, 1979, 140). The rush of the financial conglomerates into the new export sectors was critical to the success of the socio-economic transformation of the dictatorship because, as Schneider contended, it was unlikely the old family-based capitalist enterprises would have taken the risks involved to develop new export lines (1984, 215-216).

The reorientation of the economic structure, moreover, was facilitated by the integration of a new generation of entrepreneurs connected to and supported by the financial conglomerates. As numerous authors have observed, the new export industries of the 1970s, such as fruit, forestry, and fisheries were driven in no small part by small and medium-sized businesses started by a new generation of educated entrepreneurs. As Montero found in her interviews with this new generation of entrepreneurs, many had accessed credit by means of personal contacts they

had with former coworkers or classmates working in the financial conglomerates.²⁵ The more anecdotal evidence of Montero is supported by the work of Mizala, who found that not only were firms connected to the financial conglomerates more likely to access credit (no surprise given that the two largest conglomerates controlled 60% of the credit supply by 1981), but that 83% of the firms receiving credit from the financial conglomerates were small and medium-sized firms, a far more equitable distribution of credit than was the case of firms not connected to the conglomerates, suggesting the greater risk-taking capacity of the new financial firms (1985, 10).

The financial groups likewise led the process of corporate restructuring, itself facilitated by the 1975 tax reform that replaced the transaction tax on goods and services that had in the eyes of the economic policy makers induced “an excessive vertical integration” with a value-added tax (DIPRE, 1978, 145). The old industrial structure developed for a small and protected market was based upon an “idiosyncratic model” of production that combined vertical integration, a low turnover time for capital, persistent excess capacity, and a diverse mix of products based on a “quasi-artisanal” organization of labour (Aninat, 1986; Díaz, 1991). As Winn (1986) demonstrated, moreover, efforts by capitalists to transform the organization of production and its concomitant labour processes in order to subordinate labour to the requirements of capital accumulation had been repeatedly stifled by worker organization at the point of production, the result of which was that inefficiencies were simply inflated away in the context of policies of trade protection and loose credit, the path of least resistance.

The new financial conglomerates introduced new forms corporate organization and control that facilitated the centralization of authority, the decentralization of production, and the subordination of labour within the workplace. The older forms of productive organization were

²⁵ Interview with Cecilia Montero, July 29, 2011, Santiago, Chile.

based upon family groups and individual firms within the group were run largely independently with no global coherence in the management of the group as a whole (Dahse, 1979, 25). The new conglomerates, on the other hand, centralized power and control by replacing personal ownership with holding companies, direct ownership with indirect forms of control via mutual funds and banks, and the usage of interlocking shareholdings to minimize resource commitments and free up capital within the conglomerate. Individual firms were thereby subordinated to the economic rationale and requirements of the conglomerate, as defined by the strategic research departments that developed global plans for the conglomerate as a whole, and resources were redirected not within each individual firm but between the activities of the conglomerate according to the maximization of profits (P. Rozas, 1990, 62-63).

The centralization of power and control in the hands of financial conglomerates was accompanied by the parallel centralization of power and control of industry viz-a-viz agriculture and commerce viz-a-viz production, two of the conduits through which the financial conglomerates often exercised their influence over production. The rise of a commodities sector organized around the processing and export of natural resources subordinated resource producers to the power of processing firms, retailers, and exporters who demanded levels of standardization and quality control. Farmers, for instance, found themselves increasingly dominated by agro-export firms and supermarkets, who exercised control over the production process and product as a result of their access to domestic and foreign consumers (Clark, 2011; Murray, 2002). Similarly, the emergence of powerful retail firms allowed commercial capital to use its access to domestic consumers to restructure the old ISI industries, particularly in those sectors, such as metallurgy, that were most effective in meeting the challenges of foreign competition following trade liberalization (Díaz, 1995, 14-15).

At the same time as control and decision making were centralized within the financial conglomerates and as commerce came to subordinate production, the productive structure itself was decentralized via specialization and externalization/subcontracting. Products that were formerly produced within the same factory were separated to allow for greater specialization and scale, processes that also worked to de-skill and subordinate labour, while externalization and subcontracting dismembered formerly vertically centralized firms and facilitated the exercise of control by commercial capital. The trend towards subcontracting took three forms: primary subcontractors in areas such as the clothing industry that involved mostly small firms that received raw materials and produced low-value added outputs sold back to the contractors; specialized-dependent subcontractors in areas like consumer durables, characterized by an oligopolistic structure where the subcontractor received a “technological package” and required a greater division of skilled labour; and specialized-autonomous subcontractors whereby the technological expertise was owned by the subcontractor (Díaz, 1995, 10-11). The result of these organizational innovations was significant improvements in the technical efficiency of production, with output per establishment and output per worker increasing significantly and independently of capital-labour ratios and higher relative profits in firms connected to the largest conglomerates viz-a-viz their sectoral competitors (Agacino et al., 1992, 55; Díaz, 1995, 14-15; Gálvez & Tybout, 1985, 975). The efficiency gains from the reorganization of corporate and productive structures, moreover, produced a ‘demonstration effect’ as other conglomerates began to imitate the organizational strategies of the new groups (Schneider, 1984, 215).

In the context of an intense repression of trade unions and a suspension of labour rights until 1979, the reorganization at the factory level facilitated the subsumption of labour to capital in the workplace. While Taylorist principles of labour organization (fragmentation and simplification of tasks, division of manual and intellectual labour) were known in Chile before the

1970s, the absence of competitive pressures and the technical and social obstacles represented by labour organization meant they were in general rarely implemented. The implementation of Taylorism at the shop level en masse in the 1970s, however, radically transformed labour relations in the workplace. In particular, labour relations that were formerly quite rigid in terms of the contracting and utilization of labour were replaced by an increasingly flexible system of labour relations that greatly enhanced the shop-level power of capital and took four main forms: functional flexibility (moving workers within the company), employment flexibility (hiring and firing of workers), wage flexibility (greater reliance upon variable pay), and externalization flexibility (conversion of salary contracts into commercial contracts) (Díaz, 1995, 15-16). In contrast to the economic chaos of the early 1970s, when much of the productive structure was in disarray, average labour productivity surged between 1975 and 1981 to more than 120% of its average for the 1960s (Gutiérrez Urrutia, 1983, 31).

The exercise of financial and commercial power by the new conglomerates, moreover, transformed not simply the economic foundations of the capitalist class but its ideological orientation as well.²⁶ As Montero contends, the dictatorship transformed the capitalist class on three levels: at the level of individual orientation and conduct, at the level of civil society, and at the level of the state (1997, 152-153). By the early 1980s, the major peak associations of the capitalist class were controlled by firms connected to the export-oriented model and imbued with the values of competitive individualism. As former SOFOFA President Orlando Saenz, a fierce critic of the macroeconomic reforms of the 1970s, observed by the early 1980s: “Businesspeople [now] ascribe to a logic in which competition forms an intrinsic part of success...even though in

²⁶ A high ranking executive in the financial firm BHC in the 1970s, Rolf Lüders, commented that the new generation of business people viewed the older generation with much skepticism and saw themselves as transforming the mentality and role of businesspeople in the country. Interview with Rolf Lüders, July 19, 2011, Santiago, Chile.

the Chilean experience the businessperson had been not so much a competitor than a negotiator with the state and the public administration” (cited by Campero, 1984, 299).

At the level of civil society, by the early 1980s the capitalist class was emerging as a new collective actor, transcending the defense of parochial interests and projecting a hegemonic class project capable of incorporating other sectors of civil society, particularly at this stage the entrepreneurial and managerial middle class that was developing from the old state-based middle class. The ideological groundwork for this project was laid through the power and influence of the Chicago Boys within the universities and the media, and with the rise of think tanks. The purging of radical elements within the universities combined with the rise of economics and business administration transformed the ideological role of universities from hotbeds of social dissent in the late 1960s and early 1970s to the production of businessmen and managers. In addition to their influence within *El Mercurio*, moreover, the Chicago Boys established a host of new print media, such as *Economy and Society* and *Qué Pasa*, to advance the ideological project of capitalist hegemony and its principles of individual gain and market competition. At the same time, think tanks such as the Centre for Public Studies and Liberty and Development were set up to influence and shape debates over public policy (M. Pollack, 1999, 62-64; Ruíz, 1983, 12-14). Nevertheless, at this stage capitalists had yet to rally around a more coherent development vision that could incorporate elements of the working class, but continued largely to take their cues from the Chicago Boys in the state and civil society (Campero, 1984, 165). It is not until after the crisis of the early 1980s and the rise of opposition movements to challenge the dictatorship that the capitalists clearly emerged as the hegemonic social force viz-a-viz civil society and the state.

Land Reform and the Subsumption of Land to Capital

As was the case in the urban sector, the reforms of Allende in the countryside dramatically weakened the capacity of the landlords to resist restructuring, but they similarly left property relations in a state of flux and the military regime without a rural foundation for its radical project. There was no agrarian capitalist class to which the regime could turn for support, while the state control over most of the land, capital goods, and prices and the predominance of collective and non-transferable property rights were inimical to a modern capitalist society (M. J. Kurtz, 2004, 73). On top of all this, many of the remaining landlords viewed the radical proposals of the Chicago Boys with a great deal of suspicion. As former Minister of Finance Hernán Büchi remarked, "...the liberalization of agriculture generated fear among agriculturalists. Many felt that in a system of free and open markets their situation would worsen. They gave more importance to the benefits they were losing (cheap inputs and credits) than the opportunities they would gain (greater competitiveness, free prices, external markets...)" (2008, 70).

The issues of class relations, property rights, and productive structure in agriculture, moreover, were of great *political* import to the military regime, given the historical role of the countryside as the stronghold of rightist political support and the need for the junta to reconstitute rural society as a bulwark against future radicalization. In the immediate period after the coup, the policy makers within the military regime were divided over the direction of the rural sector, with many military figures and Christian Democrats favouring the farmer road envisioned by the agrarian reform law of the PDC, while the Chicago Boys supported a more capital-intensive, large-scale agribusiness model, linked to foreign capital and export markets. Where the competing blocs within the military regime were united was in their common rejection of a return to the pre-land reform status quo. The hopes of the landlords for a speedy restitution of the hacienda system were quickly dashed by a senior representative of the junta who rejected calls to

reconstitute the old rural order in a visit to the SNA in early 1974, declaring “We consider the latifundio socially and economically retrograde” (cited in Ortiz de Zárate, 2003, 47).

The initial position of the junta was to carry out the 1967 land reform legislation to its logical conclusion. The PDC had envisioned a three-to-five year period of transition after which expropriated farms would be assigned collective or individual property titles, depending on the preferences of its inhabitants, and the military junta immediately moved in the direction of the PDC reform by transforming all the transitional forms of the Allende government into the settlements (*asentamientos*) preferred by the PDC, in the process expelling many of the temporary workers and all those who had participated in left-wing parties, unions linked to the UP, and land takeovers (Bellisario, 2007b, 157). While most supporters of the military government favoured the implementation of individual land titles, because the Ministries of Agriculture and Labour were under control of the Air Force and police, both of which favoured more corporatist forms of social and economic organization, the reform-sector was organized between 1973 and 1975 into Agricultural Cooperation Societies (SOCAs). The objective of the SOCAs was to support a farmer road to agrarian capitalism via the common management of collective goods (water, machinery, infrastructure) and the channelling of state credit provided by the National Institute for Agricultural Development (INDAP) to support individual capitalist farms (M. J. Kurtz, 2004, 75).

The implementation of land redistribution was carried out via three mechanisms. The first was revocation and restitution of the lands to former owners in cases where the junta determined land had been expropriated illegally (revocation) or the reserve clause had not been applied (restitution), up to a limit of 80 BIH as per the 1967 agrarian reform law and on the condition that former owners not sue the government. This mechanism accounted for 29.7% of the nearly ten million hectares expropriated between 1964 and 1973, though these restitutions

contained much of the best agricultural land, 57% in terms of productive value (Jarvis, 1992b, 191). The objective here was exactly that of the PDC agrarian reform: to construct a class of medium-sized agrarian capitalists from the more productive elements of the traditional agrarian elite. The second mechanism was the utilization of land auctions (7.5% BIH) and the transfer of lands to public institutions (4.2% BIH), primarily the National Forestry Corporation (CONAF). Auctioned lands were sold to the highest bidder and lands transferred to public institutions were subsequently privatized to the benefit of those economic conglomerates (Angellini and Matte) that would invest heavily in the nascent forestry sector.

Here should be mentioned an additional mechanism through which land was funnelled to the nascent forestry sector that is independent from but related to the agrarian reform: indigenous property, primarily that of the Mapuche in the southern part of the country (see Clark, 2011). Prior to the dictatorship, indigenous title was held communally. That would change in 1979 with the promulgation of the transparently named Decree Law 2,568: Division and Liquidation of the Indigenous Community. DL 2,568 allowed for the division of communal property, on request by only one occupant, who needed be neither indigenous nor a landowner in the community. A Chilean who was renting land in an indigenous community could therefore apply for the division of the entire community into individual property titles. Divided plots would cease to be considered indigenous, as would their owners. Although individual plots could not be sold for a period of twenty years, owners were allowed to enter rental contracts for up to ninety-nine years, a clause that forestry companies exploited. In addition to legal trickery, conflicts arose from the illegal eviction of Mapuche residents by forestry companies, the privatization of forests planted and managed by the Mapuche during the land-reform era, and the sale to forestry companies of land previously usurped by agricultural landowners. The end result was the loss of more than two hundred thousand hectares of Mapuche land during the dictatorship (Heine 2001, 21).

The third and final mechanism was the assignation of lands to individual property owners, which represented 58.2% of the expropriated land. Assignation was a highly political process. The distribution of land among applicants in parcels of 10 BIH on average was determined by strict qualification and a points system. To qualify an applicant had to have (1) been a resident at the time of expropriation, (2) been head of a household, and (3) not participated in land takeovers (DL 208), verified by a letter from expropriated landlords, which was clearly designed to favour conservative peasants (Jarvis, 1992b, 192). The principal variables of the points system were varied but politically influenced: age (more points for older applicants), years worked on an estate, years worked as a high-ranked employee, size of family group, education, work capacity, and school-aged children (Bellisario, 2007b, 162-163). The emphasis upon age, residency, and size of family group was most certainly intended to benefit older and more conservative peasants, thus fulfilling one of the principal objectives of the military government: to reconstitute the countryside as a conservative bastion. Moreover, the narrow qualification requirements and highly political nature of the assignation process not only excluded radical elements from rural properties but also engendered a fierce competition among applicants and fostered a landless rural population to work as wage labourers, as the number of beneficiaries, under 40,000, was well below the commitment of 90,000 (Diaz & Trumper, 1981, 14-15; M. J. Kurtz, 2004, 84).

The ascension of the Chicago Boys to the pinnacles of the economic-policy ministries and their later extension into the other sectoral and social ministries, however, initiated a gradual transformation of agrarian policy away from the farmer road and towards the domination of the countryside by large-scale agro-capitalist exporters. On the one hand, support for the assigned peasant sector was dramatically curtailed. The CORA guarantee for bank loans was removed in 1976 and the INDAP budget was slashed and its officials prohibited from providing credit to

agrarian-reform beneficiaries, while SOCAs were gradually phased out (Jarvis, 1992b, 196; M. J. Kurtz, 2004, 76). As one of the leading experts on the agrarian reform period observed, the Chicago Boys felt “...the best agricultural managers and entrepreneurs would be found among the owners of medium-sized and large farms outside the agricultural sector—e.g., among urban entrepreneurs or in multinational enterprises” and “...expected the bulk of the beneficiaries to fail and that the sooner they sold their land the better the economy would be. They did not want to channel resources to this sector, either in credits or technical assistance, because they would be wasted in the long run” (Jarvis, 1985, 28, 185).

On the other hand, measures were taken to support the rise of medium and large-scale capitalist agro-exporters. The application process for land assignments was progressively opened to encourage the participation of the sons of landlords, educated specialists, and former managers, and the privatization of remaining CORA lands in 1978 effectively excluded peasants via a no-debt requirement, which meant that nearly 750,000 hectares of land that could have gone to peasant families was auctioned to the highest bidder (Bellisario, 2007a, 21; Crispi Soler, 1980, 8). At the same time as resources were cut to peasant beneficiaries and laws were promulgated to facilitate the application for land by non-peasant actors, the machinery owned by CORA was sold off at auction between 1975 and 1977 at 50% its estimated value, in many cases to agro-export firms like Tattersall connected to the large economic groups, rather than being distributed to the peasant beneficiaries of the agrarian reform (Diaz & Trumper, 1981, 14-15; Montero, 1997, 295-298).

The final phase of the neoliberal transformation of agriculture was the institution of a system of property rights and the construction of fluid land markets. In 1978, the military regime promulgated Decree Laws 2247 and 2405, which legalized the sale of land, the holding of estates over 80 BIH, and corporate ownership of land. The elimination of restrictions on large and

corporate estates, when combined with the legalization of land sales and the restriction of support for peasant beneficiaries, created both the supply and the demand for functional land markets through which the state planners hoped to concentrate land in the hands of powerful agro-industrial interests. As Hernán Büchi, in 1978 the Deputy Director of the National Sugar Company, noted, the parcellization of land and the construction of land markets represented the main mechanism through which “...new capital entered into agriculture” (2008, 71). The utilization of asymmetric land markets rather than mere assignation was critical to the legitimization of the land reform as once the original redistribution project was completed, any subsequent outcomes could be explained as the result of market forces, as the product of individual effort and preference (M. J. Kurtz, 2004, 82).

It is frequently contended that the agrarian policy of the military regime represented either an agrarian counter-reform, in the sense of a reconstitution of the latifundista class (Chonchol, 1976; Collins, 1979), or a partial counter-reform, as a result of the fact that 58% of the state-controlled land was not returned to its previous owners and the social and technical relations of production in agriculture in the returned sectors were substantially different (Kay, 2002). It is the contention of this dissertation, however, that the agrarian policy of the dictatorship represented a full agrarian reform, because it carried the PDC land reform to its conclusion, placing the final nail in the coffin of the old hacienda structure, not only in terms of the social and technical relations of production but also the relationship between land and class power, which was fundamentally reconfigured after 1973.

As mentioned above, one of the fundamental pillars of the agrarian reform was the construction of a modern capitalist agricultural sector that would provide a socio-economic foundation for the military regime in the countryside. This objective was achieved by two means: the first was the creation of agrarian capitalists that would support the neoliberal project. The

new agrarian capitalists that emerged from the land reform of the dictatorship, comprising medium (20-65 BIH) and large (over 65 BIH) properties, can be divided into two main groups: (1) Central Valley producers immersed in the networks of dynamic export industries and agro-business interests; and (2) Central Valley and southern producers of meat and dairy products for the domestic market (Bellisario, 2007b, 170; Furche, Martner, Paeile, & Troncoso, 1987, 61). Although tensions have existed between these two groups, particularly in the first decades after the agrarian reform, the rise of dairy and especially meat exports to Asia have shifted the latter into a position similar to that of the former group.

The origins of the agrarian capitalists can be traced to the restitution of expropriated lands and the construction of a fluid labour market in the 1970s. As discussed above, the restitution of land to previously expropriated owners up to 80 BIH and accounting for nearly 30% of state-controlled land established a new class of medium-sized capitalist farmers the size of whose holdings, under conditions of international competition, compelled them to act as modern capitalist farmers. To this group one can add a new generation of middle-class professionals who took advantage of the supply low-priced land available by the end of the 1970s. The final group is the agro-industrial interests that were privatized and came under the control of the nascent financial conglomerates of the decade and began to purchase lands in the 1970s, a process that accelerated with the crisis of the 1980s (Furche et al., 1987, 111-113). It is important to note that all of these groups benefitted from the land made available as a result of the collapsed of the peasant agricultural sector in the face of trade liberalization and the reduction of state support. Over the course of the dictatorship, nearly 60% of the peasant beneficiaries sold their land: 50% to the former owners, 10% to other beneficiaries, and 40% to other persons, in many instances to individuals or investors from outside the agricultural sector (Hachette & Lüders, 1992, 51).

The fruit industry provides an excellent example of these three origins of the new agrarian capitalists. The owners of the major fruit producing farms generally came from three sources: agriculturalists who had invested in fruit production under the Frei Montalva administration and whose land was either not intervened or was subsequently restituted; educated professionals who purchased land in the late 1970s and early 1980s when the beneficiaries of the assigned lands began to sell en masse; and corporate investors who had no prior linkage to agriculture but who were attracted by the high profit margins (Gómez & Echeñique, 1986a, 19-20; Montero, 1997, 295-298; Rytönen, 2004, 43). Micro-level studies of fruit plantations have shown a much more direct control exercised by the owners, in contrast to the absentee owner of the hacienda era, who are far more likely to be educated in relevant specialized programs such as agronomy, business administration, and accounting (Gómez & Echeñique, 1986a, 7-10). Fruit plantations also became among the most modern agricultural operations in the country, with high levels of profits reinvested in capital investments, productivity enhancement, and the contracting of seasonal wage labour, with some of the larger farmers moving into industrial elaboration as well, though the linkages are far more likely to go in the other direction (Cruz & Leiva, 1982b, 113-114; Rodríguez & Venegas, 1989, 13). As Gómez and Echeñique wrote of the early 1980s, "...fruit producers dispose of a level of mechanization equivalent to that of the most mechanized producers of the industrialized countries" (1986a, 57).

The second mechanism through which a modern agricultural sector was created – itself related to the first – was the transformation in the relationship between land and class power. In the pre-land reform period, the social purpose of land was in no small part as a source of political power and prestige and processing industries were founded and controlled primarily by large landlords. Agrarian reform, however, severed the traditional nexus between agriculture and political power, on the one hand, and agriculture and industry on the other (Diaz & Rivera, 1986,

43). Land ceased to provide reliable votes and new urban agro-industrial and commercial firms not linked to the countryside were concentrated in the hands of the financial conglomerates via privatization. According to the new rationality, the value of land ownership was less related to the size of the tract than its relative levels of capitalization and profitability. In the post-land reform countryside, therefore, the social purpose of land was primarily as an instrument for the reproduction and expansion of private capital accumulation and landowners were increasingly subordinated to urban agro-industrial and distribution interests (Diaz & Rivera, 1986, 53-54). As Sáez and Larraín observed, "...there exists...a new rationality in the agricultural sector. Gone are the patriarchal and aristocratic characteristics of old, as land has ceased to be a symbol of prestige and source of political power and become strictly a business enterprise" (1989, 69).

The subsumption of land to capital was driven by the power of financial and commercial capital and the shift of control upstream in the commodity chain. Financial and commercial capital achieved this end through a variety of mechanisms. The first was the direct purchases of land, as was done by Ariztia Chickens which by the mid-1980s owned over 10,000 hectares with over 1,700 workers, as well as the multinational fruit companies who began to purchase large swathes of land in the early 1980s (Diaz & Rivera, 1986, 56; Rytönen, 2004, 108). The second was the horizontal integration of firms in order to concentrate market power upstream and exercise control over direct producers. Horizontal integration in turn fed into the third control mechanism, agro-industrial contracts, whereby firms at the processing and commercialization stages set the conditions of production in return for financial and technical assistance and access to markets, replacing the role traditionally played by the state. The rise financial and commercial conglomerates in turn fuelled the process of rationalization of landholdings, as smallholders were increasingly excluded from mass consumer markets (Avendaño P., 2001, 22). One government study described the impact of supermarket chains upon agriculture in the following terms: "At the

local level, the arrival of supermarkets not only transforms the habits of consumers in the cities and surrounding areas but also has a profound impact on the local agricultural sectors—small and medium-size landholders and retailers, and local fairs—that end up disappearing or relocating to ever more remote areas” (ODEPA, 2002, 53).

It should be mentioned, moreover, that the turn towards radical neoliberalism and capitalist restructuring was not without opposition from property owners. The shock therapy of 1975 provoked a deep recession, with industrial output falling 28% in 1975 and GDP declining 13%, while tariff liberalization and real-exchange rate appreciation spurred a rising wave of bankruptcies, concentrated in the traditional import-substitution industries. Finding themselves increasingly without access to the state agencies controlled by the Chicago Boys, a growing number of capitalists began to question the economic policy of the military regime, with the traditional industrialists that controlled SOFOFA calling for mixed economy model with rationalized state intervention and southern agriculturalists producing for the domestic market likewise protesting orthodox neoliberal reforms (Campero, 1984, 105-106). And yet, it is important not to overstate business opposition, as for the most part business leaders supported the military regime unwaveringly. Part of the explanation for this continued public support in the face of economic policies detrimental to their interests can be found in the inevitable loyalty following the very real existential crisis posed by the UP and part in the fact that the global project itself quite clearly favoured capital over labour. However, the most important and overlooked part of the explanation is the fact that the military regime successfully transformed the capitalist class itself, so that by the end of the 1980s the major peak associations (CPC, SOFOFA, SNA) were dominated by conglomerates linked to the financial and export sectors (Campero, 1984, 128-133).

The State Promotion of Exports

The depiction of the neoliberal state in Chile as in ‘withdrawal’ is belied not only by the constructivist efforts of state planners to remake the capitalist class at the sociological level; it is similarly refuted by industrial policy where, far from getting the state out of the market, the neoliberal planners repeatedly and persistently sought to direct markets and foster new industries. State policies to guide the market, moreover, were not antithetical to neoliberalism as expounded by its principal architects and advocates. Albeit with reservations and conditions, the Chicago Boys largely accepted the necessity of state planning activities. The utilization of public resources to promote and incentivize new economic sectors was not some aberration or deviation from orthodoxy, but part-and-parcel of the neoliberal program itself. The Chicago-Boy dominated ODEPLAN called the role of the state “...decisive in the socio-economic development of the country” and noted “The State will provide incentives for the growth and development of modern and efficient national companies through CORFO, SERCOTEC, the development banks, PROCHILE, the State Bank, and other institutions” (1976, 8). And the Chicago Boys were hardly deviants from neoliberal orthodoxy. In his classic elucidation of the Washington Consensus, John Williamson conceded that “...carefully targeted subsidies can be a useful instrument” (1990, 12).

We must also be careful here not to fall into the neoliberal ontology of states-and-markets, with its unduly sharp distinction between state and market-led developmental models. The debate over whether the explosive growth of exports was the result of previous state investments or macroeconomic liberalization (see M. Kurtz, 2001) is misleading because it misses the significant continuities in state investments to sponsor structural transformation in the national economy. The neoliberal planners deliberately promoted new export industries and these policies built upon decades of initiatives designed to foster industrial and agricultural

diversification. The new export industries of the 1970s and 1980s, therefore, were the cumulative result of decades of active state policy that included the military regime. This was captured by the metaphor of Clapp, who described the forestry, fruit, and fisheries industries as “butterflies emerging from a chrysalis” (1995, 278).

The earliest exponents of theories of import-substitution industrialization recognized the role of export promotion to successful industrialization. Beginning in the 1930s, for instance, the Chilean government identified forestry as an area of comparative advantage, given the benign climate of the south-central coast, where growth rates are faster and rotations shorter than in North America and Scandinavia. From the 1931 “Law of the Forests” to the myriad efforts of the Ministries of Agriculture and Lands and Colonization, CONAF, and CORFO, the state subsidized and invested directly in forestry plantations (Clapp, 1995; Wisecarver & Tardones, 1989). The Frei Montalva government, likewise, invested significant public resources in the forestry industry and implemented a National Fruit Development Plan that consisted of tax incentives, credit policies, and research and development, such as the technical cooperation and academic exchange agreement between Chile and California (Agosin & Bravo-Ortega, 2007; Cruz & Leiva, 1982a; Jarvis, 1992a). Policies to foment investment in non-traditional industries were complemented by significant public investments in education, such as the pioneering programs at the University of Chile and the University Austral to develop specialized professionals trained in the forestry industry from the 1950s (Rossi, 1997, 127).

While a focus on the export-promotion policies of the dictatorship ought not to minimize the role of previous public-sector investments, it is similarly crucial that recognition of previous state programs not draw attention away from the fact that the export expansion of the 1970s and 1980s was actively fostered by the state. The export-promotion policies of the dictatorship can be classified into two groups: horizontal and sectoral programs. Horizontal programs were designed

specifically to support export industries at the macro-level. Sales-tax and tariff rebates were approved on the importation of raw materials, capital goods, and services for exporters (Vera Giusti, 2001, 49-50). In addition to tax incentives, special lines of credit were extended to export industries, refinanced by the Central Bank at a reduced cost, and public investment was concentrated in infrastructure for the emerging export sectors (Büchi Buc, 2008, 50; DIPRE, 1978, 240-241).

The military regime also founded ProChile in 1975 to carry out studies of and develop contacts in foreign markets and organize exporters to increase market share and export value. The initiatives of ProChile fell under three headings: economic positioning to increase the visibility of Chilean exports, export promotion program such as trade missions and market research, and commercial information on prices, costs, and regulations in foreign markets (Alvarez E. & Crespi T., 2000, 230). ProChile worked closely with professional associations to develop foreign markets and facilitate contact with foreign traders and in the 1990s paired with CORFO to finance an export promotion fund that finances capital investments (Achurra, 1997, 66). Microeconomic evidence based on firm surveys shows that ProChile had a significant impact on product technological improvement, the introduction of new products, and organizational management. ProChile also helped to improve the competitiveness of Chilean firms by promoting strategic alliances, firm specialization and training, and improvements in external distribution networks, and its promotion efforts played an important role in helping firms enter new markets and diversifying the products sold (Alvarez E. & Crespi T., 2000, 239-240)

Sectoral policies were even more aggressive in their support for the new export sectors, notwithstanding the frequent claims of neoliberalism to 'sectoral neutrality'. One of the most significant institutions to promote new export sectors was Chile Foundation, created in 1976 by the military government and the ITT Corporation (as part of the compensation for expropriation

under Allende) as a private institution designed to foster technological innovation and human capital formation in order to foment greater value-added production in the natural resource sectors. There were three phases to the work of Chile Foundation: identify opportunities; obtain relevant technologies, whether through transfer and adaptation, internal development within the Foundation, or the organization of institutional networks; and up-scaling by means of the formation of new companies and supply of seed capital, sales of licences, and the provision of technological and training services (Fundación Chile, 2007, 10-13).

Chile Foundation assisted in a variety of developments in the forestry, agro-industrial, and fisheries sectors, with a growing presence in information and communication technology organized around supporting the development of productive clusters, and not only in traditional areas such as agro-industry and fisheries but also in emerging sectors like biotechnology, biochemistry, and sustainable energy. Notable successes of Chile Foundation included the introduction of new livestock and agricultural species such as asparagus in 1979; meat packing via the creation of ProCarne, which was later transferred to the private sector; the introduction of oysters in 1979, where the Foundation imported seeds, carried out the necessary tests to adapt to the oceanographic conditions of the country, and the subsequent creation of Cultivos Marinos Tongoy that began to produce seeds and cultivate oysters, the first company of its kind in the country; and the introduction of blueberries for export, an industry now worth over US\$150 million (Agosin, Larraín, & Grau, 2009, 30; Fundación Chile, 2007, 23-29).

Perhaps the most famous contributions of Chile Foundation, however, were in the fisheries and wine industries. Although attempts to introduce salmon into the Chilean environment began at the turn of the twentieth century, more significant commercial investments began in the 1970s with Japanese efforts to introduce salmon in the Aysén region, which ultimately failed. In 1977, Chile Foundation acquired Pesquera Domsea from Union Carbide

with the objective of demonstrating the technical and commercial feasibility of large-scale commercial fisheries, with the company assuming the name Salmenes Artartica in 1982. The initial success of Chile Foundation with technology imported from Norway and Scotland in turn encouraged subsequent efforts by several Chilean firms – many of which did not come directly from the large economic groups – to install fisheries in Chiloé, Puerto Chacabuco, and Puerto Natales, and the eventual arrival of Norwegian and Scottish firms and the purchase of Salmenes Antartica by the Japanese firm Nipon Suisan in 1998. By the second-half of the 1980s, the fisheries industry was exploding and Chile would become the world's second largest salmon exporter (Achurra, 1997, 52-53).

The case of wine is also instructive. Chile had long produced wines for the internal market, but protectionist policies and the development of inferior-quality wines meant technological stagnation and the increasing non-competitiveness abroad, particularly in the large consumer markets of North America and Europe. In 1974 the Chilean government liberalized plantations, the result of which was an increase in new plantations and by the early 1980s a saturation of the domestic market and a split between the new producers, who sought to modernize the industry, and the older producers. In this context, the principal wine-making firms, now under control of the main economic groups of the country, realized the future of the industry was to be found in foreign markets. In conjunction with pioneering foreign investors like Miguel Torres, Chile Foundation played a key role by organizing a series of visits by Chilean businessmen and technicians to the major wine producing countries in order not only to learn about the most up-to-date production methods, but also to learn about foreign preferences and develop commercial contacts, and by organizing pilot projects to encourage the incorporation of new technologies, making key investments to support small and medium-sized producers, and

organizing Technology Transfer Groups that contributed to a wave of viticultural modernization (see Bordeu, 1997; Rytönen, 2004, 67).

The forestry industry provides another crucial indicator of state leadership at the sectoral level. Decree Law 701 was implemented in 1974 that provided a subsidy for planting and management of up to 75% of the cost and 90% for the first fifteen hectares. To be eligible, CONAF had to approve the land as suitable for forestation and the business plan submitted by the owner, 75% of the seedlings planted must survive the first year, and the area harvested, or an area of similar size, must be replanted after harvest. DL 701 also exempted plantation owners from the land tax and established an income tax credit equal to 50% of the Global Complementary Tax – whose maximum rate is 40% – on distributed profits for investors in the forestry sector (Meller, 1994, 105-106; Vera Giusti, 2001, 41-43). The Central Bank likewise stepped up between 1975 and 1979 to make credit available for the forestry industry on favourable terms, exceeding US\$12 million by 1979 (Clapp, 1995, 281).

Despite the restriction of state investment and expenditures in the 1970s and the abandonment of small-scale farmers to the vagaries of market competition, the state – with support from the World Bank (see World Bank, 1976) – made available ample credit facilities to large producers in the new export sectors. The State Bank and CORFO each opened multiple lines of credit for operational expenditures and productive investment in agriculture and agroindustry, as well as export-oriented industry and tourism. In addition, the Central Bank established credit mechanisms not only for exporters but for the purchase of Chilean exports abroad (see ODEPLAN, 1978). At the same time as it restricted resources for the peasant beneficiaries of the agrarian reform, INDAP rapidly expanded its credit program for large-scale capitalist agriculture from CP\$2.9 billion in 1974, of which only 8% was for productive investment, to CP\$5.5 billion by 1979, of which 45% was for productive investment, while the

number of hectares of fruit plantations planted with INDAP credit rose from 40 in 1975 to 900 by 1980 (Ministerio de Agricultura, 1989, 227-229). In total, public-sector credit for agricultural capitalization rose from US\$30 million in 1974 to over US\$168 million by 1979, led by agroindustry, fruit, and vines, whose shares of distributed credit rose from 1% to 19%, 6% to 18%, and 3% to 9% respectively (Ministerio de Agricultura, 1980, 43). Public investments in the agrarian research likewise expanded in the 1970s, from CP\$187 million to CP\$1.12 billion (Mannarelli, 1985, 25).

The Economic Foundations of Capitalist Hegemony

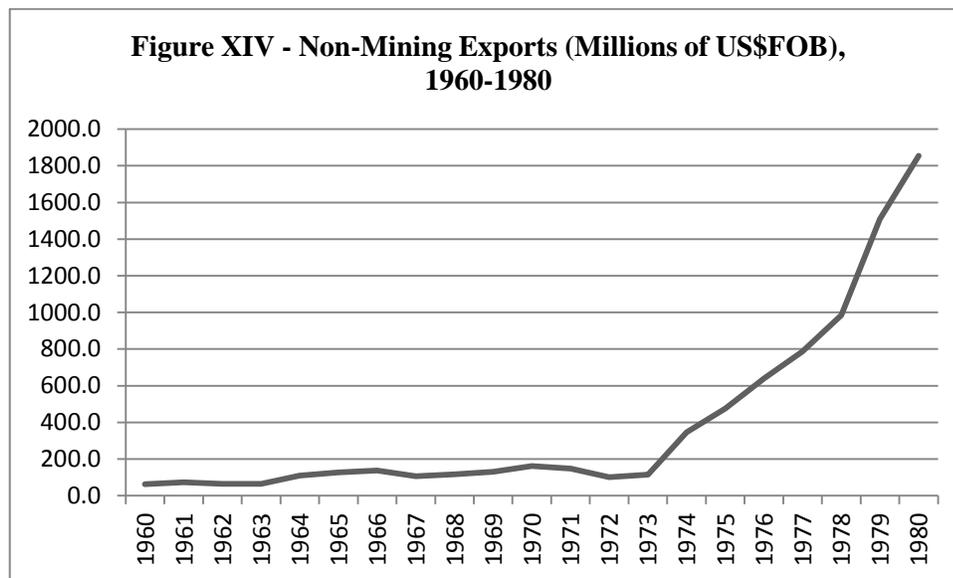
It was contended in Chapter I that for the transition to capitalist hegemony to be completed, the capitalist class must itself be subsumed to the dynamic pressures of capital accumulation, whether driven by market competition or the disciplinary mechanisms of a developmental state. In the century prior to the military dictatorship, Chilean producers were subject to neither the competitive pressures of foreign or domestic markets nor the disciplinary levers of the state. As a result, the economic structure that emerged tended strongly towards inefficiency, stagnation, and inflation. In the 1970s, however, the radical project of the state economic planners resulted not only in the reconstruction of the Chilean capitalist class at the sociological level, but also in the emergence of a dynamic and internationally-competitive economic structure that would result in an unprecedented period of rapid economic growth from 1985 to the end of the 1990s and from which the state and civil society could be subsumed by the imperatives of capital accumulation and the hegemony of the capitalist class.

Part of the radical transformation of the Chilean economy involved the destruction of the old industrial foundations and the waning of the conglomerates that controlled them. The decline of tariffs rates from an average of 104% in 1974 to an across-the-board rate of 10% by 1979

reduced the cost of imports by nearly 40% between 1973 and 1978 and produced a dramatic rise of consumer-goods imports by nearly 40% from 1976 to 1981 (Meller, 1998, 197). Indeed, so dramatic was the transformation that the Central Bank calculated the level of imports in 1981 had more than doubled when compared with pre-1974 trajectory (Gwynne, 1986, 11). When combined with policies of fiscal austerity that depressed domestic demand and the fixed-exchange rate from 1979 that resulted in a significant real appreciation of the Chilean peso, trade liberalization unleashed an extraordinary wave of bankruptcies that by 1982 had reached an annual rate four times that of the late 1960s (Gatica Barros, 1989, 39-40). Concentrated in those industries such as textiles that depended most heavily upon state protection, bankruptcies soared from 81 in 1975 to 810 by 1982 and thirteen key import-substituting sectors declined 46% between 1973 and 1980, and then an additional 36% from 1980 to 1982 (Gwynne, 1986, 12; Meller, 1992, 45). Industry as a percentage of GDP thus fell from 26% in 1973 to 19% by 1982 while its share of employment fell from nearly 19.4% to barely 15% (Banco Central de Chile, 2001, 20-21; Meller, 1994, 119-120).

The evisceration of the import-substitution industrial base, however, was accompanied by the rise of new and internationally-competitive industries. The 1970s witnessed the remarkable rise of the new export-oriented industries that would become the driver of GDP growth for the next three decades, reinforced by the greater spill-over effects of non-mining exports in the non-tradable sector (see García, Meller, & Repetto, 1996). Between 1973 and 1980, exports rose on average 37% per year and exports as a percentage of GDP increased from 16% in 1970 to 27% by 1980 (Banco Central de Chile, 2001, 858-859; Meller, 1994, 102-103). It was not simply the volume of the export expansion that was significant, however; it was the composition.

As we can see in Figure XIV, despite the modest gains made under the Frei Montalva administration, it was from 1974 that the rapid expansion of non-mining exports truly began in earnest.



Source: Elaborated from data in Banco Central (2001, 856-859).

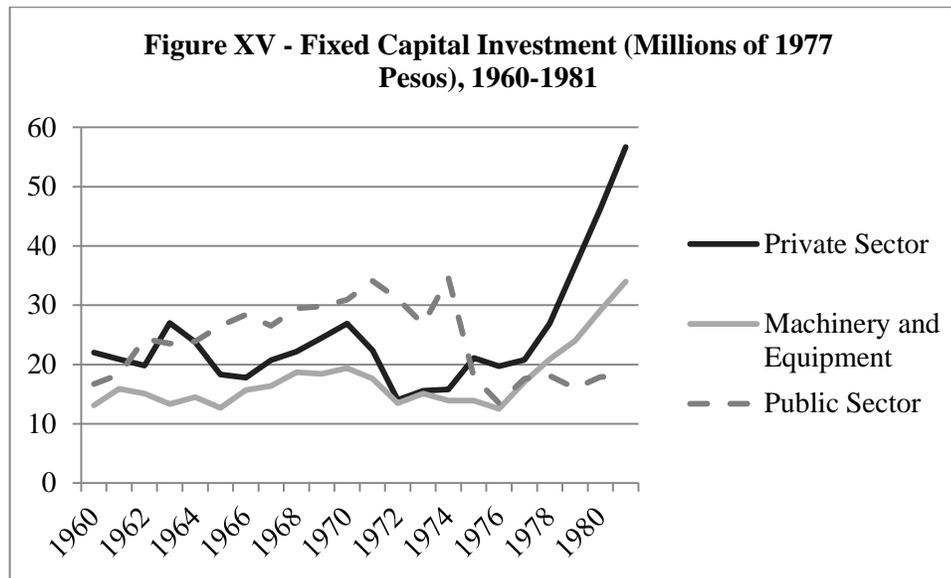
The rapid rise of non-mining exports, in turn, was driven by the dynamic fruit and forestry sectors, whose value rose sharply from US\$50.8 million in 1973 to US\$707 million by 1980 (Banco Central 2001, 856-859). It should also be mentioned that while many of the traditional import-substitution industries suffered grave – and often fatal – setbacks as a result of the macroeconomic policies of the military dictatorship, several key sectors were able to adjust and become not only competitive with imported goods but successful exporters. Industrial exports (chemicals and metal products) rose from US\$21.5 million in 1973 to US\$549 million by 1980, led by the metal industry that saw its exports explode from US\$6.7 million to US\$279 million over the same period (Banco Central de Chile, 2001, 858-859). As a result, there was a dramatic diversification of national exports, with the share of mining falling from 86.5% between 1960 and 1973 to 66.8% between 1974 and 1980, while the export share of industry nearly trebled from

10.1% to 27% and the non-mining primary sector increased its export participation from 6.9% to 16.8% (Alvarez E. & Crespi T., 2000, 229).

Now centre-left skeptics of the ‘success’ of the economic reforms of the 1970s, who tend to contrast the orthodox (failed) neoliberalism of the 1970s with the pragmatic (successful) neoliberalism of the 1980s, have made two contentions that question the efficacy of the 1970s reforms on exports and investment: (1) that the non-mining export expansion of the 1970s was the product not of the policies of the military dictatorship, but rather of the investments made by previous governments – in particular the Frei Montalva administration – in non-traditional agriculture; and (2) that levels of productive investment were historically unimpressive in the 1970s and it was only with the moderation of the neoliberal program in the 1980s that the conditions for the subsequent economic boom were set in place. While it is undoubtedly true that the base of productive and human capital that preceded the military coup played an important role in the export expansion of the 1970s and 1980s, one ought not to discount the role of state policies in the 1970s that not only supported the nascent export sector in financial and logistical terms, but also supported the productive investments that would sustain the expansion over the longer-term.

Contrary to the commonplace contention that investment during the 1970s consisted of speculative financial instruments at the expense of productive investment, it is argued here there were very substantial productive investments realized in the 1970s that laid the foundation for the economic expansion from the mid-1980s. It is true that investment as a percentage of GDP was not appreciably higher in the late 1970s than in the 1960s, but this is misleading for two reasons. First, the key to a more balanced appraisal of what took place during the 1970s is not the aggregate level of investment but rather the level and rate of expansion of *private-sector*

investment in fixed capital. As Figure XV demonstrates, private-sector investment in fixed capital expanded rapidly from the mid-1970s.



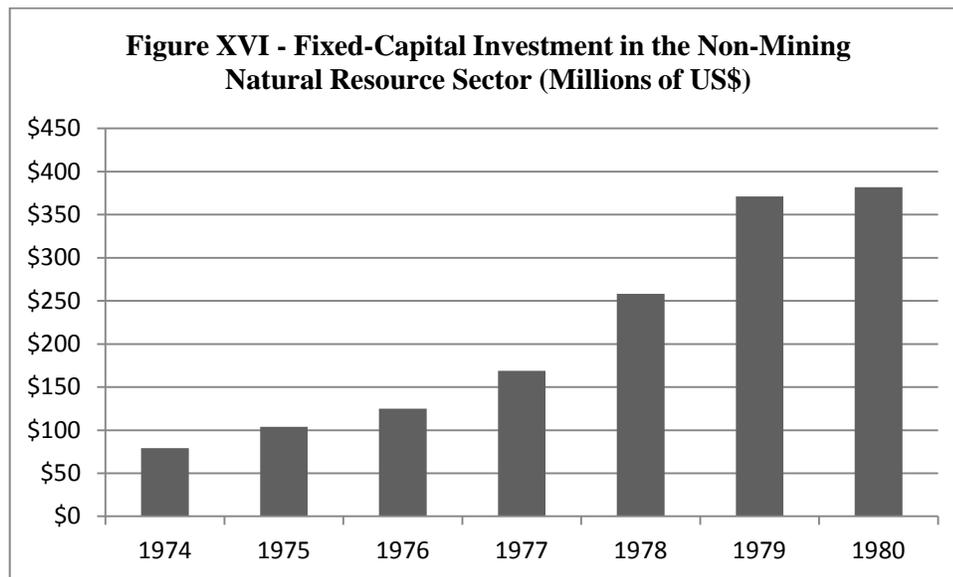
Source: Elaborated from data in Zucker (1988).

The reason aggregate levels did not rise at a commensurate rate was because public-sector investment fell precipitously. Contrary to much of twentieth-century Chilean history, where public investment represented the dominant component of aggregate investment, by the mid-1970s it was the private sector that was the driving force of capital investment, reaching an unprecedented 76% of total fixed-capital investment by 1981.

The other point skeptics fail to appreciate is that not only was the public sector the main vehicle for fixed-capital investment prior to 1974, but that a significant portion of that fixed capital was accounted for by state investments in the housing sector rather than investments in machinery and equipment that drive productivity advance. Fuelled by foreign savings in the hands of the large financial conglomerates (foreign savings accounted for 66% of total investment by 1981), the second half of the 1970s saw an accelerated expansion of investment in machinery and equipment, more than doubling its 1960s average by the early 1980s and accounting for an

average of 45% of total fixed-capital investment from 1977 to 1981, far exceeding its 29.9% share in the 1960s (Gutiérrez Urrutia, 1983, 11-12).

A considerable amount of the fixed-capital investment of the 1970s, moreover, was channeled into the new export industries that would drive the economic expansion of the late 1970s and from the mid-1980s.



Source: Data from Sánchez (1983).

Investment in the non-mining natural resource sector steadily picked up over the 1970s, as we can see from Figure XVI and by 1983, investment in the non-mining natural resources accounted for over 36% of total investment (Artiagoitia, 1988, 31). Incentivized by tax subsidies and other state initiatives, investment in the agricultural and forestry sectors grew particularly fast. A massive influx of private-sector lending, which represented 77% of total agricultural-sector lending by 1982, up from 10% in 1975, drove private-sector investment in agriculture from an average of US\$16.1 million between 1965 and 1970 to over US\$36 million by 1982 (M. Cox, 1983, 95-104). Agricultural lending and investment, moreover, were concentrated in the emergent export sectors such as agroindustry, fruit, and vineyards (Cruz & Leiva, 1982a, 15). Real investment in the fruit sector, for instance, rose nearly 150% between 1974 and 1986 compared to the period from 1965

to 1973 (Ministerio de Agricultura, 1989, 29) , while the number of hectares planted with fruit increased from 65,670 in 1973 to over 96,000 by 1982, an increase of nearly 50% (Montero, Jarvis, & Gómez, 1992, 62). The forestry sector, for its part, saw a similar influx of private investment, with the annual growth of new plantations surging from 45,000 between 1965 and 1973, much of it via public investment, to nearly 80,000 by the early 1980s, so that by 1986 70% of the more than one million hectares of forestry plantations had been planted within the previous ten years (see Clapp, 1995; INFOR, 1991; Wisecarver & Tardones, 1989).

Class Rule and Economic Development

The conventional interpretation of the turbulent decade of the 1970s counterposes Salvador Allende, the socialist revolutionary who sought to place the economy under state control, and Augusto Pinochet, the neoliberal counter-revolutionary who dramatically reduced the role of the state in the economy and society. According to this narrative, the military dictatorship in Chile imposed an orthodox neoliberal rollback of the state-socialist development model of Allende, driving the pendulum back towards a market-led and externally-oriented development model. There are two important deficiencies with this reading. First, it underestimates the factors that united the two political experiments, not only that both sought to use state power to supersede the crisis instigated by the frustrated and incomplete transition to capitalist modernity by radically reconstructing state and society, but also that the common objective of radical state-society reconstruction meant that Allende and the UP unwittingly made possible the radical capitalist reforms of the dictatorship. And second, the states-and-markets ontology upon which this interpretation rests fundamentally misinterprets and remains unable to account for not only the deeper effects of the military regime but also the means by which those objectives were achieved.

If we situate the governments of Allende and Pinochet not within the ontology of states-and-markets but rather within the broader historical framework of the dialectic of revolution and restoration and incomplete capitalist transition, we see both in a different light. Allende was not the culmination of the steady march towards statism or the simple extension of the policies of the PDC but a radical rupture based upon the recognition of the limits of the passive-revolutionary capitalist transformation of the previous decades. Although policies such as the redistribution of income towards the popular sectors bore a keen resemblance to the government of Frei Montalva, the foundational initiatives of the UP, such as the social-property area and the popular assembly, were not reformist but revolutionary.

Similarly, this chapter has attempted to demonstrate that the characterization of the Pinochet dictatorship as a neoliberal counterrevolution that got the state out of the market is patently misleading. The military government cannot be properly understood in terms of the relationship between states and markets as ontologically separate entities engaged in what Poulantzas described as “relations of exteriority” (2000, 16). On the contrary, the policies of the military regime, from trade liberalization and privatization to productive subsidies and export-promotion institutions, inevitably form part of the reconstruction of state institutions and the subjectivities of civil society. When viewed in this light, the puzzle of why a government so committed to ‘free markets’ so frequently and visibly participated in the economic process disappears.

The interpretation of the military dictatorship provided here contradicts not only the interpretation of the Pinochet dictatorship in conventional neoliberal terms, as enacting a withdrawal of the state, but also two influential and interrelated debates on (1) why and how the military regime implemented the radical reform agenda and (2) the periodization of the neoliberal reforms (related to the aforementioned discussion of whether the reforms of the 1970s can be

considered as successful). There are two main schools of thought that examine from the perspective of state-society relations the questions of why and how the military regime opted for the neoliberal path, given the intense opposition from entrenched business interests. The first and most common explanation, labelled here the ‘Bonapartist’ account, connects the policy direction of the military regime to the centralization of power within the state in the hands of Pinochet and a group of neoliberal technocrats that produced a state apparatus autonomous from civil-society actors and pressures (Campero, 1984; Foxley, 1983; K. L. Remmer, 1989). The second explanation, rooted in the class-coalition approach to comparative public policy (Frieden, 1988; Gourevitch, 1986), places the explanatory burden upon shifting the coalitions of business interests. The most influential exponent of the latter view, Eduardo Silva, asserts the policies of the dictatorship are best understood as moving through three stages – gradualist, radical, and pragmatic – that are explained by disaggregating the wider business coalition according to market orientation and asset type and examining the dominant actors in each period (1993).²⁷

The relative autonomy of the state from the social forces of civil society unquestionably played a critical role in the capacity of state managers to initiate reforms against the immediate interests of mobilized sectors of the society, particularly the working class, the state-based middle class and the small-business owners, and specific capitalist sectors (Moulian & Vergara, 1981, 848). However, what the state-autonomy thesis overlooks are the dense interrelations forged between state and civil society in the form of the state-private sector circuit that linked the main economic policy ministries and the large financial conglomerates via a veritable “revolving door”

²⁷ Other authors (Fontaine Aldunate, 1988; Valdés, 1995) place great emphasis upon the role of ideas, but generally struggle to explain the initial adoption of neoliberalism. The incremental approach of Kurtz (1999), where the military dictatorship sought to meet to at times conflicting agendas (economic stabilization and political restructuring), captures well the hesitant implementation of neoliberalism as related to the internal struggles within the military regime, but Kurtz similarly struggles to explain why neoliberalism was adopted as the overriding economic policy in 1975, curiously overlooking the same internal power struggles as central to the explanation.

of Chicago Boys and their supporters. This state-private sector circuit was a key component in the coordination and execution of neoliberal reforms in the state and their concomitant transformations in civil society. The class-coalition hypothesis, for its part, has great difficulty in explaining the shift towards neoliberalism. Because Silva infers the direction of causality from civil society to the state, he overlooks the fact that it was not the power of the radical conglomerates that caused the shift towards neoliberalism, but rather the shift towards neoliberalism that produced the concentration of power in the hands of the radical conglomerates. The directionality of reform thus went in the opposite direction of that suggested by Silva, a fact for which the class-coalition hypothesis cannot of its own power account.

The prevailing periodization of economic policy under the military dictatorship divides into two: first, the phase of 'orthodox neoliberalism', in which the state liberalized and deregulated the economy from 1975-1982 and drove the country into recession and crisis; and second the period of 'pragmatic neoliberalism' from 1983-1989, in which the state reintroduced economic regulations and produced the unprecedented boom that would run from 1985 to the Asian crisis of 1997 (Cypher, 2007; Negoita & Block, 2012; E. Silva, 1991). From our examination of the 1970s, however, there are several immediate problems with this interpretation. First, the claim that the reforms of the 1970s simply produced a speculative boom at the expense of productive investment is only partially true. There certainly were speculative bubbles in the stock market and real estate sectors and a massive wave of consumption based on imports from 1979 until 1982, but there was also an unprecedented boom in private sector fixed-capital investment that laid the foundations for the growth cycle of the 1980s and 1990s. Second, the characterization of the 1970s as the withdrawal of the state and the 1980s as its pragmatic return has been challenged above where it was contended that the state engaged in extraordinary levels of social engineering and economic promotion from the construction of new hegemonic capitalist

actors to the establishment of new state institutions to promote exports and generous subsidies and credit policies for the new export sectors.

The third shortcoming is that the sharp distinction between ‘orthodox’ and ‘pragmatic’ neoliberalism misunderstands important components of each period. There was certainly a profound ideological bent to the main economic policymakers of the 1970s and early 1980s,²⁸ but there are several things that must be kept in mind. First, several of the policies that produced the crisis of the 1970s, primarily the fixed-currency policy and the wage-indexation of the Labour Code of 1979 that together helped to appreciate the real exchange rate, suffocate the nascent export sector, and facilitate a boom of imported consumer goods, were themselves not part of the initial orthodox program. The fixed-exchange rate was an ad hoc attempt by De Castro to address the inability of the government to contain inflation, while the indexation of wages was not a policy of the Chicago Boys but was introduced into the Labour Code at the insistence of the military leadership concerned about the effects of economic policy upon labour militancy (see Teichman, 2001).

In addition, as we shall see in the next chapter, many of the policies introduced at the beginning of the ‘pragmatic’ period, such as tariff increases, were temporary measures designed to mitigate the immediate crisis and its political repercussions and were phased out by the end of the decade. And finally, part of the reason why the 1970s appear more ‘orthodox’ than the 1980s is that the economic situation inherited by the military junta was so dysfunctional that it required a more dramatic shift in direction to address the deep-seated imbalances within the macroeconomy. One ought not to forget the condition of the Chilean economy at the end of 1973: declining investment and GDP, crippling external imbalances, near hyperinflation,

²⁸ This is especially true of Sergio De Castro, who was said to have remarked to a student: “Don’t forget this ever: when theory and reality are in disagreement, it means that reality is wrong” (cited in Fontaine Aldunate, 1988, 26).

enormous public-sector deficits, and a badly de-capitalized social property area. The post-crisis period of the 1980s not surprisingly appears 'pragmatic' compared to the 1970s, because the nature and scope of the challenges facing policy makers were quite distinct and most of the major structural reforms had been undertaken in the decade prior.

CHAPTER V – THE INSTITUTIONALIZATION OF HEGEMONY AND THE RETURN OF DEMOCRACY

Chapter IV examined the state-led efforts by the military regime to construct a dynamic and internationally-competitive capitalist class, facilitated by the concentration of economic resources in the hands of the state – and concomitant deterioration in the power of the capitalists organized around protected industries and agriculture – and the centralization of state power in the hands of a small cadre of neoliberal planners with deep connections to the financial sector. A central contention was that the reform project initiated in the 1970s by the neoliberal planners cannot be properly understood in terms of the states-and-markets ontology of neoliberalism and its language of state ‘withdrawal’ and ‘retreat’. On the contrary, the military regime greatly strengthened the capacity of the state over the course of the 1970s and was actively engaged in the reconstruction of the capitalist class via financial reforms and privatization that shifted resources towards the Chicago-Boy dominated financial conglomerates, who carried out the reform project from civil society, and a series of subsidies and supports to develop the new export industries controlled by the financial fraction of the capitalist class.

Chapter V picks up the narrative at the end of the 1970s and the initiation by the neoliberal planners of a radical reconstruction of the state and subordinate sectors of civil society via the so-called ‘social modernizations’. The reforms of labour, education, health care, and social security would lay the institutional foundations for the reconstruction of the middle and working classes via the individualization and privatization of the mechanisms of identity formation and social advancement and reproduction. The constructivist project, however, was not without its unexpected twists and turns and would nearly run aground when a mounting economic crisis exploded in 1982 that bankrupted the principal financial conglomerates, drove the economy into the worst recession since the early 1930s, and reinvigorated opposition groups within civil

society. The challenge for the dictatorship would be to build upon the reforms of the 1970s and reconstitute the dominant fraction of the capitalist class while integrating opposition groups into the protected, neoliberal democracy.

The chapter will then shift to an examination of the contours of capitalist hegemony since the return of formal democracy and an appraisal of the two decades of governments of the center-left Alliance of Parties for Democracy (CPPD). The central objective here will be to interrogate how the constitution of capitalist hegemony in Chile impacted the developmental trajectory of the nation. On the one hand, the military regime bequeathed the democratic governments an extraordinarily powerful and cohesive capitalist class that dominated the economic, political, and ideological realms of Chilean society. On the other side of the hegemonic coin was a state apparatus subordinated to and dependent upon the capitalist class, and the middle and working classes that had been largely disarticulated and reintegrated into the networks of market power. As a result, while the CPPD governments made impressive gains in terms of economic growth, the expansion of social expenditure, and the reduction of poverty levels, they proved largely unable to address the underlying contradictions that threaten to destabilize Chilean society: the sharp inequalities of income and opportunity and the continued reliance of the Chilean economy upon natural-resource exports. The conclusion will briefly assess the possibilities for and obstacles to reforms that would place the country on a more inclusive and equitable developmental trajectory.

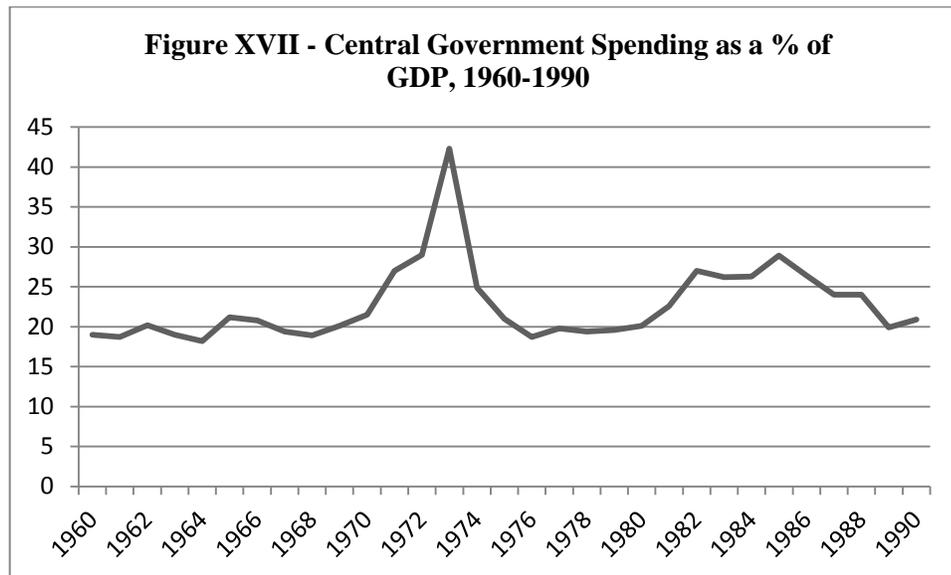
The Reconstruction of State and Civil Society: The Subsidiary State

The late 1970s and early 1980s were in many ways the apex of the military regime. Pinochet and the Chicago Boys had consolidated their control over the state apparatus. Opposition forces, while re-organizing, remained weakened and subdued. The economy had reactivated, under the leadership of a new dominant bloc within the capitalist class. It was in this

context that the military planners initiated the second plank of the construction of a hegemonic capitalist order: the dual reconstitution of the state and the subordinate sectors of civil society. The construction of the capitalist class had required the centralization of state power in the hands of Pinochet and the Chicago Boys. The remaking of the middle and working classes, on the other hand, required another kind of state transformation: the constitution of the “subsidiary state” via the social modernizations of labour, education, health, and social security.

Popularized in Chile by the Gremialista movement and adapted by the Chicago Boys, the concept of the subsidiarity of the state has generated some confusion, so it is worth taking time now to clarify what the Chicago Boys meant by subsidiarity. By ‘subsidiarity’ the civilian planners did not mean the withdrawal of the state from the economy or the absence of state intervention, but rather the construction of a state and civil-society complex subordinated to requirements and rhythms of private capital accumulation, or in Polanyian terms to the principle of individual gain and the institutional pattern of market competition. Subsidiarity was therefore not synonymous with state retreat or negation; it was the organizing principle of state *and* civil-society reconstitution that guided the neoliberal planners. As Schamis astutely observed in his study of the Chilean privatizations, “Market reform and privatization are...exercises in institutional destruction and institutional innovation; that is, they are episodes of state formation” (2002, 67), to which one should add episodes of civil-society formation.

That the state did not withdraw from the economy is clearly confirmed by the quantitative data.



Source: Elaborated from data in Banco Central (2001).

We can see from Figure XVII that government spending as a percentage of GDP between 1974 and 1990 did not decline, but instead closely resembled its pre-coup levels. In fact, average state spending from 1974 to 1990 was slightly higher (22.9% to 22.5%) than the average from 1960 to 1973, the heyday of import-substitution industrialization and state developmentalism. What changed under the dictatorship was not the level of state spending but rather its composition.

Levels of state services, output, and employment fell rapidly as public services were restricted and companies privatized (the value added of public companies as a percentage of GDP fell from 39% in 1973 to 13% by 1989) and the public bureaucracy was trimmed from 13% of total employment to 9% by 1980 (Atria, 2008, 5). Transformations in social policy, moreover, were focussed not merely on reducing state expenditures but refocusing social outlays away from the middle and upper-income earners and towards the most vulnerable members of society. The objective of these reforms was to privatize the access to social services and assistance for all those except the neediest, in effect individualizing the pathways of social mobility and stigmatizing state provision. At the same time as social outlays and investments were restricted and refocused, expenditures were increasingly dedicated to the costs of constructing a capitalist

class capable of assuming control of the economy and society, including the generous subsidies to the new export industries, the assumption by the state of private-sector debt after the 1982 crisis, and the financing for those – including the armed forces – who elected to stay in the pre-1981 pension system following privatization. Rather than representing the state ‘withdrawal’ from the economy, then, public expenditure data provides the quantitative confirmation of the continuing and active state participation in the economy and civil society.

When the Chicago Boys said ‘subsidiary’ state what they really meant was a ‘capitalist’ state that was structurally and institutionally subordinate to the capitalist class and subsumed by the disciplines of private capital accumulation. Because state and civil society are mutually constitutive, moreover, the creation of a subsidiary state was at the same time the reconstitution of the subjectivities and actors of civil society. The making of a subsidiarity state consisted of two principal reforms to the state apparatus. The first was the previously-discussed centralization of state power required to reconstruct the capitalist class, as Sergio De Castro recognized when he observed the subsidiary state required the prior constructing of dynamic capitalist investors, because “...in this way, and only in this way, can we guarantee that the state will become truly subsidiary” (DIPRE, 1978, 382). The second reform of the state consisted of the social modernizations by means of which the military regime constructed individualized, privatized, and marketized subjectivities within the subordinate sectors of civil society, and the Constitution of 1981, by means of which the dictatorship sought to constitutionalize the emergent state-society complex.

The first major social modernization implemented by the military regime was the Labour Code of 1979, which sought to lock-in the organizational disarticulation and structural weakness of labour. Immediately following the coup and the initial wave of repression and disarticulation of opposition forces, there was little in the way of a unified vision for the reincorporation of

labour into a new economic and political order, in no small part because the precise contours of that order remained to be determined. The first wave of proposals for the reincorporation of labour took place under the guidance of the Minister of Labour and Social Security Nicanor Díaz Estrada, backed by General Leigh. Policies from participatory decision-making in industry to the guarantee of employment and basic social services for all were discussed (Vergara, 1985, 47-48), and in early 1974 the Minister of Finance, Admiral Lorenzo Gotuzzo, spoke of “mechanisms that give access to workers to the means of production in order to ensure an improved distribution of income” (DIPRE, 1978, 42, 69-71). The initial proposal for a new labour code was of a fundamentally corporatist character that sought to establish compulsory and centralized trade unions as dependencies of the state. Compulsory unionization would be complemented by the Social Statute of the Firm that would incorporate workers into management via “Company Committees” responsible for the formulation of investment, production, and training plans to foster new economic lines and train workers in areas of rising demand. The corporatist labour plans, however, would fall by the wayside with the replacement of Díaz by conservative and gremialista ally Sergio Fernández in early 1976, reflecting the rise to supremacy of Pinochet and the consolidation of bureaucratic control by the Chicago Boy-Gremialista axis (see Campero & Valenzuela, 1984; Haworth & Roddick, 1981).

As the military regime debated the reinsertion of labour into the socio-political order, moreover, macroeconomic and fiscal policy dramatically weakened the structural power of labour. Trade liberalization and fiscal austerity provoked widespread industrial bankruptcy and a sharp decline in the number of industrial workers, which fell 23% between 1973 and 1980. As a result, the share of industry in total employment declined from 21.9% in 1974 to 15.2% by 1981 and blue-collar workers as a share of the economically-active population fell from 63.4% in 1970 to 53% by 1980 (Gwynne, 1986, 6; Meller, 1994, 119-120). Job losses, moreover, were

concentrated not only in those industries most closely connected to organized labour (metallurgy, electromechanical and automobiles, textiles and leather), which accounted for 91% of industrial job losses in firms with more than fifty employees, but also in those areas, such as construction and agriculture, that were most closely connected to the UP (Campero & Valenzuela, 1984, 84).

Workers in the old import-substitution industrialization sectors in turn moved into the emergent sectors such as commerce and services, agroindustry, and forestry. The decentralization and geographical dispersion of these productive activities, however, meant they were much more resistant to collective organization than the centralized industrial firms based in Santiago. The share of goods-producing sectors (agriculture, industry, mining, and construction) in total employment correspondingly declined while the service sector saw its share of employment rise from 50.1% in 1972 to 60.8% by 1980 (Campero & Valenzuela, 1984, 80). Given the repression and disarticulation of labour, the severe economic crisis of 1974-1975, and the persistence of high inflation, it is no surprise levels of unionization and wages collapsed. By the early 1980s, the rate of unionization had plummeted to 11% from its 1973 peak of 32.5% in the final year of the Allende government. Real average wages, moreover, had collapsed by 1975 to only 62% of their 1972 level and the labour share of national income fell from 62.1% in 1974 to 51.7% by 1982 (Fortín, 1985, 168; Oppenheim, 1999, 146).

Macroeconomic policy similarly undermined and transformed the socio-economic foundations of the middle class. As discussed in previous chapters, the organized middle class in Chile had traditionally comprised a 'state class' that depended heavily upon the public sector and participation in political parties for employment and social advancement. The challenge for the dictatorship was to transform the middle class from one that depended upon the state for its socio-economic status and opportunity to one that depended upon individual success in capitalist markets without alienating a key political ally. The first step in this transformation was the

significant fiscal retrenchment and privatization of state-controlled enterprises of the 1970s – public expenditure as a percentage of GDP fell from 44.1% in 1973 to 22.9% by 1979 and the number of state-controlled firms fell from over five hundred in 1973 to only twelve by 1981 – that initiated a historical transformation of the middle class. Fiscal austerity meant that in addition to the transfer of employment from the public to the private sector via the privatization of public enterprises, there was a further 25% reduction in public employment from 1973 to 1978, representing nearly 100,000 jobs lost (Martínez Bengoa & Tironi, 1985, 70).

Although some analysts on the left at the time advanced a “proletarianization of the middle classes” thesis (see Filgueira & Geneletti, 1981), these predictions proved unfounded. Rather than becoming blue-collar labourers, the state-based middle class found itself assimilated increasingly as entrepreneurs, managers, and technical specialists in the new export, subcontracting, and service firms that were the product of the decentralization of the productive organization and the assimilation of the middle class into the networks of financial and commercial capital discussed in Chapter IV (see Meller, 1994; Montero, 1990). While the share of salaried workers in the public sector fell precipitously, it was more than made up for by the rise in salaried employment in the private sector, so that middle-class salaried employment as a percentage of total employment actually increased from 26.5% in 1971 to 33.5% by 1980, with 73% of that total accounted for by the private sector (Atria, 2008, 5).

As urban employment underwent significant organizational and structural transformations, rural labour underwent an even more dramatic reconstruction. Much as in urban areas, the initial response of the military regime to rural labour was an intense repression, and the subsequent privatization of access to the productive assets in the hands of the state by 1973 would shape the forms of labour organization and consciousness that would emerge from the restructuring process. The distribution of state lands to a limited number of rural workers and the

subsequent loss of land by beneficiaries, as a result of trade liberalization and the absence of state support for smallholders, initiated a powerful proletarianization of the rural labour force. Of the between 76,000 to 100,000 tenants of the agrarian settlements in 1973, only about 36,000 received parcels of land during the military regime (Bellisario, 2007b, 172-173), and a further sixty percent of those beneficiaries sold their lands during the dictatorship. The highly politicized and exclusionary nature of the land reform contributed to the emergence of new axes of social differentiation among rural labour, between those who gained access to land and those who were excluded, fostering competition and resentment among the formerly organized rural workers.

Land-reform beneficiaries and the proletarianized rural workers were inserted into a system of production, distribution, and labour relations that was geographically decentered, casualized, and privatized. While in the pre-1973 period rural labour worked and lived in close proximity on the hacienda, which facilitated the development of class consciousness among rural workers, and the surplus rural population flooded into the major urban centres, themselves hotbeds of leftist organization, under the dictatorship these trends reversed. Rural workers were expelled from the countryside and surplus rural labour began to migrate to rural shanty towns and hamlets, influenced by the sharp rise in unemployment in the major urban centres following the economic crisis of 1974-1975 and the rapid growth of agro-industrial plants in the smaller towns. By the early-1980s, approximately 80% of the temporary labour force was drawn from small family farms and rural towns, and even permanent labour had largely been displaced from the land (Gómez & Echeñique, 1986a, 28-29, 60-61). The township populations in turn reinforced structural unemployment in the rural sector and wage repression by impeding the escape valve for surplus labour, with agricultural unemployment rising to 15% in 1979 (Jarvis, 1992b, 205; M. J. Kurtz, 2004, 96).

Geographical decentering and disarticulation was bolstered by processes of casualization and privatization. The dictatorship saw a sharp rise in the utilization of temporary labour in agriculture, building upon trends from the 1960s, where the number of temporary workers began to rise in response to the acceleration of rural unionization efforts. Between 1965 and 1987 the percentage of temporary rural workers rose from 41.4% to 71.4% (P. Silva, 1992, 230). The utilization of temporary labour, moreover, was tied to the modernization of rural production and the feminization of the labour force: by the early 1980s, temporary employees accounted for 83% and 81% of the work days in the grape and apple industries and 60% were women (Elena Cruz, 1986, 20-24; Gómez & Echeñique, 1986a, 25).

Casualization fed into the broader process of privatization. One of the main reasons for the successful electoral mobilization of rural workers in the pre-1973 period was the acceleration of state intervention into rural spaces via labour legislation, social security laws, and the provision of public services and productive inputs that eroded the clientelistic networks of the landowners. During the 1970s, these trends were dramatically reversed. Labour legislation was suspended, access to social security and other benefits were limited by the utilization of temporary labourers, and public services were restricted while the provision of productive inputs was privatized into the hands of the large conglomerates. Casualization and privatization reinforced the depoliticization of social relations as rural smallholders and workers were divided along new axes and integrated into a series of new dependencies upon capital for the provision of credit, inputs, and employment, the effect of which was to limit the salience of the political arena for the rural population and mitigate against rural organization (M. J. Kurtz, 2004, 69).

The Chicago Boys recognized clearly the political nature and effects of agrarian reform. As Hernán Büchi wrote of the agrarian reform of the 1960s and early 1970s, "My opinion is that the basic objective of the agrarian reform was never economic. It was... at its deepest level was a

strategy to break the traditional nexus between landlord and rural worker” (2008, 72). Agrarian reform under the dictatorship accordingly sought to demobilize and disarticulate the rural population and constitute not landlords but capital as the predominant force in rural society. As Kurtz convincingly argues, there were three political effects of agrarian reform under the dictatorship: the creation of a set of social divisions and conflicting interests among smallholders and rural workers, such as over access to land and type of labour contract; the privatization and individualization of paths of social mobility that fed into the prior social differentiation; and the closing down of the channels of political mobilization and advocacy while strengthening capital as the main source of power in the countryside, thereby completing the conditions for the refoundation of the countryside as the political base of the right (2004, 83).

The redefinition of the rural social structure and geography via the debilitation of organizational capacity, the reshaping of rural interests, and the strengthening and modernization of rural elites resulted in a dramatic demobilization and atomization of the rural population (M. J. Kurtz, 2004, 53-54). Rural unionization collapsed precipitously in the years following the coup. By 1981, rural unionization had declined to just 18% of its 1973 level, down from over 280,000 members to under 56,000, and the number of peasant cooperatives collapsed from over three hundred to fewer than sixty (Crispi Soler, 1980, 9; Diaz & Rivera, 1986, 104; P. Silva, 1992, 225). Participation in social organizations likewise plummeted, particular among temporary workers. As Gómez and Echeñique found in the early 1980s, the participation of temporary workers in social organizations was “notoriously low”, with approximately 70% of such workers having no participation in social organizations of any kind, and the majority of those who did participate did so in sporting clubs (Gómez & Echeñique, 1986b, 64). By the early 1980s, rural workers and smallholders were demobilized, atomized, and subordinated to the power of capital. By 1988 they would once again become the electoral bulwark of the right.

With labour weakened and in organizational disarray, the Labour Plan of 1979 was promulgated to institutionalize the disarticulation and reconstitution of urban and rural labour within the emerging hegemonic order. The plan replaced the Labour Code of 1931 that, for all its limitations, had laid the institutional foundations for one of the most organized and radical labour movements in the region. This new labour institutionality, defined by the regime as “technocratic unionism”, represented not a withdrawal of the state from labour relations but quite to the contrary a highly interventionist attempt to reconstitute not only labour relations but the processes of class formation and class consciousness. The new plan in effect sought to privatize, localize, and depoliticize trade unionism by restricting its scope to the local-level negotiation of compensation on the basis of worker productivity. The objective was not deregulatory but rather transformative: to rebuild unions from a central site of political mobilization and class consciousness to the localized mediators between individual market actors in such a way as to restrict class consciousness and formation (Campero & Valenzuela, 1984,113-114).

The Labour Plan eliminated the traditional distinction between industrial (blue-collar) and professional (white-collar) unions and excluded state employees, temporary workers, and supervisors and managers from unionization. Four categories of unions were authorized (company, intercompany, independent, and construction), but only company unions had the right to bargain collectively and negotiations were restricted to the plant level. Agricultural workers were granted to the right to unionize, but only on farms with more than eight permanent workers, which most farms did not have. To discourage and weaken unionization efforts, affiliation was made voluntary, employees could be dismissed under the catch-all justification of “business purposes”, and multiple unions could exist within the same company. Employer leverage was furthered by the restriction of strikes to sixty days and the ability of employers to hire replacement workers if the strike involved more than half of plant employees or led to the

paralysation of firm operations. The plan also created a staggered timetable during which specific firms were allowed to negotiate, thereby preventing workers from coordinating strike activity and demands. Labour unions were required to be non-partisan and candidates for union leadership were not allowed to have any record of partisan office for the past ten years, to impede the politicization of labour relations (Barrera & Valenzuela, 1986; Campero & Valenzuela, 1984; Hurtado-Beca, 1981).

The labour reform was followed by the reform of social security in 1980. The previous pension system, which lasted from 1920 to 1980, had expanded piecemeal via over 2,000 general laws and more than 3,000 complementary laws that routed pensions into a myriad of distinct institutions and categories. The central axis of the old system, however, was the principle of pay-as-you-go, whereby active payees financed the pensions of retirees and whose stability was based on the ratio of active and passive members. Persistent shortfalls between revenues and payouts, however, which reached as high as 60% of total payments, resulted in the government subsidy climbing to 30% of total social-security payments. Over the course of the 1970s, the military regime simplified and consolidated the old system, but the reduction in the levels of contributions, from 33% to 20% of wages, meant the resources devoted to social security had swollen to an unsustainable 50% of fiscal expenditure by 1980 (Corbo, 1993, 14; Hachette & Lüders, 1992, 52-53; Martínez Bengoa & Díaz, 1996, 63).

After considerable internal debate, including the proposal of a system of pension capitalization via non-profit organizations controlled by workers (DIPRE, 1978, 42, 69-71), the neoliberal vision of pension reform finally prevailed with the release of the Kelly Plan in April of 1978. The new pension system, promulgated as Decree Law 3,500 in 1980, was organized around three principles: individual capitalization, private and for-profit administration of pension funds, and a guaranteed minimum pension and a public-assistance pension for the destitute.

Workers would deposit 10% of gross taxable earnings into individual accounts offered by Pension Management Funds (AFPs), who charged a service fee for the management of funds. Participation in the new system was obligatory for all workers entering the workforce after 1983. Those who had contributed to the previous public system were provided an incentive to switch their investments into the new system via a lump-sum “recognition bond”. The financial incentive and an aggressive public-relations campaign resulted in 70% of contributors switching to the new system by 1982, most of whom were under forty-five years old, with the Armed Forces and much of the civil service remaining in the old system (Corbo, 1993, 16; Diamond & Valdés-Prieto, 1994, 273-274; Solimano, 2012, 112).

Similar to the labour modernization, the reform of social security reflected not the retreat of the state but rather its powerful and constructivist influence. The legislation made contributions compulsory for all workers with permanent contracts, in effect a system of forced savings in order to supply the large conglomerates that control the pension funds with investment capital. The state also guaranteed minimum rates of return for contributors and fund administrators and maintained responsibility for financing the pensions of all those who remained in the old system. The state thus assumed an extraordinary financial burden as guarantor not only of the new private system but of the pension obligations of the old public system. The deeper objective of the state reconstruction of the pension system was clearly constructivist: to marketize social reproduction, stigmatize public assistance, and transform the very social ontology of the middle and working classes. As the architect of the pension reform, José Piñera, observed: “The basic problem of the [old] system...lay in its collectivist conception of man and society...the great lesson for the design of the new system was not to neglect the free choice and decisions of individuals, nor to break the indispensable tie between personal effort and compensation” (cited in M. J. Kurtz, 2004, 70). So effective would this experiment in the social engineering of

individual responsibility be that Hernán Büchi, who helped design the reform, predicted, “...the day will arrive when individual responsibility is so rooted in the population that compulsory contributions, as the Russian economist thought, will no longer make sense” (2008, 117).

The trends towards decentralization and privatization of collective organization and service delivery were nowhere more evident than in the education and health-care sectors. In the provision of education and health services, the principle of municipalisation would combine with privatization to govern state reform. Arturo Valenzuela observed that the vertical nature of ties between the central government and municipalities in the pre-1973 period discouraged the formation of demands at the municipal level, encouraging instead collective organization at the national level (1977). This insight was not lost upon the Chicago Boys. In fact, *The Brick* explicitly presented decentralization as a mechanism for social demobilization and depoliticization:

Decentralization will reduce conflict in the functioning of the state. At present, social and economic problems place citizens and the [national] state in direct contact, without intermediaries, because the state is both the great patron and in every conflict is accordingly both judge and a party. Decentralization will allow the state to play the role of arbiter, facilitate the depoliticization of numerous activities, and will situate ideological and political conflicts at the appropriate level, where they will not interfere with everyday activities (De Castro, 1992a, 54).

The Municipal Government Law of 1988 transferred the responsibility for the administration and delivery of social services to municipalities, in addition to the decentralization of the revenues required for their provision, which were to be generated primarily through municipal taxes, supplemented by funds from regional governments and the Common Municipal Fund, a mechanism designed to redistribute resources between municipalities. The objective of municipalisation was twofold: on the one hand to restrict the distributive – and thus redistributive – role of the central government by localizing revenue raising and social-service provision so as to localize popular demands; and on the other hand to strengthen the patronage

networks of the military regime through its control over the appointed mayors and local officials in charge of social-service provision (Castiglioni, 2008, 17; Oxfhorn, 1995, 194).

Two of the major drivers of the municipalisation and privatization of social services were the education and health reforms initiated in the early 1980s. Following the coup, the reestablishment of control over the education system was a top priority for the military junta. The new regime replaced university administrators with military rectors who purged the universities of radical professors and gravely weakened departments influenced by Marxism, like sociology and education. The National Teachers' Union, which had participated in the design of education policy under Allende, was replaced in 1974 by the Teacher's College that was responsible for registering teachers and regulating teacher conduct. Thousands of public-school teachers were dismissed, the entrances to educational establishments were guarded, and curriculum was redesigned to emphasize patriotism and 'morality' (Castiglioni, 2008, 16; B. Loveman, 2001, 285-286).

The formal transformation of the education system began with Decree Law 3,476 in 1980. The administration of educational establishments – including infrastructure, equipment, and personnel – was transferred from the central government to the municipalities. In addition, a three-tiered school system was implemented based upon vouchers paid directly to schools: municipal schools, private schools subsidized by the voucher system, and private fee-paying schools (Helgo, 2002, 125). The principal difference between the municipal and private-subsidized schools was that the latter could select their students, whereas the former were compelled to accept all applicants. At the tertiary level, the General Law of Universities of 1981 ended free university education by permitting user fees while facilitating the establishment of private universities. Resources were re-directed away from higher education and transformed from general grants to per-student contributions, the result of which was the steady rise of user

fees within even the 'public' education system (Corbo, 1993, 23-26; B. Loveman, 2001, 285-287). Primary and secondary schools were no great beneficiaries, however, as education spending fell from 6% of GDP in 1972 to only 2.5% of GDP and the real value of vouchers had declined by nearly 30% by 1989, forcing municipalities to make-up for the shortfall and exacerbating regional and local inequalities (see Parry, 1997).

Parallel to the changes in education was the reform of the health system. From the 1920s the public health-care system, centralized in the National Health Service (NHS) in the 1950s, was financed with social-security taxes to provide medical services to the population. In 1979, however, Decree Law 2,763 decentralized the NHS into twenty-six independent regional bodies. In 1981, the delivery of primary health services was devolved to the municipal level and private health-care providers were authorized. Under the new rules, a two-tiered system of mandatory health insurance was implemented. On the one hand, the state established the National Health Fund (FONASA) to provide health insurance open to anyone, financed by state revenues and a 7% levy on taxable income for subscribers and co-payments, with free insurance to the poorest segments of the population on the basis of means testing. On the other hand, Private Health Insurance Providers (ISAPREs) were authorized to provide health insurance and health services in private, for-profit clinics, financed by payroll deductions whose amount varied depending upon the cost of the plan, but with a floor of 7% of gross earnings. As with the pension and education reforms, the two-tiered health system allowed private providers to skim the profitable high-income population while the state assumed responsibility for the rest. By the end of the 1980s, for example, ISAPREs accounted for 70% of all wage and salary withholdings but serviced only 10% of the population (Bruce, 2000, 76-77).

Of great concern to the neoliberal and Gremialista planners was how to protect the neoliberal reconstruction of the state following the inevitable transition to democracy. One of the

principal mechanisms for protecting the new order from democratic reform was the Constitution of 1981. Dubbed “The Constitution of Liberty” in recognition of its Hayekian inspiration, the new constitution laid out a clear timetable for the transition while constitutionalizing the constructivist project and circumscribing the capacity of future democratically-elected leaders to reverse the foundational reforms of the dictatorship. Rooted in the basic Hayekian mistrust of democracy and the ‘perversion’ of the general interest by organized interest groups, the new constitution was the juridical expression of the revolutionary project and its anchor against future threats from civil society. In the words of Pinochet, the new constitution would “consolidate authority as a shield for liberty” (cited in Barton, 2002, 362).

The principal objective of the Constitution of 1981 was to lock-in the subsidiary state as structurally and institutionally subordinate to the capitalist class. The constitution sought to remove the central decisions involving social reproduction from the political system. As Minister of the Economy Pablo Baraona observed, “The new democracy...should be authoritarian in the sense that the basic norms that are essential to the stability of the system are not subject to the political process” (DIPRE, 1978, 305). The objective of the constitution, then, was to ensure that elections would produce only small shifts in public policy, regardless of whether the left or right held power. In the words of its chief architect, Jaime Guzmán, the new constitution sought “...to construct a reality that subjects all governments to its demands. That is to say that if the opposition serves as government, they will find themselves bound to implement a program not so distinct as that which one may wish for, because the alternatives permitted by the playing field are so reduced as to make it extremely difficult to do otherwise” (1979, 19).

The most fundamental debate taken out of the political sphere was over private property, which was enshrined as a constitutional right in Article 19, Paragraph 24. Property rights were protected from expropriation by means of appeal to the court system and the requirement that

indemnification be paid in full and in cash prior to the expropriation, in the absence of an agreement between the parties involved. The capacity of the state to engage in entrepreneurial activity was circumscribed by Article 19, Paragraph 21, which required such activity to be authorized by a qualified quorum of the congress. Article 98 prohibited the Central Bank from directly financing government expenditures or purchasing government bonds, except in times of war, and the narrow mandate to maintain currency stability and the sound operation of domestic and external payments was enshrined by the Organic Constitutional Law of the Central Bank of 1989.

The social modernizations of the late 1970s and early 1980s were similarly anchored in the constitution. Labor legislation was constitutionalized by Article 19, Paragraph 19, including the prohibition of union organizations and leaders participating in partisan politics. Article 19, Paragraph 18, required that all laws related to social security be passed by a qualified quorum and the right to access private health-care providers was guaranteed by Article 19, Paragraph 9. Education reforms were protected via the right to establish private educational establishments and the stipulation that the government would introduce an organic constitutional law to regulate the provision of educational services, done in 1989 on the basis of previous educational reforms, and whose amendment is considered the equivalent to a constitutional amendment and subject to similar quorum.

The constitutional protection of the constructivist project was buttressed by the rigorous amendment procedures and the binomial electoral system. Whereas the Constitution of 1925 provided for its amendment by the majority of both chambers of the congress, the military regime placed a much higher threshold for the amendment of the Constitution of 1981. The basic requirement for any constitutional amendment was three-fifths of both congressional chambers, with two-thirds required when the reform relates to the power of the president. Where

constitutional reforms touched upon the basic institutional structure of the state (Chapter I), the electoral system (Chapter VII), the armed forces (Chapter X), and the national-security council (Chapter XI), their passage required the approval of two-thirds of the members of two consecutive congresses. In addition to the text of the constitutional itself, constitutional organic laws, of which there are over twenty related to mining, education and teaching, municipalisation, and political parties, required the approval of four-sevenths of the Chamber of Deputies and the Senate.

The requirements to reform the constitution and constitutionally-protected legislation were made even more onerous when one factors in the electoral system established prior to the return of democracy, itself constitutionally protected. The constitution did not specify the electoral system that would govern the post-transition period. Rather, it stipulated the promulgation of a constitutional organic law that became Law 18,799 on Popular Elections and Vote Counting. The electoral law established an open-list proportional representation system with a district magnitude of two, the infamous binomial system. In order to win both seats the victorious list must double the vote total of the second-place list; otherwise, the top candidate from the first and second-place lists is awarded representation. As a result, if the winning list was to capture 66.6% of the popular vote in each and every district in the country and the second-place list was to win 33.4%, the congress would be evenly divided between the two. An early objection to the binomial system was that it would favour the second-place list and was selected by Pinochet to overrepresent the rightist parties (A. Valenzuela & Siavelis, 1991), but the evidence suggests the binomial system has overrepresented not only the center-right but also the center-left (Zucco, 2007).

Rather than overrepresent the right, the binomial system was designed to discriminate against the left pole, the weakest of the so-called three-thirds party system, whose electoral rise in

the late 1950s had destabilized the political system. Since the electoral system was designed after the results of the 1988 referendum, the dictatorship knew the basic geographical distribution of its support and its concentration in rural areas (Pastor, 2004, 44). Electoral districts were gerrymandered to insert conservative rural areas into urban districts to block the center-left coalition from the two-thirds it needed to win both seats and rural overrepresentation was ensconced via districts that could only be adjusted for population shifts with a three-fifths majority of both houses of the legislature.²⁹ The principal effect of the binomial system was that while the Right was not forced to appeal to the median voter to gain Congressional representation, the left was forced to choose between a coalition with the Christian Democratic Party (PDC), the path pursued by the Party for Democracy (PPD) and Socialist Party (PS), or electoral marginalization, the fate of the Communist Party (PC). A key objective of the electoral system, therefore, was to prevent the reconstitution of a PS/PC axis on the left.

In addition to the protections provided by the electoral system, the military regime inserted a series of ‘authoritarian enclaves’ as the final bulwarks against democratic attempts to alter the institutionality of the state. Article 90 of the Constitution made the armed forces responsible “to guarantee the institutional order of the republic”. Pinochet himself was reaffirmed as the Commander-in-Chief of the Army and no civilian president could remove a commander-in-chief of the Armed Forces without the consent of the conservative National Security Council (NSC). The Organic Law of the Armed Forces, moreover, provided a constitutional guarantee that the military budget would not fall below 1989 levels in real terms and earmarked 10% of CODELCO sales for military acquisitions, without civilian oversight. In addition to its role as protector of the armed forces from democratic control, the NSC, dominated

²⁹ Not surprisingly, Chile’s system of representation deviates from the one-person, one-vote ideal more than any Latin American country except Bolivia. The population ratio between the largest and smallest districts reaches nearly 6:1 (M. J. Kurtz, 2004, 143).

by military personnel and Pinochet loyalists, was granted a series of advisory and policymaking tasks by Articles 95 and 96. The Constitution also established nine designated senators, approximately 20% of the Senate, appointed by the NSC, as a further guard against democratic reform. The Constitutional Tribunal, similarly packed with loyalists, was charged with the adjudication of the Article 8 ban on groups that advocate “a concept of society, the State or the juridical order, of a totalitarian character or based on class warfare”. Pinochet himself boasted the constitutional safeguards left the democratic governments “tied up, well tied up” (cited in B. Loveman, 2001, 309).

The Economic Crisis and the Restructuring of the Capitalist Class

The 1980 constitutional plebiscite represented the high-water mark of the military regime. At the same time as Pinochet and the Chicago Boys consolidated their grip upon the state, however, storm clouds were brewing in the economy. Following a sharp recession in 1975, investment, output, and employment began to recover rapidly towards the end of the decade, fuelled by sharp rises in imports and consumption, and the expansion of non-traditional exports. Despite policies designed specifically to produce price stability, such as tariff liberalization, fiscal austerity, and monetary tightening, inflation registered an 84% increase in 1977. By 1978, a new approach to address the embeddedness of inflationary expectations was developed that sought to anchor and lower inflationary expectations by means of exchange-rate manipulation. In February of 1978 the new policy was announced, consisting of a series of planned devaluations that would culminate in the adoption of a fixed-exchange rate of 39 pesos/dollar in June of 1979 (Corbo, 1993, 9).

The fixed-exchange rate policy, when combined with the indexation of wages to inflation and the liberalization of trade, created significant “Dutch disease” effects and provoked severe

macroeconomic disequilibria. The result was a rapid decline in the competitiveness of the tradable sector and a sharp rise in the trade deficit from 3.2% of GDP in 1978 to 12.9% by 1981. The full liberalization of the capital account and inadequate financial regulation, moreover, initiated an explosion of foreign indebtedness, which nearly trebled from 1977 to 1981, and an unsustainable asset and consumption bubble, with stock market and real estate values rising 393% and 263% respectively between 1976 and 1981 (Meller, 1998, 205). Unfavourable external conditions, including deteriorating terms-of-trade, provided the final nail in the coffin, culminating in the Volcker shock, which increased net factor payments abroad by 83% between 1980 and 1982, precipitating a financial crisis and the most severe economic collapse since the 1930s (Haindl Rondanelli, 1999, 10-12).

The mounting economic crisis was concentrated in the financial sector, where by the end of the 1970s troublesome warning signs regarding lending practices and leverage ratios were clearly visible. The wave of bankruptcies in the early 1980s were funnelled into the financial sector via the high degree of ownership and credit concentration, and by late 1981 financial institutions in the country owed US\$2.5 billion, double the combined capital of the industry (Martínez Bengoa & Díaz, 1996, 59). In November of 1981 the government intervened in four banks and four financial institutions, which set off a panic in international markets and further reduced access to foreign credit. Measures to curb the rolling over of debt and intra-group lending, moreover, only accelerated the crisis as companies became increasingly exposed and non-performing loans reached 80% of bank capital and reserves by the end of 1982. In June of 1982, the government abandoned the fixed exchange rate and the peso depreciated by nearly 60% in three months, exacerbating the debt burden, as 50% of bank loans were denominated in foreign currencies. By January of 1983, three financial institutions with debt triple their net worth were dissolved, including BHC, and another five were intervened, including the two largest banks in

the country, the Bank of Chile and the Bank of Santiago (Edwards & Edwards, 1991, 48; Lazo & Novik, 1990, 65; Ramos, 1986, 23-25; R. Zahler, 1983, 522). The collapse of the largest financial institutions in the country effectively liquidated the two Chicago-Boy conglomerates that had driven the reform process from civil society: Cruzat-Larraín and BHC-Vial.

By 1985, fourteen of twenty-six national banks and eight of seventeen financial institutions were formally under state control. In the case of liquidated firms, domestic investors lost 30% of their claims while foreign investors were repaid in full. The government stepped in to purchase bad debt with bonds from the Central Bank at a preferential exchange rate that represented a major subsidy to the financial sector, which also benefitted from capital injections of around 15% of GDP. Institutions that sold bad debt to the Central Bank committed to its repurchase at a later date with 70% of future profits to be dedicated to the debt-repurchase initiative. The cost of the nationalization of the financial sector and its debts was estimated at 40% of GDP, with the Central Bank socializing private debt of approximately 25% of GDP. As a result of the concentration of economic assets in the hands of the largest financial conglomerates, by 1985 the state controlled a share of the total economy comparable to the UP years, leading critics to deride the economic policies of the military regime as the “Chicago road to socialism” (Lüders, 1991, 13; Martínez Bengoa & Díaz, 1996, 58; Montero, 1997, 141; Solimano, 2012, 27-28).

The crisis of 1982-1983 produced tensions within the business community and between the business community and the government that would result in several years of rapid personnel shifts before the internal hierarchy of the state and state-society relations were reconstituted. The depth of the economic crisis – in which real GDP fell 14% in 1982 and unemployment peaked at nearly 20% and over 30% if those in emergency employment programs are included (see Solimano & Larraín, 2002) – emboldened opposition forces and produced cracks in the public

support of business leaders for the economic policy of the military regime. Dissenting voices emerged first among the small and medium-sized business sector, peaking in 1982 with the Valdivia and Rancagua Declarations, and then spread to the larger economic groups, most prominently in the form of Jorge Alessandri, former President and Chairman of the powerful Matte Group, who openly criticized the economic management of the government. By 1983 the CPC was calling for expansionary fiscal and monetary policies, devaluation, and improved channels of communication with the government, while sectoral associations demanded greater tariff protection and price floors for agricultural goods (E. Silva, 1996b, 156-159).

Pinochet responded to the crisis and growing unrest amongst his supporters by dismissing de Castro in April of 1982. His desire to maintain control of policy, however, led him to replace de Castro with another Chicago Boy, Sergio de la Cuadra, which did little to appease critics. Business groups were similarly unimpressed with the subsequent selection of another Chicago Boy and former BHC-executive, Rolf Lüders, to replace de la Cuadra. It was only with the appointment of figures without ties to the Chicago-Boy dominated financial conglomerates, like Carlos Cáceres in Finance and Jorge Prado in Agriculture, that policy began to shift more clearly in the direction desired by the main business lobby groups. In February of 1983, Cáceres announced an emergency economic plan that doubled tariffs to a uniform rate of 20%, later increased to 35%, an expansionary fiscal policy, and measures to reduce interest rates and renegotiate debt for domestic borrowers (Campero, 1984, 277-280). As the downward spiral continued, however, Cáceres was replaced by Luis Escobar Cerda who embarked upon a more aggressive program to reactivate the economy, including preferential exchange rates, an expansion of the monetary supply, and investments in the construction sector.

One must be careful, however, not to interpret the peak-association demands and the pragmatic concessions made by Pinochet during the depths of the crisis as representing either a

break in business support for the military regime or a repudiation of the broader neoliberal restructuring.³⁰ To begin, significant segments of the business community had opposed the radical reforms of the Chicago Boys from the mid-1970s, so such criticisms were hardly new, even if they were more public. While Silva (1991) contends that business groups broke ranks with the regime during the crisis and used negotiations with the opposition to extract concessions, Campero (1984) and Frieden (1991) counter that business for the most part closed ranks with the military out of fear of the opposition. As Barrett argues convincingly, given the radical proposals that were emerging from opposition forces at the time and the restriction of criticisms to calls for a more expansionary fiscal and monetary policy, the actions of the business community cannot be properly interpreted as ‘breaking’ with the military regime (1997, 340-350).

By 1985, the economy had stabilized and Pinochet quickly replaced Escobar Cerda with Chicago Boy Hernán Büchi as Minister of Finance. Like De Castro before him, Büchi transformed Finance into the nodal point for neoliberal restructuring. The principal difference was that Büchi maintained more open connections with a greater variety of business interests via the Commission for Commerce and Industry, legislative commissions of the junta, and the Economic and Social Council. In addition, business representative were placed in charge of sectoral portfolios such as agriculture, economy, and mining, providing direct access to the commanding heights of economic-policy making, while CORFO was restructured to give the private sector participation on its board of directors (E. Silva, 1996a, 204-205; P. Silva, 1995, 117; Teichman, 2001, 92). The measures to reactive the economy, such as tariff increases and fiscal expansion, were reduced and removed. The fundamental task of the new economic team,

³⁰ That Pinochet never really abandoned his commitment to the neoliberal project is reinforced by the fact that he continued to meet regularly with key Chicago Boys – Sergio de Castro, Jorge Cauas, and Carlos Cáceres – to discuss policy after they were removed from their positions at the apex of economic policy. Moreover, the participation of the World Bank during the depths of the crisis helped to reinforce and legitimate the neoliberal position within the military regime (Teichman, 2001, 80).

however, was not to restrain popular demands for greater spending and protection; the real challenge was how to reconstruct the capitalist class after the implosion and statization of the financial conglomerates that had led the neoliberal project from civil society in the 1970s.

As the Minister of Finance charged with the task of righting the ship after the catastrophe of 1982-1983, Hernán Büchi described his principal tasks as strengthening the competitive position of the nascent export industries and increasing the rate of domestic and foreign savings to support a sustained economic expansion (1985, 1679); or in other words, to use the power of the state to strengthen and support the capitalist transformation of the 1970s and its nascent capitalist class. By 1984-85, foreign debt was the equivalent of 1.26 times GDP and Chile was spending over 60% of its export earnings on interest and amortization (Ffrench-Davis, 1990, 109; M. L. Williamson, 1990-1991, 445-446). At the same time, much of the financial sector had been liquidated or intervened and the Central Bank was directly or indirectly responsible for 80% of foreign debt, the result of which was an explosion of public debt from 13.5% of GDP in 1980 to 53% by 1987 and the statization of the national economy (Arellano, 1988, 82; M. L. Williamson, 1990-1991, 446). Faced with extraordinary levels of publically-guaranteed foreign debt and direct state control over the economy, debt-for-equity swaps and privatization became the two chief means of reconstituting the capitalist class.

Two legal mechanisms set up to administer the debt-for-equity swaps: Chapter XVIII (US\$3.28 billion) to convert dollar to peso-denominated debt for domestic investors, which could then be swapped for equity, and Chapter XIX (US\$3.6 billion) for foreign investors. In addition, a special mechanism for debt-equity swaps in the foreign investment law was deployed (US\$308 million). Chapter XVIII allowed Chilean nationals to purchase foreign debt in the secondary markets and then convert that debt into an asset denominated in the local currency or retire domestic debt. The chief domestic beneficiaries of Chapter XVIII conversions were the powerful

non-financial economic groups that had concentrated assets in the new export industries, like Matte, Angellini, and Luksic, now the three largest economic groups in the country, who were able to purchase discounted debt notes and convert into productive as well as consolidate the agricultural sector as the more inefficient and decapitalized producers were bought out by agro-industrialists and exporters (Avendaño P., 2001, 14; Clapp, 1995, 288).

Conversion under Chapter XIX was incentivized by free profit remittance after five years and the implicit subsidy of 20-30%, as the government committed to paying 90-93% of the face value of debt that was trading in secondary markets at a discount rate of 60-70% (R. A. Lagos, 1992, 480). The execution of the Chapter XIX swaps was indicative of the constructivist nature of the broader neoliberal enterprise. In addition to the substantial subsidies involved in the debt-conversion process, Chapter XIX debt-for-equity swaps were approved by the Central Bank on a case-by-case basis, which allowed the government to ensure foreign investment was channelled towards priority sectors, in order to fortify emergent export lines, strengthen troubled sectors like banking, and modernize telecommunications and utilities. As a result, 70% of Chapter XIX swaps were in industries producing in the tradable-goods sector, with most of the remained accounted for by finance, communications, and utilities (M. L. Williamson, 1990-1991, 472-473). With the tradable sector, the distribution of conversions favoured industry (39%), focussed primarily in the pulp and paper and food-processing sectors, agriculture (21%), dominated by the forestry and fruit, and mining (11%), primarily copper (Haindl Rondanelli, 1999, 42). The financial-services sector, crippled by the crisis, was likewise targeted for Chapter XIX conversions, with seventeen of the twenty-nine largest financial institutions coming under the control of foreign investors (Fernández Jilberto, 2004, 200). The United States was the largest participant in Chapter XIX conversions, followed by the United Kingdom, New Zealand, and Spain, who together accounted for nearly 70% of swaps (UNCTAD, 1993, 69).

The debt conversion process dovetailed with the privatization program announced in 1985 by incentivizing interest in and capacity to purchase privatized equity. The second round of privatization focussed upon the 30% of GDP represented by the “strange area” of firms that were legally private but had come under state control following the crisis and the traditional public monopolies (Meller, 1998, 268-270). Wary of public backlash and yet under pressure to reduce state control over economic resources prior to the transition, the military regime initially proceeded slowly but accelerated the privatization process as opposition forces were subdued. As Chicago Boys Dominique Hachette and Rolf Lüders observed:

...the variations in the privatization objectives reflected the fact that the government, after the crisis of the early 1980s and conscious of the fact that it would inevitably have to cede power to the opposition, sought to privatize public enterprises as quickly as was politically possible in order to reduce to a minimum the economic power of the state (1992, 41).

By 1989, the privatization process was complete. Whereas the state inherited from Allende controlled nearly six hundred firms representing almost 40% of GDP, the state that was handed over to the newly-elected government controlled a mere forty-five firms, representing 16% of GDP (65% of which was accounted for by the state copper company).

The purpose of the privatizations was not simply to restrict the economic power of the state. Indeed, the dialectical understanding of state and civil society presented here suggests that transformations in the institutions of the state always and inevitably involve transformations of civil society. The privatization process was therefore more than a process of state formation; it was at the same time a reconstitution of civil society. As Büchi observed: “The objective [of the privatizations of the 1980s] was not simply to sell but rather to create and recreate a solid private sector” (2008, 292). To accomplish this goal, the public monopolies were reformed to increase profitability via price increases for basic services and the decentralization and modernization of the productive structure and labour relations (CEPAL, 1995), while the Central Bank

systematically intervened to reduce the debt burdens of local companies. With the balance sheets of the firms of the strange area and public monopolies cleaned up, the state deployed a variety of measures to incentivize and channel sales towards more stable investors, from subsidized credit and debt-swaps to low sale prices, a form of primitive accumulation that transferred public wealth to strengthen private-sector actors. Estimates of the total public ‘subsidy’ to the private sector range from 36% to 55% of the final sale price (Moguillansky, 1999, 176).

The second wave of privatizations and the reconstruction of the capitalist class – and to a lesser degree, labour – were carried out through four modalities: popular capitalism (shares sold to the public), labour capitalism (to employees), patrimonial capitalism (to large-scale investors via auction or bids on the stock exchange), and institutional capitalism (to pension funds). Popular capitalism was used primarily in the financial sector and was designed to prevent similar levels of concentration of the 1970s and to integrate labour into an ‘ownership society’, with the purpose of connecting the perceived and real interests of the middle and working classes to corporate and stock-market performance. Nearly 50% of the shares of the two largest banks were distributed among 41,000 shareholders while a similar share of the two largest pension funds were sold to 14,000 shareholders, with the controlling shares sold to domestic and foreign capitalists (Atria, 2008, 12). In order to support the purchase of shares by members of the middle and working classes, CORFO provided zero-interest loans with a fifteen-year maturity and only a five percent down payment required (Schamis, 2002, 44).

Labour capitalism, on the other hand, divested around 5-10% of shares to employees, with the purchase of stock in the case of select firms like the electricity and telephone companies open to all public-sector employees and a near-majority of shares sold to employees of the sugar and steel companies. Shares divested under the labour-capitalism model were sold at subsidized prices and could be paid for with an advance of 50% of indemnity payments (upon severance or

retirement), and the state provided a guaranteed-repurchase option upon retirement to protect against share-price declines (Lüders & Wagner, 2003, 14-16). The constructivist objective of popular and labour capitalism was clear. As a former senior CORFO official remarked of labour capitalism: "...for these formerly socialist workers, now the most important news to read in the paper every day is the evolution of the stock exchange...they are becoming capitalists by need" (cited in Schamis, 2002, 45)

The modalities of patrimonial and institutional capitalism, on the other hand, were designed specifically to stimulate foreign investment and strengthen the domestic capitalist class. The cash requirement for the purchase of privatized assets favoured large domestic capitalists invested in the nascent export sectors while steering clear of the speculative excesses of the financial conglomerates. In addition, the decision to sell smaller and staggered share packages of the public monopolies facilitated the creation of new and powerful economic groups, with few connections to the traditional capitalist families and often linked to technocrats within the state, such as Pathfinder (electronics and explosives), Sigdo Koppers (food and forestry products), and SOQUIMICH (chemicals). Finally, the use debt-for-equity swaps in conjunction with the withdrawal of state credit for the purchase of shares promoted joint ventures between domestic and foreign capitalists. Rather than the conventional foreign-investment model organized around a subsidiary wholly controlled by the foreign office, the new joint-venture model capitalized upon the managerial acumen and foreign-market access of foreign investors to strengthen the domestic capitalist class (Fernández Jilberto, 2004, 198; Montero, 1997, 268-278).

Perhaps the most important capitalist actors created by the privatization process, however, were the pension funds, whose power and influence was channelled through the institutional modality. AFPs were initially restricted to the purchase government and corporate bonds, but as the privatization process began in 1985 the investment rules for pension-fund

managers were liberalized to allow for investments in equity and publically-traded shares. Between 1985 and 1989, AFP investments in corporate shares exploded from a mere US\$200,000 to over US\$454 million (Larroulet, 1994, 213). By 1990, around 1/4 of stock in privatized firms was controlled by pension funds. As investment rules were further liberalized in the 1990s, moreover, pension funds leveraged their extraordinary profitability to become the dominant institutional investors in the country, with investments in corporate stocks and bonds rising from US\$858 million in 1989 to US\$9.8 billion by 1996 and assets under management reaching 51% of GDP by 2000, from 0.8% in 1981 (Corbo & Schmidt-Hebbel, 2003, 8; Hermes, 1995, 117).

The importance of pension funds, moreover, went beyond the constitution of new capitalist actors; the rise of pension funds was instrumental to the construction of a stable financial system and liquid capital markets. The lack of adequate financial regulations in the 1970s resulted in the explosion of short-term and speculative financial instruments in the hands of the financial conglomerates that monopolized foreign savings. Supported by regulations and incentives towards bond emissions and bank deposits with terms over one year, pension funds were able to channel an enormous pool of private savings, around 35% of GDP in 1993, into private capital markets. AFPs quickly became the primary source of corporate financing and by 1992 the pension funds held 60% of corporate bonds (Büchi Buc, 2008, 113-117; Hermes, 1995, 117). Pension funds similarly supported the expansion of the stock market and the value of publically-traded shares increased by nearly twenty-fold between 1985 and 1995 (Braun et al., 2000, 196). The expansion of stock market values, moreover, was not the product of a financial bubble but rather the reflection of the growing importance of share emissions as a mechanism of corporate financing: between 1988/1990 to 1992/1994, stock emissions as a percentage of total internal corporate financing nearly tripled, from 13% to over 31% (Moguillansky, 1999, 40).

In addition to debt swaps and privatization, the military regime supported the reconstruction of a hegemonic capitalist class via a series of horizontal and sectoral subsidies and incentives. Cheap credit was provided to non-traditional exporters by CORFO in conjunction with the Inter-American Development Bank (IDB), to the tune of over US\$500 million by 1986 (M. Kurtz, 2001, 14). Export sectors were further incentivized by a host of additional measures. Tariffs on imports used in the production of exports were suspended, subsidized, or deferred in staggered payments. Measures to reduce the tariff burden on exporters were further extended to indirect exporters, i.e., firms that produced exportable goods but did not export themselves. The State Bank and the Central Bank also provided subsidized credit lines for small and medium-sized exporters and free-trade zones were established to incentivize the processing and exportation of resources (Büchi Buc, 1987, 1147-1149; Moguillansky, 1999, 48; Vera Giusti, 2001, 48-51).

The two most significant supports to the private sector, however, were the tax reform on retained profits and the simplified drawback for small and medium-sized non-traditional exporters. Beginning in 1984, the military dictatorship embarked upon a radical reform of the corporate tax code designed to increase the domestic savings rate and strengthen the profit-investment nexus in the national economy. Between 1984 and 1986, the global complementary tax on retained earnings was reduced from 40% to zero, the result of which was a dramatic decrease in the taxation of retained earnings from 50% to 10% (Marfán, 1984). Hsieh and Parker estimate that even if one calculates the net capital share of national income conservatively at 20%, the tax reform of the mid-1980s would have nearly doubled the cash flow available to firms (2007, 7). As Palma found, moreover, the dramatic decline in the taxation of retained earnings significantly strengthened the profit-investment nexus, with the rate of corporate savings rising from its historical average of around 15% to nearly 50% by the early 1990s (1996, 22-23).

The second key support measure for the private sector came in the form of Decree Law 18,480 of 1985, which introduced a simplified drawback of input costs for small and medium-sized exporters. To qualify, the goods produced must be of national origin, i.e., processed in Chile with a cap on imported inputs of 50% of the FOB value of exports. The drawback was calculated at 10% of the FOB value of exported goods, which would decline to 5% and then to 3% as the volume of exports rises, with a cap set at exports valued at US\$20 million (see Macario, 2000). The cost of the drawback scheme was initially US\$26.6 million but had risen to over US\$163 million by 1996, with 88% of the beneficiaries located in the industrial sector, and in particular agro-industry (Moguillansky, 1999, 47; Silva Torrealba, 1999, 7-8). The effect of the simplified drawback was enormous. Agosin estimated, for example, that between 1991 and 1997, firms participating in the program saw their exports rise by nearly 500% compared to similar firms not participating (Agosin et al., 2009, 25).

Horizontal supports were matched by generous sectoral subsidies, incentives, and protections. For instance, Decree Law 18,450 of 1985 made substantial subsidies available for irrigation investments in agriculture, 95% of which were captured by large producers, thus further consolidating the emergent agro-industrial capitalists (Kay, 1997, 20). The most significant sectoral support, however, was to the mining industry. The Constitution Organic Law of Mining Concessions of 1982 provided for full mineral concessions – which differ from normal concessions in that their origins, maintenance, and termination are handled exclusively by the courts, effectively “de-politicizing” the industry – and established the right to concessions independent of surface property rights. The Mining Law also allowed concessions of indefinite duration, as well as the right to sell, mortgage, or transfer hereditarily. The taxation regime for mineral extraction, moreover, was very generous. Chilean law allowed mining companies to incorporate as Contractual Mining Societies (SCMs) that were exempt from both the global

complementary tax of 40% on remitted profits, as well as the tax on interest paid to foreign banks of 4%. What is more, SCMs were allowed to apply accelerated depreciation to the calculation of profits for the purposes of their Chilean taxes, which enabled them to underestimate their actual profitability in the near term and in many cases record losses for years. At the same time, the same company could remit profits abroad tax free, calculated according to normal depreciation (see Clark, 2006). The result was an enormous privatization of mining in Chile. Whereas 94% of copper production was controlled by the state in 1973, by the end of the 2000s CODELCO controlled only 30% of copper output (Caputo & Galarce, 2011, 55).

The reconstitution of the Chilean capitalist class was organized in the 1970s around the financial sector and a handful of conglomerates that had monopolized control over foreign loans, on the one hand, and a new generation of small and medium-sized firms led by a new generation of entrepreneurs who responded to the new opportunity structure. When the financial conglomerates collapsed in the early-1980s, however, the dominant fraction of the capitalist class was reconstituted via debt swaps and privatization, while state policy promoted the continued expansion of an outer circle of small and medium-sized capitalists. By the second half of the 1980s, the dominant fraction of the Chilean capitalist class had been reconstituted into three subsets: the non-financial groups that had expanded into the export industries of the 1970s, such as Matte, Luksic, and Angellini, but avoided the excessive leverage of the financial conglomerates; the new groups that emerged from the privatization process of the 1980s, such as Pathfinder and Sigdo Koppers; and foreign groups, such as Nestlé in agribusiness, ENDESA in electricity, Telefónica in communications, and Citicorp, Santander, and Aetna in banking, pensions, and insurance (Del Villar, Verna, & Adjerime, 2000; Fernández Jilberto, 2004).

The traditional non-financial groups utilized their base in the areas of comparative advantage (forestry, fisheries, and food) to snap up privatized assets in the manufacturing,

service, and financial sectors over the course of the 1980s. The new economic groups, on the other hand, sprang from the privatization process and were often connected to ministers and executives who went on to play prominent roles in the privatized firms (see Mönckeberg, 2001). The new groups tended to concentrate initially in either the traditional government monopolies (energy and telecommunications) or specific industrial commodities like glass, electronics, and household appliances, subsequently expanding into other economic sectors (Del Villar et al., 2000, 175-177). Both dominant segments of the domestic capitalist class, moreover, are characterized by high degrees of concentration and cohesion, utilizing holding companies and interlocking directorships, building upon the organizational models pioneered by the Chicago-Boy financial conglomerates of the 1970s. In addition, the traditional and new economic groups are integrated into joint ventures with foreign investors and comprise a highly transnationalized dominant fraction, tightly integrated into global circuits of capital accumulation. The transnationalization process, moreover, would deepen over the 1990s and 2000s as the most powerful domestic capitalists expanded across Latin America (Fernández Jilberto, 2004, 198; P. Rozas & Marín, 1988).

The 1980s also witnessed the rise of the Confederation of Production and Commerce (CPC) as the hegemonic peak association in the organization and representation of business interests. Although the CPC was founded in 1935 to unite the sectoral associations, it exercised relatively little influence until the Allende years, when it became the principal vehicle for the defence of private property. Silva (1996b; 2002) contends the rise of the CPC parallels the emergence of a “pragmatic” neoliberal coalition to replace the “orthodox” neoliberal coalition of the Chicago-Boy-based financial conglomerates. What one must not forget, however, is that the rise of the CPC and the ‘pragmatic’ coalition represented not simply a repudiation of the financial conglomerates but perhaps more importantly the evolution of the processes of class formation set

in motion during the 1970s. Beyond demanding greater representation within the state, the CPC worked against the more protectionist and statist demands of SOFOFA.

The rise of the CPC as the hegemonic peak association within the capitalist class represented not so much the repudiation of orthodox neoliberalism as the culmination of the cultural and ideological transformations of the capitalist class initiated by the Chicago Boys in the 1970s. As was discussed in previous chapters, historically the political interventions of Chilean capitalists were limited to the defence of sectoral interests against threats from either popular forces or state managers. As Montero observed, “He [the Chilean businessman] lacked a doctrine of his own and his public activities were limited to moments in which he felt his interests threatened” (1990, 110). By the second half of the 1980s, however, the dominant fractions of the capitalist class and the CPC began to exercise more vocal and public leadership on political affairs. In his 1988 book “The Business of Freedom”, then President of the CPC Manuel Feliú recalled an anecdote shared with him by Spanish businessman Alfredo Molinas: “...it is not enough to be the motors of economic development, you must win the battle of ideas as well. That is, there’s no point striving to increase the GDP if you don’t simultaneously struggle so that the principles of free enterprise are shared by the population at large...” (1988, 13). By the end of the 1980s, the capitalist class in Chile had transcended its narrow and sectoral frame and exercised an active leadership via the integration of opposition forces and the state into its dynamic networks of capital accumulation.

The reconstruction of the capitalist class, however, was more than the reconstitution of the dominant economic groups. Arguably even more significant was the accelerated growth of small and medium-sized entrepreneurs initiated by the political and economic transformations of the 1970s. In 1970, two foreign-owned mining companies, Anaconda and Kennecott, accounted for approximately 70% of export value. By 1986, there were nearly 900 firms exporting and by

1990, Chile had over 4,000 firms exporting 2,300 products to nearly 130 countries (Alvarez E. & Crespi T., 2000, 229; Meller, 1994, 124). It was not simply the dominant economic groups, but rather the medium-sized entrepreneurs that led the rapid export expansion from the mid-1980s. As a percentage of the six largest firms, medium-sized firms increased their share of investment and value-added from the early 1980s to the early 1990s by 40% and 30% respectively, and their investment coefficient more than doubled (Moguillansky, 1999, 94). In the forestry industry, for example, the Cruzat-Larraín and Matte conglomerates controlled the majority of forestry plantations in the 1970s, but by the end of the 1980s nearly 50% of forestry plantations were owned by more than 5,000 individual holders. Similarly, the number of firms exporting forestry products doubled from 250 in 1983 to over 500 by 1990 and the share of the seven largest companies fell from 80% to 63% (INFOR, 1991, 3; Wisecarver & Tardones, 1989, 30).

The surge in small and medium-sized entrepreneurs and exporters was driven by the shift in the middle class from one dependent upon political parties and the state for employment and advancement to one dependent upon market mechanisms and entrepreneurship. As Martínez and Tironi observed, the increase in businessmen as a percentage of the population, despite the massive wave of bankruptcies in the late 1970s and early 1980s, strongly suggest the movement of the middle class from state employment to small and medium-sized businesses (see Martínez Bengoa & Tironi, 1985). From a sociological perspective, this new generation of entrepreneurs was quite distinct from the traditional capitalist families of the past. As Benavente found, the principal determinants of business success were not family name or inherited wealth, but educational achievement and previous business experience (2004). Rather than inherit their business, the new generation of entrepreneurs were far more likely to leverage the interpersonal connections provided by education and business experience (themselves often connected) in order to establish new companies. As one fish-processing entrepreneur observed, in response to a

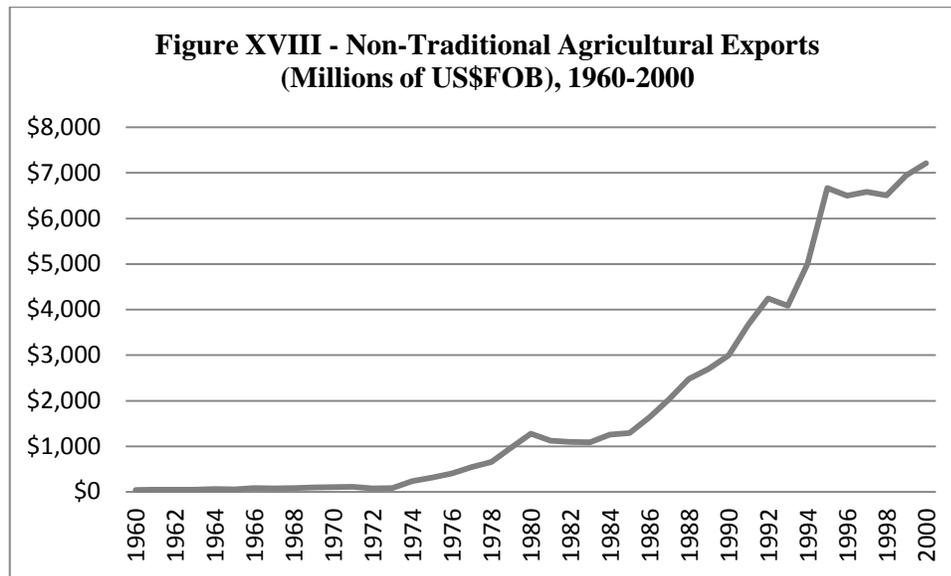
question about whether he encountered any difficulties accessing credit to start a business: “No, it was easy...One of my partners in the fish-processing plant was the main lawyer for a major bank...In general in Chile, you’ve got someone in one of the big companies, either someone from university, or a school chum from your childhood” (cited in Schurman, 1996, 96).

This new group of small and medium-sized entrepreneurs initiated and grew their businesses primarily through two mechanisms. The first was related to the dominant economic groups and the transformations initiated by the Chicago Boys but continued by the traditional and new groups of the 1980s. The restructuring of the productive apparatus, towards greater decentralization and subcontracting, combined with the more individualist and market-oriented ethos of the corporate culture meant that economic conglomerates became in many ways “training schools for new businessmen” who “started as employees...then participated as shareholders and, when they had accumulated sufficient capital, they struck out on their own. At the moment of starting a new business, they already had accumulated experience in financial management, in world markets, and in large companies and projects” (Montero, 1990, 99-100). The second mechanism was state support. In sectors where small and medium-sized producers were pioneers, loans and government subsidies played a key role. In the salmon industry, for instance, where “the majority of entrepreneurs...hailed from neither the fishing industry nor the main economic groups of the country...” (Achurra, 1997, 67-68), government loans represented a central source of financing. As Schurman found in her study of aquaculture, half of the entrepreneurs interviewed received loans from CORFO to found their companies (1996, 96).

Economic Foundations of Hegemony

The structural transformation of the national economy that began in the 1970s came to maturation in the decade after 1985 when the economic foundations of capitalist hegemony were solidified.

The chief driver of global economic integration and economic growth was non-traditional agricultural exports.

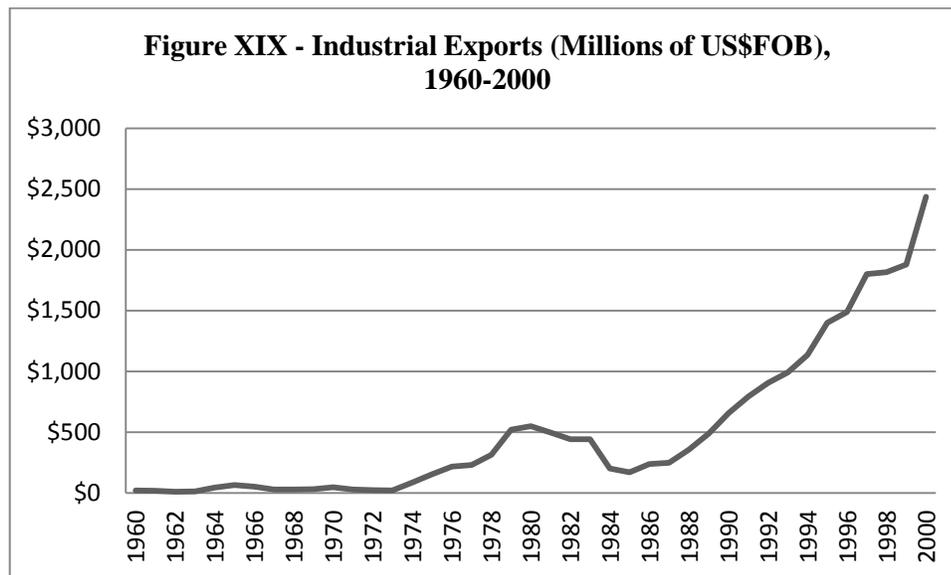


Source: Elaborated from data in Banco Central (2001).

As we can see in Figure XVIII, the sharp upward trajectory of non-traditional agricultural exports that began in the 1970s was reignited and accelerated from the middle of the 1980s. The export of natural resources, moreover, began to develop forward and backward linkages to industrial commodities and productive services. The export of fruits was increasingly supplanted by agroindustry, with the value of exports rising from US\$21 to US\$470 million between 1980 and the middle of the 1990s and the number of plants increasing by five times (Díaz, 1995, 27-28). In the forestry sector, the initial export of sawed wood and pulp was complemented from the mid-1980s by a diversification of exports into paper and furniture, as well as a notable diversification of export destinations (Messner et al., 1992, 12-13).

Driven by processed natural resources, manufacturing exports exploded from 1985. After rising more than fifteenfold between 1973 and 1980, manufacturing exports renewed their sharp upward trajectory from the mid-1980s, rising from US\$980 million in 1985 to US\$8.3 billion by 2000 (Banco Central de Chile, 2001, 858-863). It would be a mistake, moreover, to assume the

expansion of manufactured exports simply reflected processed natural resources. On the contrary, as Figure XIX demonstrates, industrial exports (metal-machinery, chemicals, electrodomestics, and transport materials) recaptured the momentum that began in the 1970s from 1985 and grew at an even faster rate than resource and manufactured exports, rising nearly ten-fold in the final fifteen years of the twentieth century.



Source: Elaborated from data in Banco Central (2001).

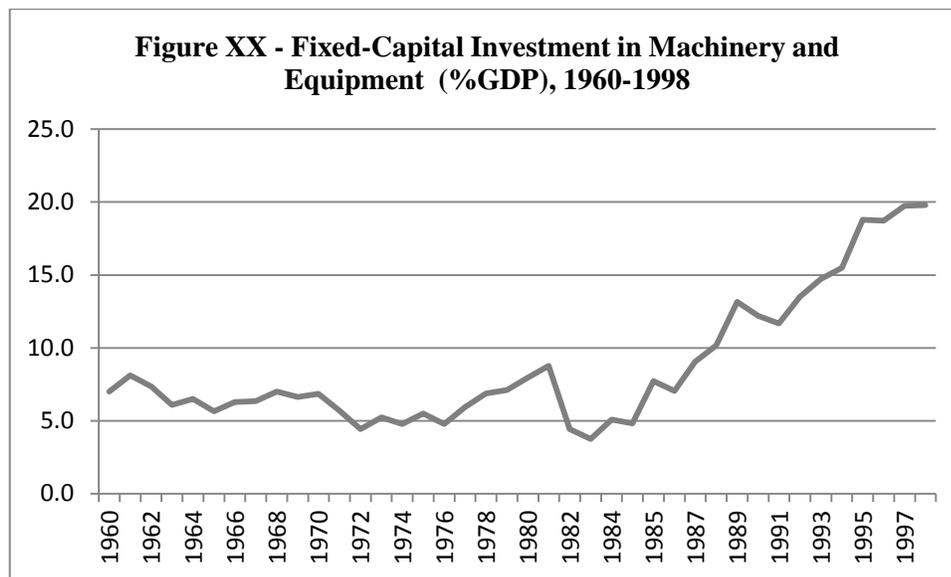
Now one might object that Chile remains primarily a natural resource exporter, but the historical dependence upon a mining exports declined considerably, with the mining share of total exports falling from over 90% in 1973 to 46% by 2000 as non-mining exports grew at an annual rate of 9% between 1982 and 1995 (Agosin, 2001a, 107; Banco Central de Chile, 2001, 858-863).

Export diversification, even if it remains dominated by natural resources, is of great significance for several reasons. First, the diversification of exports away from copper mining reduces the risk of external shock. Second, because most of the non-mining exports are owned and controlled by domestic investors, the surplus generated remains available for reinvestment in the local economy (Meller, 1994, 107). And third, the shift in exports towards an export-oriented manufacturing sector has not only driven economic growth from the mid-1980s, it has placed the

country upon a much more solid long-run trajectory because of the much greater contribution to productivity growth and technological spillovers of the manufacturing sector (see Nowak-Lehmann D., Herzer, & Siliverstovs, 2005).

The rapid expansion and diversification of exports fed into investment to fuel growth. As Moguillansky noted, there was a very strong correlation between export coefficients (exports as a percentage of value) and levels of investment: “...the greater insertion in the world market is clearly the differentiating element between these sectors [dynamic investment] and the laggards” (1999, 117-118).

From the mid-1980s, fixed-capital investment as a share of GDP increased from an average of fifteen percent over the 1960s to over twenty-five percent by 2000, to which two points must be appended. First, as we saw last chapter the 1970s brought about a dramatic transformation in the origins of investment towards the private sector as the motor of investment and growth, a trend that continued from during the 1980s and 1990s. And second, the composition of fixed-capital investment continued to shift away from housing towards investment in machinery and equipment.



Source: Elaborated from Banco Central (2001).

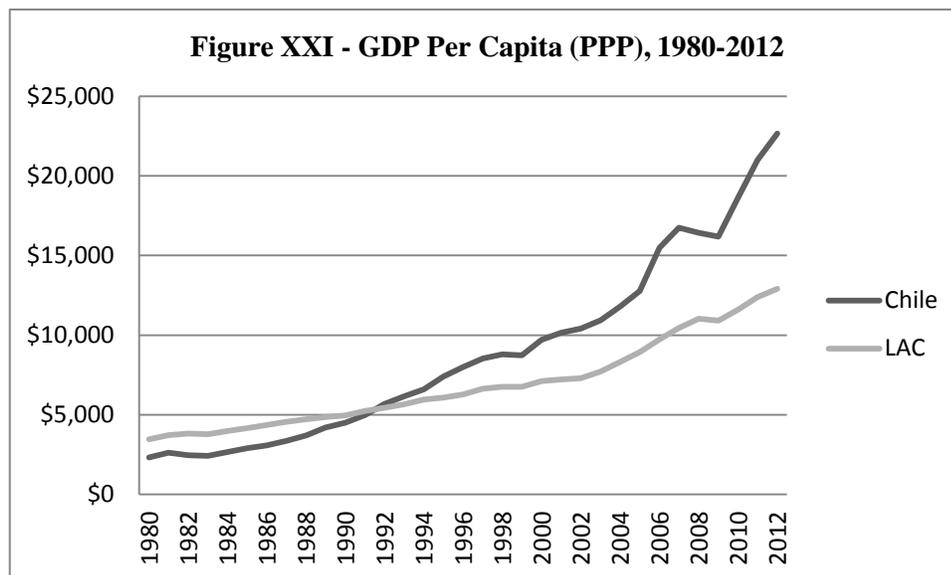
As Figure XX makes evident, the sharp increase in fixed-capital investment was driven overwhelmingly by investment in machinery and equipment, which accounted for around 80% of fixed-capital investment by the end of the 1990s, an unprecedented level in Chilean history.

The demand-side of the investment boom was provided in large part by the export industries and the modernization of production and infrastructure; the supply side was fuelled by an unprecedented transformation in national savings. Whereas the economic expansion of the second-half of the 1970s was financed primarily via foreign savings, from the mid-1980s foreign funds were replaced by domestic savings as the primary source of investment capital. National and domestic savings increased 64% and 111% in the period 1986-1998, when compared to the period 1960-1970 (Bennett, Schmidt-Hebbel, & Soto, 2000, 113). What is noteworthy is not simply the rise of domestic savings but that domestic savings was driven by a sharp increase in corporate savings, breaking the long-standing preference of Chilean capitalists of consumption over saving. According to Agosin (2001b, 506), corporate savings accounted for seventy percent of all gross domestic savings between 1987 and 1996, while Palma found the percentage of profits saved rose in the second half of the 1980s and early 1990s from an abysmal 15% to over 50% (1996, 22-23). The strengthening of the profit-investment nexus resulted in a very strong correlation between domestic savings and domestic investment (0.93-0.97) that exceeded that of most OECD countries and even East Asia during the 1980s. The channeling of domestic savings into domestic investment was further facilitated by the deepening of capital markets prompted by privatization of social security. And although a secondary factor, social-security privatization did contribute to domestic savings as compulsory savings led to only a 50% decline in voluntary savings (Morandé, 1998, 207-216).

Since 1985, the performance of the Chilean economy has diverged sharply from that of Latin America. Between 1985 and 1997, Chilean GDP expanded at an extraordinary real pace of

7.6 percent per annum, or 5.9 percent on a per capita basis. The Asian Crisis of 1997 put a sharp break on growth for several years, but by 2003 real output was rising at an annual rate of 5 percent. Between 1985 and 2010, then, real per capita output rose at an impressive annual rate of 4.8 percent, more than trebling the historical average of 1.4 percent between 1810 and 1985. It is not only the pace of growth that breaks from historical patterns; it is the evenness. The standard deviation of GDP growth – measuring volatility – for the period from 1985 to 2000 was less than half its historical average.

The remarkable nature of the economic transformation of Chile is heightened when compared to its neighbours in the region. As Figure XXI evidences, the 1990s and 2000s witnessed a powerful divergence between Chile and Latin America and the Caribbean.



Source: Elaborated from World Bank database.

Per capita GDP has increased more than three times the Latin American average over the past twenty years. Over the same period, Chilean per capita GDP as a percentage of the regional average increased from 85 percent in 1970 to 176 percent by 2013 and Chile is now considered a “high-income country” by the World Bank (Schmidt-Hebbel, 2006, 11). When put into historical and regional perspective, the Chilean economy truly has undergone a ‘great transformation’.

Civil Society Reactivation and the 'Pacted Transition'

Despite the harsh repression of opposition forces and the organizational and structural weakening of labour, the institutionalization of the military regime and the sharp decline in the living standards for much of the population sparked the renewal of opposition forces in the second half of the 1970s. The 1975 application of the radical Cauas Plan finally forced the PDC to withdraw formally its support for the military government and Frei Montalva began to assume an increasingly critical public stance, supported by the Vicariate of Solidarity and PDC-controlled labour organizations (Cavallo et al., 1988, 64-84; Fleet, 1985, 175-185). Emboldened by domestic and foreign support, PDC members formed the Group of 24 in July of 1978 to formulate an alternative constitutional project, which became an important forum for cross party dialogue (Cavallo et al., 1988, 123-124; Fernández Jilberto, 1985, 290-302; Fleet, 1985, 191-192). Contact between the left and center was furthered by the founding of the Academy of Christian Humanism by the Catholic Church in 1975, which provided shelter for critical intellectuals who had been pushed out of the traditional universities and legal status for new research centres (P. Silva, 1991, 402).

The growth of spaces for inter-party dialogue coincided with internal divisions within the left that split the Socialist Party into two camps: the Almeyda faction and the Altamirano faction. The former joined with the Communist Party (CP) and the Revolutionary Left Movement (MIR) in the advocacy of an insurrectionary strategy against the dictatorship. The Altamirano faction, which in exile was exposed to the influences of European socialist parties, placed a renewed emphasis upon civil and political liberties and formal democracy. The principal lesson drawn from the UP experience was that the failure to garner a socio-political majority that could reconcile socialism and democracy would result in catastrophe. This socialist 'renewal' implied the abandonment of revolution in favour of gradual reformism, political alliances based not on

left parties but on a broad coalition of the left and progressive center, and the abandonment of the 'workers front' thesis in favour of a broad spectrum of social sectors (Arrate, 1985; Furci, 1984; Garretón, 1989; R. Lagos, 1987; B. Pollack & Rosenkranz, 1986; J. S. Valenzuela & Valenzuela, 1986).

The severe economic crisis and mass popular unrest provided further impetus to opposition forces. Real GDP plummeted nearly 17% over the course of 1982 and 1983, while unemployment skyrocketed to nearly 20% and over 30% if one includes the more than 500,000 workers participating in the two state make-work programs by 1983. The percentage of the population living in poverty jumped to 55%, from just over 30% at the beginning of the decade (Borzutzky, 1987, 78; Meller, 1998, 258). As the economic crisis deepened, organized labour initiated a wave of popular mobilizations against the military regime, spearheaded by the Union of Copper Workers. By 1983 organized labour groups had joined with professional and community groups to sponsor a National Day of Protest on May 11 that triggered the first cycle of mass mobilizations in response to the economic crisis. The May protest was so successful it resulted in the formation of the National Workers Command and the call for a second and even more successful national protest on June 14.

As the momentum of the protest movement grew, however, labour organizations were displaced by political parties as the public face of the protest movement. The third protest, on July 12, 1984, was significant because the parties that had been active from behind the scenes, within the internal organization of the labour movement, came to the forefront. In August of 1984, the Christian Democrats, Radicals, and renovated socialists formed the Democratic Alliance (AD) and released the "Democratic Manifesto" that called for the immediate resignation of Pinochet, the formation of a provisional government, and the return of constitutional democracy within eighteen months. Fissures within the opposition movement, however, would

be exposed by the fourth protest in that same month. While the AD led the official protest, the Popular Democratic Movement (MDP), comprised of the Communist Party and other segments of the radical left, organized a parallel protest and mobilization in Santiago's shantytowns. Pinochet deployed a carrot-and-stick approach to exacerbate divisions within the opposition, sending more than 18,000 troops into the poor neighbourhoods of Santiago to repress the more radical elements, while initiating a political dialogue with the Christian-Democratic-led opposition (Cavallo et al., 1988, 316-322; Garretón, 1988; B. Pollack & Rosenkranz, 1986, 177-179).

Pinochet appointed former head of the National Party Sergio Onofre Jarpa as Minister of the Interior and point man for the negotiations with the PDC-based opposition. The appointment of Jarpa provided two major benefits to the dictatorship. First, negotiations with the opposition bought Pinochet and his advisors time to stabilize the economy and reactivate growth, and Jarpa was never given anything near the authority required to meet opposition demands (B. Loveman, 2001, 297). Second, the dialogue represented a deft maneuver by Pinochet to widen the schism within the opposition between the moderate middle class and the radical poor. At the same time as the military regime 'negotiated' with the AD, repression of the shantytowns was intensified as Pinochet deployed violence and evening lock-down to split the poor and radical sectors from the moderate and middle-class opposition forces. Repression in turn fuelled support for the MDP and its insurrectionary strategy in the shantytowns, which further isolated the poor from the mainstream political parties and their social bases.

The Jarpa appointment also provided the opportunity for the dictatorship to bolster and organize its bases within civil society. As Minister of the Interior, Jarpa initiated a movement to re-establish contact with the older political right by enlisting Andrés Allamand to gather signatures from rightist supporters. However, the attempt to mobilize the old rightist party members was perceived by Gúzman and Fernández as a threat to the accomplishments of the

regime and their own place in it. As a result, they organized the Independent Democratic Union (UDI), comprised primarily of the hard-core supporters of the military regime and the business interests that had benefitted from its macroeconomic policies. In response, Allamand organized the National Union (UN) in November 1983, a catch-all center-right party capable of uniting former PN members, former Christian Democrats and Radical Democrats that favoured a quicker transition to civilian rule and a more flexible economic policy to expedite the conclusion of the crisis. Although members of the UN, which would itself transform into the National Renewal Party (RN) in 1987, were more likely to support the transition towards democracy and negotiate with the center-left coalition, the steadily improving economy served to moderate many of the intra-right discrepancies over macroeconomic policy.

As Pinochet exploited the sociological, ideological, and strategic divisions within the opposition, the U.S. moved to bolster support for a negotiated transition by strengthening the PDC as the hegemonic faction within the opposition. Between 1984 and 1991, the U.S. funnelled over US\$6 million from the National Endowment for Democracy (NED) and another US\$1.2 million through AID's Office of Democratic Initiatives (Robinson, 1996, 175). In addition to throwing its weight behind the conservative wing of Patricio Aylwin and Edgardo Boeninger within the PDC, the U.S. dedicated considerable sums to think tanks and a series of conferences and workshops to generate a PDC-dominated consensus around the plebiscite route. For example, around US\$2 million was spent to hold meetings at the School for Democracy set up by the NED in 1984 and conferences in the United States, including the conference on "Democracy in South America" in Washington in 1985 that supported the agreement of eleven moderate political parties, known as the "National Accord for the Transition to Democracy", that excluded the left. As the plebiscite drew nearer, the U.S. helped to form the "Committee for Free Elections" in 1987 that served as a front for PDC protagonism and funnelled more than US\$4

million to support the PDC-controlled electoral vehicles like *Participa* in 1988 (Robinson, 1996, 181-186).

Under the combined pressures of the military regime and the United States, the definitive split between the Christian-Democratic-led moderate opposition and the radicalized popular sectors took place in 1986, following a series of three events: a general strike in July that resulted in severe repression of the shantytown populations and the infamous immolation of two protestors by a military patrol; the discovery of the weapons caches of leftist militants in mid-August; and the failed assassination attempt on Pinochet carried out by the Manuel Rodríguez Patriotic Front on September 7. The escalating radicalization of the marginalized sectors and the ferocity of state repression helped to convince the more moderate elements within the opposition that social mobilizations risked undermining the transition to democracy (Moulian, 1997, 334-336). Pinochet further hived off the moderate opposition via the so-called “political laws” of 1986 that ended the state of siege, re-legalized political parties, and set up electoral registries. As Oxhorn observed, the new institutional terrain reinforced the need for the parties of the centre-left to diffuse and control popular sectors: “...as the possibility of an actual transition to democracy became increasingly imminent, political parties joined together to dismantle the [popular] movement as part of their collective efforts to secure the transition,” the result of which was “...the effective political demobilization of the popular sectors as a political actor” (1995, 282).

The abandonment of social mobilizations by the center-left political elites and their middle-class supporters ultimately led to the marginalization of popular sectors and organized labour within the opposition. Starved of the organizational capacity provided by political parties and trade unions and absent a clear and unified vision for the post-dictatorial society, popular protests entered a definitive cycle of decline (see Garretón, 1988; L. Taylor, 1998). Military repression and the atrophy of popular mobilizations in turn left organized labour without an

adequate social and organizational foundation from which to bolster its position within the center-left coalition. As the transition to democracy drew nearer, labour came under intense pressure from the center-left coalition of opposition parties to negotiate a pact with the CPC as a precondition for political and economic stability in the new democratic regime. As a result of its socio-organizational weakness, the framework that emerged subordinated the demands of labour to economic and productivity growth (Barrett, 1997, 378-379). Labour had gained a seat at the table, but it had done so very much on the terms of capital.

By early 1988, thirteen opposition parties had organized into the Coalition of Parties for the No, which would later become the Alliance of Parties for Democracy (CPPD) that would contest the 1989 elections. In the absence of an internal ideological and programmatic consensus and under intense pressure from the military regime, the United States, and the dominant business conglomerates, the moderate vision of the Aylwin wing of the PDC prevailed with the socio-economic agenda of the coalition granting primacy to private property, entrepreneurship, and a subsidiary role for the state. The intransigence of Pinochet, therefore, proved a mixed blessing: on the one hand, it forced the opposition to accept the constitution and plebiscite as the best means to contest the dictatorship; but on the other hand, by focussing the opposition on the singular goal of the plebiscite, Pinochet helped to unify opposition forces against him, thereby contributing to his political defeat. On October 5, 1988, despite claims of fraud on the part of the military regime, the “No” forces prevailed by a comfortable margin of 56%.

The final step in the transition towards formal democracy was the negotiation of a set of over fifty constitutional reforms between the military regime and the opposition that represented the core of the ‘pacted transition’. The opposition did manage to extract important concessions: the powers of the Constitutional Tribunal were curtailed; the supermajorities required to alter organic laws were reduced from 3/5 to 4/7; the number of elected senators was increased from 26

to 38, thus diluting the impact of the appointed senators; the prohibition against totalitarian or class-warfare doctrines in Article 8 was removed, as were the prohibitions against party membership by rank-and-file union members. However, several of these concessions were watered down. For instance, some of the prohibitions removed from Article 8 were reinserted into Article 19(15) and applied to political parties. Similarly, while rank-and-file union members were allowed to join political parties, unions remained prohibition from political affiliation or from organizing activities linked to political parties (see Heiss & Navia, 2007).

Despite the concessions won by the opposition in the 1989 reforms, moreover, the main components of the subsidiary state and the authoritarian constitution remained intact and the binomial electoral system and designated senators would ensure that any future constitutional reforms would require the support of the right. The CPPD had calculated, likely from the experience of the Allende years, that acceptance of the basic institutional framework of the dictatorship was a precondition for addressing the structural and socio-economic imbalances. The bargain, however, was a Faustian one that would situate the parties of the opposition more as guardians of the market society of the military regime than as agents of democratic renewal. The constitutional calculation of the opposition was based upon a simplistic view of the relationship of between political and economic power. The constitution was more than the foundations of the political system; it was anchor of the new society. The belief that one could transform the socio-economic model of the dictatorship from within the the constitution, that was itself the deepest expression of that socio-economic model, was in hindsight either naïve or disingenuous.

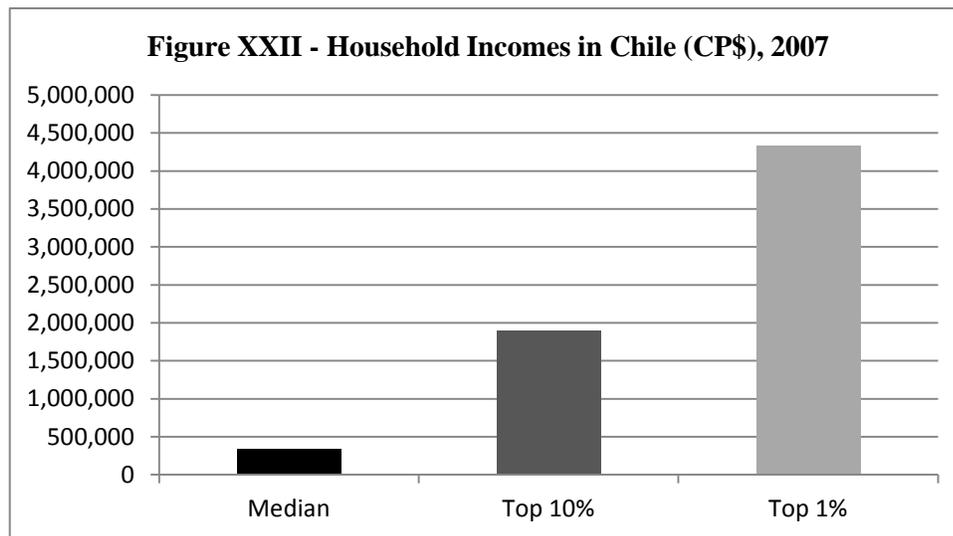
The Contours of Hegemony I: The Capitalist Class

Two of the principal transformations of the capitalist class over the 1970s and 1980s were (1) the dramatic reorientation towards the tradable sector and (2) the rise of a multitude of small

and medium-sized firms as supplier and service providers for the large conglomerates or as dynamic exporters in their own right. As the 1990s progressed, however, the dominant conglomerates that comprised the inner-core of the capitalist class tightened their stranglehold over the national economy. What emerged over the two decades of democratic rule was an extraordinary level of domestic market and export concentration. Large firms that comprise 1.4% of all firms now account for an extraordinary 81.6% of sales and approximately 1,500 firms control 74% of all domestic sales. Large conglomerates similarly reversed the trends of the 1980s and concentrated control over export markets, accounting for approximately 95% of all exports by the 2000s (Cademartori, 2011, 117; Solimano, 2012, 131). The large firms that dominate the economic landscape of Chile are in turn controlled by a small number of conglomerates, a mere sixteen of which account for 80% of GDP and the five largest of which own nearly 50% of the assets registered on the Santiago Stock Exchange (Cademartori, 2011, 129; Ruiz & Orellana, 2010, 40)

The trend towards market concentration is particularly acute at the sectoral level. For instance, the number of AFPs fell from twenty-one in 1995 to only six by 2005 and the two largest providers – Provida and Habitat – account for over 60% of affiliates (Ruiz & Boccardo, 2009, 33). The five largest banks, for their part, control over 74% of market share, while two companies control nearly 70% of electricity generation, and one firm controls 78% of the sugar market, 88% of airline traffic, and 89% of the beer market (OECD, 2011a, 22; Ruiz, 2005, 46). Perhaps the most notorious case is the pharmaceutical industry where three companies (Cruz Verde, Salcobrand, and FASA) dominate 92% of the market and price-fixing and other abusive practices are rife. The three companies, for instance, were fined for collusion to sell medication at prices up to 3,000% above those charged by the National Supplies Office that provides medication for state hospitals (Ruiz & Boccardo, 2009, 33; Sepúlveda, 2011, 148).

The very high levels of market concentration have resulted in similarly high levels of market power and profitability, as well as income concentration. The benefits of market concentration have accrued primarily to capital. In the industrial sector, for instance, 63% oligopolistic rents are captured by owners, compared to only 21% for labour. Profit levels are also extremely high, with the after-tax profit rate of the banking sector at nearly 19%, rising to 34% in the case of individual banks (Benavente & Contreras B., 2006, 13; Cademartori, 2011, 127-129). Given the levels of market concentration and profitability, it is no surprise that levels of income concentration are high.



Source: Elaborated from data in Sanhueza and Mayer (2011, 176).

As Figure XXII demonstrates, the gap between the median household income and the average incomes of households in top percentile is more than twelve times. In fact, if one removes the top decile of income earners, the GINI coefficient would fall from 55 to 40, below the United States and just higher than New Zealand (Cademartori, 2011, 115; Solimano, 2012, 82, 124).

The dominant economic conglomerates represent the new axis around which the capitalist class and the national economy orbit. Organized around this inner core are the medium-sized firms that provide specialized technical and professional services, staffed primarily by the highly

educated new middle class of salaried professionals, and the subcontracting firms that provide the manual labour (Atria, 2008, 21-23). Because the main conglomerates cut across numerous activities and much of the national economy, their vision and leadership transcend the firm or sectoral levels towards a more global political-economy perspective of conglomerate and class power (Arriagada, 2004, 83-86). The new generation of businessmen – embodied by the rise of Felipe Lamarca in SOFOFA and Juan Claro in the CPC – is less shaped by the conflicts of the 1970s and 1980s. As Campero (Campero, 2003, 170-171) noted, the new generation tends to be more secure and open to dialogue with other sectors of civil society.

And yet, while the dictatorship radically transformed the vision and capacities of the capitalist class, its inner-core remains very much a closer circle. The burst of entrepreneurial energy and the democratizing effect on economic opportunity that were the result of the reforms of the 1970s and 1980s were quickly subsumed by the rising concentration of assets, market power, and political influence. Forged in religious orders, elite social clubs, and private schools, membership in the capitalist elite remains largely a birthright (Ruiz & Orellana, 2010, 41). A study of 360 business owners and upper executives between 25 and 35, where one would expect to see the strongest evidence of social mobility, found that 95% were male, 82% studied in private, non-subsidized schools, compared to 8% of the general population, and that 40% studied in one of seven elite private schools (see Arriagada, 2004). A recent study of the top-income decile between 1996 and 2006, moreover, demonstrated that the probabilities of entrance into the top decile were about 6% (Sanhueza González & Mayer, 2011, 191). Not surprisingly, given their highly insular nature, the Chilean business elite has shown little capacity or interest in developing new areas of national comparative advantage or making significant investments in human capital.

This enormous market power, buttressed by a constitution and political system designed to impede challenges to elite rule, has conferred upon the capitalist class an extraordinary

structural and institutional power over the state and civil society. On the one hand, the extraordinary concentration of assets and market power has conferred upon the economic conglomerates an enormous structural power. It is small wonder, then, that much of the rationale provided by the CPPD for the mild nature of its reforms has been the need to appease business interests and maintain economic activity. When public policy does or appears to threaten their interests, the large capitalists enjoy privileged access to the pinnacles of economic policy-making in the state. As one business leader remarked, “If I want to talk to the Minister of Finance or the Minister of the Economy I just call them. The Minister of Finance returns my calls in half an hour, the Minister of the Economy in five minutes...” (cited in Teichman, 2001, 92).

In addition to its structural power, the capitalist class exercises a myriad of instrumental controls over state actors and political parties, from lobbying to campaign finance. In Chile there exist no laws to regulate lobbying activities by business interests and organizations, and although there are no comprehensive figures that estimate the scale and scope of corporate lobbying, one can only surmise they are considerable. Legislation during the CPPD governments consistently favoured the largest economic actors across practically all sectors. After an intense lobbying effort in the early 2000s, for instance, the fisheries law passed by the Lagos government in 2001 clearly privileged the largest economic groups who were able to monopolize quotas and wipe out many of the small and medium-sized producers (Damiani Quintanilla, Pino González, Sanhueza González, & Vidal Rojas, 2005, 24).

Prior to 2003 there were no regulations to define and make public the origins of party and electoral financing and establish financing and spending limits. However, after the sharp rise in electoral expenditures in the 1990s drove spending on congressional campaigns to more than 50% of U.S. levels as a percentage of GDP and erupted in a series of corruption scandals in the early 2000s, the government was forced to act on campaign-finance reform (see González, 1997). A

new electoral law was passed in 2003 that established spending limits for electoral campaigns and compelled campaign donations to be registered in one of three categories. The first was the “anonymous” category, in which donations up to CP\$340,000 can be made without divulging origins. The total contributions via the anonymous category were capped at 20% of campaign spending. The second category was reserved donations, made directly to the Electoral Service that deposits funds in the campaign indicated by the donor without divulging the source. Individual reserved donations are capped at CP\$51 million or 10% of campaign spending. Because recipients do not receive the funds directly from donors, the reserve fund ostensibly protects against the exercise of subsequent influence. The final category is public donations, which are not subject to limits but for which the donor must be publicly declared (Urcullo Cossío & Moya Díaz, 2009, 105-106).

The electoral law of 2003 represents an advance over the previously unregulated system, but there are numerous flaws that undermine its efficacy. First, although spending limits were instituted for campaigns, limits were set at the 1999 levels, which were as we saw among the highest in the world. Second, the limits on the reserved category are for individual donations and not for the category as a whole. Because corporations are generally registered with a variety of taxpayer identification numbers, they are able to make multiple maximum contributions, the result of which is that around 90% of campaign donations are made via the reserved category, with no public disclosure of their origins (Cambio 21, 2013). Third, the 2003 law only covers contributions to political parties during the electoral cycle and there is no regulation of contributions made between electoral periods, encouraging the permanent financing of parties by large corporate interests. Finally, the Electoral Service is grossly underfunded and constrained by the requirement that all results of expenditure analysis be submitted within ninety days of the election. As a result, significant amounts are channelled through unregistered and informal

mechanisms and politicians routinely ignore spending limits (Agostini, 2012, 2). In a study of the mayoral elections of 2008, for instance, 81% of candidates claimed spending exceeded the legal limits by more than two times (Urcullo Cossío & Moya Díaz, 2009, xvii).

In addition to their economic clout and political influence, the capitalist class in Chile exercises considerable ideological power. Media ownership in Chile is remarkably concentrated in the hands of a handful of conglomerates. Following the transition to democracy the majority of the critical dailies financed by foreign resources atrophied with the encouragement of President Aylwin and the CPPD, who were likely concerned such newspapers may turn their critical eyes upon the new government. Spurred by the concentration of state media purchases in the two major dailies allowed to circulate during the military regime, *El Mercurio* and *La Tercera*, the 1990s witnessed an enormous concentration of newspaper control, with two conglomerates (El Mercurio and COPESA) in control of over 90% of all newspapers in circulation. Private control over the media was furthered by the 1992 reform of the state-owned television network, TVN, which was forced to rely entirely upon self-financing, and the privatization of the television stations of the University of Chile and the Catholic University, the former of which is now owned by Time Warner and latter of which was purchased in 2012 by the powerful Luksic conglomerate (Arriagada, 2004, 163-165; Solimano, 2012, 48).

Chilean history prior to 1973 was shaped by the process of statolatry and the power and influence of the state over society. Economic and political struggle took place primarily upon the terrain of the state, whose institutions became deeply inscribed with the tensions and contradictions of Chilean society. Perhaps the most significant accomplishment of the military regime was precisely its reversal of this historical pattern of state-society relations. As the Chicago Boys were themselves well aware, however, if the state was to cease to be the motive force and ideational centre of the nation, it would have to be replaced by something. Over the

past decades of democratic rule, it was not the state but the capitalist class that emerged as the driver of growth and social reproduction. The privatization, concentration, and interconnectedness of economic control, political influence, and ideological power that began in the 1970s and continued after 1990 created for the first time in Chilean history a capitalist class capable of subsuming not only the state but civil society to the power of capital and the demands and vision of its owners. As Jorge Nef poignantly observed, “Their size, financing, organization, interlocking capacity, representation in official government agencies, control over the media, internationalization, and ability to determine the intellectual agendas of universities have made them, for the first time in Chilean history, a hegemonic business class stronger than the state” (2003, 22).

Chile Since the Transition II: The Persistence of the Subsidiary State

The existence of a powerful and cohesive capitalist class by the end of the 1980s was one of the principal reasons why the CPPD systematically subordinated the social demands emerging from civil society to the dominant strategy of capital accumulation and the limits established by the class power of the capitalists. From taxation and environmental policy to labour and social-security reform, the limits of public policy during the CPPD years have been powerfully shaped by what is acceptable to the dominant conglomerates, so as to “avoid a negative or dysfunctional reaction from business”, as Edgardo Boeninger, former top advisor to President Aylwin, noted (1997, 465). In addition to the perceived need to work within the boundaries of acceptability as defined by the dominant capitalist actors and organizations, public policy was further constrained by the internal organization of the state. The Ministry of Finance continued to play a hegemonic role within the state apparatus following the return of democracy. Characterized by a neoliberal ideological homogeneity and with deep connections to the private sector forged by Büchi in the

1980s, the tentacles of finance were extended even deeper throughout the state under the CPPD. Moving beyond the simple approval of policy initiatives in other areas, Finance under the CPPD began to take a more proactive role in the drafting of policy proposals in a range of fields from taxation and trade to social and labour policy (Teichman, 2001, 88-89).

The constitutional ties inherited from the dictatorship likewise served to moderate CPPD policy and ensure the basic parameters of the economic and social reforms of the dictatorship were adhered to. The binomial electoral system, appointed Senators, and constitutional protections for the foundational vision and policies of the military regime meant congress was able repeatedly to block more progressive reform, such as the proposed labour reform of 1995 (Teichman, 2001, 86). In 2005, President Ricardo Lagos successfully negotiated over fifty constitutional amendments with the centre-right opposition, declaring “the transition [to democracy] is complete” (González, 2005). While the Lagos reform restricted or eliminated most of the authoritarian enclaves, it failed to address the electoral system and the amendment procedures, and as such ensconced the constitutionalization of the neoliberal order.

The decision by the CPPD to maintain the basic contours of the neoliberal order of the military regime, however, cannot simply be explained by recourse to capitalist power and the institutionality of the state. The orientations and objectives of political elites and political parties were similarly transformed by the experiences of the 1970s and 1980s. Prior to the military coup, political parties in Chile served as vehicles to mobilize and channel social forces and the demands emanating from civil society, organized upon “...the interlocking of base-level social organizations with the political party structure, both in tension with the state as the focal point for political action. This backbone was the mode of organizing political subjects and social actors of national scope” (Garretón, 1983, 17). By means of directive and clientelistic linkages, political

parties shaped and reproduced partisan networks that connected state and civil society to achieve programmatic objectives (Posner, 1999, 59).

Since their resurgence in the 1980s, however, political parties have been powerfully shaped by the structural (power of the capitalist class, decline of the traditional left social bases, and the growing legitimacy of the economic model towards the end of the decade) and institutional (subsidiary state, constitutional protections and authoritarian enclaves, and the binomial electoral system) legacies of the dictatorship and became themselves key players in the institutionalization and protection of the social order forged by the military regime. Faced with a radically transformed socio-political environment, and drawing upon their own readings of the Allende years and their experiences abroad (P. Silva, 1991), political parties – and particular those of the Centre-Left coalition – shifted towards what Panebianco (1988, 8) called the natural systems model of organization, whereby the imperative of survival and the particular objectives of party elites predominate.

As a result of the decision of party elites to prioritize adaptation to the structural and institutional legacies of the dictatorship as the key to re-democratization, parties transformed into creatures of the state itself, its brokers in two senses: first, all the major parties represented in the state became “problem-solvers”, whereby collective incentives and ideology are subordinated to the technical resolution of problems within a given political order that was itself taken for granted; and second, with the weakening of party subcultures and territorial organizations, selective incentives predominated and contemporary political parties became pragmatic coalitions of office-seeking politicians. Political parties in Chile now resemble “office-seeking parties” (Wolinetz, 2002), organized around coalition formation and patron-client networks, with elements of both catch-all and cartel parties, such as the decline of programmatic ideology, the focus upon leadership and candidates, a reduced role for party members, the professionalization of politics,

and capital-intensive and media-driven campaigns (Katz & Mair, 1995; Kirchheimer, 1966). As former congresswoman Carolina Tohá explained: "...take a look at partisan meeting agendas: how much time is spent discussing congressional quotas or positions in government and how much time is spent on reaching specific programmatic proposals or collective positions on a given topic? The situation becomes tremendously clear" (cited in Luna Fariña, 2006, 359).

Embedded within the subsidiary state, two kinds of incentives and linkages were re-established with civil society. On the one hand, collective incentives and programmatic linkages were forged with the wealthiest upper echelon, reflecting the adaptation of the Centre-Left to the economic model and class stratification inherited from the dictatorship. On the other hand, selective incentives were utilized to fashion clientelistic linkages in order to dominate the demobilized sectors of the population. What is more, because of the restricted resources available for congressional redistribution, itself the product of dictatorial legacies of executive dominance, state downsizing, and decentralization, clientelistic linkages have taken a highly personalized, commodified, and municipalized form, whereby politicians deploy campaign funds, personal fortunes, and municipal connections to resolve problems at low level of interest aggregation (Luna Fariña, 2006, 318-320). This usage of highly personalized and localized selective incentives further reinforces the programmatic marginalization and depoliticization of significant sectors of the society. As a result of these adaptations to the socio-political legacy of the dictatorship, political parties were transformed from instruments of social mobilization and articulation into the bulwarks of the neoliberal order of the dictatorship.

Given the structural and institutional constraints upon policy making after 1990, and the adaptation of political parties to the social order bequeathed by the military regime, it should come as no surprise that the CPPD focussed largely upon improvements within the general policy framework and political economy of the dictatorship. Nevertheless, there were significant

advances over two decades that cannot be summarily dismissed. Fiscal restraint, embodied by the adoption of the ‘fiscal rule’ by President Lagos in 2000 that required governments to run a structural surplus of 1% of GDP and the Social and Economic Stabilization Fund, ensured debt levels remained low (just over 6% in 2009 from 45% in 1990) while providing resources to engage in counter-cyclical stimulus in the face of external shocks that helped to minimize the recessions of the Asian Crisis of 1997 and the financial crisis of 2008.

Fiscal restraint was complemented by the expansion of bilateral and multilateral trade agreements, of which Chile has signed more than twenty since 1990. Capital controls – via an unremunerated reserve requirement for short-term and financial-capital inflows -- were also introduced in 1991 in response to concern over the resurgence of foreign capital flows by the end of the 1980s. For a country – and region – that had long suffered the boom-and-bust cycles of mono-export dependency, the fiscal rule, trade liberalization and diversification, and capital controls together supported the strong and stable economic growth and export diversification over the 1990s.

The tax reforms of Presidents Aylwin and Lagos, moreover, increased tax revenues from 15% of GDP in 1990 to nearly 20% by the end of the 2000s via a mix of increases in the corporate and personal income tax rates and the value-added tax, as well as a ‘royalty’ on mining companies. Economic growth and tax increases in turn supplied the resources for a rapid increase in public expenditures, which doubled in absolute terms over the 1990s, and particularly of social spending that comprised 70% of total expenditures by 2000 (Illanes & Riesco, 2007, 399). There were also several important innovations in social policy, for instance the system of unemployment insurance that was introduced in 2002 that benefitted nearly 180,000 workers during the height of the global financial crisis in 2009 (Solimano, 2012, 116). The rapid growth of targeted social expenditures, when combined with robust growth, resulted in the dramatic and

unprecedented decline in the rates of poverty and indigence, which fell from 38.6% and 13% in 1990 to 15.1% and 3.7% by 2009 (MIDEPLAN, 2010, 3).

Significant gains were made in the field of education as well. The Minister of Education in 1990, Ricardo Lagos, was shocked to discover the depths of the crisis in the education system left by the dictatorship, where the value of vouchers had fallen nearly 30% over the 1980s and only 60% of students displayed an adequate level of mathematics and Spanish for their age (Angell, 2002, 148; Arellano, 2001, 82).³¹ The CPPD moved quickly to address the funding crisis and education spending more than tripled between 1990 and the mid-2000s and increased its share of GDP from 2.6% to 4.3% (Illanes & Riesco, 2007, 399). In addition to improved funding, important reforms were introduced, from full school days under President Frei to the General Law of Education of President Bachelet that centralized responsibility for standards and selection practices while providing extra subsidies for low-income families. Educational coverage rose 15% at the secondary level and nearly doubled at the post-secondary level, while outcomes improved greatly, with reading scores rising 40% and the number of low-performing students falling by 20% (Cabalín, 2012, 222; OECD, 2011b, 2-3).

Important advances were likewise made in the areas of health care and social security. Beyond the doubling of public health-care expenditures between 1990 and 2005 (Illanes & Riesco, 2007, 399), the most significant health reform was the Universal Access with Explicit Guarantees (AUGE) plan introduced by President Lagos in 2005. AUGE instituted explicit guarantees for fifty-six priority illnesses that required patients – regardless of their insurance status – to be attended in public or private institutions (when the former were unavailable) with minimum service standards and patient expenditures regulated according to income and capped at 20% of total cost. President Bachelet similarly promoted a major reform of social security in

³¹ Interview with Ricardo Lagos, August 4, 2011, Santiago, Chile.

2008 that introduced a system of solidarity and contributory pensions. The former established a minimum pension of US\$150 per month for all those over the age of 65 who have resided in Chile over the past twenty years but have made no pension contributions. The new solidary pension nearly doubled the value of the assistance pension established by Pinochet and significantly expanded the coverage universe to 60% of the population. The latter consisted of a pension top-up by declining amounts until the sum of the pension reaches US\$510 per month or the maximum subsidy of US\$150 per month is reached (Riesco, 2011, 190; Solimano, 2012, 113).

The policies of the CPPD have contributed to the rapid and sustained growth of the national economy, improved levels of public provision, and dramatic declines in the rates of poverty and indigence. And yet, the CPPD has systematically failed to address the inequalities embedded in the economic structure and the institutionality of the state, despite the redistributive effects of social expenditures (Contreras, 1999, 327-329), or rectify the continued dependence of the country upon natural resources. One of the chief obstacles to a reduction of inequality is the system of taxation. After two decades of center-left rule, taxation as a percentage of GDP stands at mid-1980s levels and the structure of the tax system remains “mildly regressive” (Cantallopis, Jorratt, & Scherman, 2007, 30). The value-added tax accounts for over half of all tax receipts, compared to less than 8% for income and profits, a disparity fuelled by the exemption on retained earnings that contributes to an effective tax rate of 15.2% on capital and levels of tax evasion estimated at 46% for personal income, 92% of which is accounted for by the top decile (Jorratt De Luis, 2009, 40-41).³² The Chilean state also failed to capture a significant portion of the extraordinary mining rents of the past decade (an estimated US\$140 billion was transferred abroad as profit and dividend payments, most of which came from the mining industry), with the

³² Figures on the distribution of the tax burden drawn from the OECD taxation database: <http://www.oecd.org/tax/tax-policy/oecdtaxdatabase.htm>.

royalty averaging under three percent of industry profits between 2005 and 2012 (J. G. Palma, 2013).

In addition to the general revenue constraint that has hobbled attempts to expand public provision, the CPPD proved unable to overcome the inequalities inscribed into the ‘social modernizations’. Although public expenditures on education rose sharply, the scarcity of public resources prompted the CPPD to introduce a system of co-payment in 1994, the “shared financing” model, whereby subsidized primary and secondary schools (and municipal secondary schools) could charge additional fees to parents, beyond the voucher paid by the government. The underfunding of municipal schools and the introduction of shared financing spurred an explosion of private and for-profit schools, which now enroll over half of all primary and secondary students in Chile (Elacqua, Martínez, & Santos, 2011, 2), and the transformation of the education system into a mechanism for the reproduction of inequality and segregation. A recent study of primary and secondary schools found the educational system in Chile demonstrates characteristics of “hyper segregation” and that segregation levels have risen over the past decade (J. P. Valenzuela, Bellei, & De Los Ríos, 2010, 216-217). The high cost of university education, moreover, where 80% of the cost is born by families and the share of the family budget dedicated to university fees is between three to four times higher than in Europe, serves to constrain both the entrance and retention rates for students from low-income families (Solimano, 2012, 101).

Despite the gains from the AUGE reform, access to quality health-care services remains shaped by market mechanisms and dependent upon income and geography. Although the role of the private system is declining as a result of its high cost (50% of expenditures are paid out-of-pocket), ISAPREs still account for 30% of mandatory health-care contributions but only 15% of all affiliates, and private health expenditures account for over half of all health-care spending (Missoni & Solimano, 2010, 16). The high -cost system of private health care finds its opposite

expression in an underfunded public system where only 1/3 of total doctor hours are allocated to 80% of the population and FONASA payments cover only 40% of the expenditures of public hospitals (Larraín, 2013). Despite the recent declines of the private system, the observation of Blake remains valid, that the privatization of health care "...left less fortunate individuals tied to a government health system that lost half of its funding when middle and upper-income Chileans entered the private system" (2005, 215).

The social-security reform of Bachelet similarly left intact the system of private provision that siphons off the highly-profitable upper-income segments and reproduces inequalities. An estimated 46% of the labour force is not affiliated with an AFP, and of those who are affiliated, approximately 2/3 contribute less than one of every two months and half contribute less than one in every three (Riesco, 2011, 183). The vast majority of the population will accordingly depend upon the public provision of modest pensions (the solidary pension is approximately half the minimum wage), financed from a regressive tax base rather than via redistribution within the social-security system, whether from affluent retirees or from employers.

Despite several modest gains, including minimum-wage increases and the extension of labour regulations to subcontracted workers, the CPPD did comparatively little to modify the imbalanced and inequitable system of labour relations of the dictatorship. The basic rights to organize, bargain collectively, and strike remain drastically restricted. Public-sector workers can only form 'associations' and cannot bargain collectively. The ability of employers to fire workers on the vague grounds of 'business needs' continues to be a powerful deterrent to labour organization. And even when unionized, workers can only bargain collectively at the plant level and the employers can use replacement workers if the offer increases wages at the rate of inflation, which greatly delimit the structural power of organized labour to disrupt economic activity and extract concessions.

Not surprisingly, the organizational capacity of labour remains at extraordinarily low levels. During the administrations of Frei Montalva and Allende, the rate of unionization averaged 18% and 29% respectively. Over the course of the military regime, the percentage of unionized workers, the average size of unions, and the coverage of collective bargaining all plummeted. By 1990, the rate of unionization had fallen to 16%, the average size of unions had declined 33%, and the percentage of workers covered by collective bargaining agreements had fallen by 50% to only 13% of the labour force (Martínez Bengoa & Díaz, 1996, 60; Ruiz, 2007, 37; Solimano, 2012, 116). Rates of unionization and collective-bargaining coverage reached nadirs of 10% and 7.1% respectively under the CPPD, before recovering to 14% and 12% by the end of the 2000s, that is to say, below 1990 levels (Doniez, 2012, 1).

The failure of the CPPD to challenge the basic inequalities and marginalization of the neoliberal order resulted in the persistence of very high levels of income inequality. By 2009, the GINI index in Chile had barely moved, from 0.57 in 1990 to 0.55, placing Chile among the most unequal countries in a region with an average GINI index of 0.50.³³ Inequality in Chile is also high by historical standards. According to the calculations of Larragaña (2001, 5), the GINI coefficient for Santiago in 2000 was 0.55, well above the average of 0.48 between 1958 and 1965 and the historical low of 0.45 during the Allende administration. Even the signature accomplishment of the CPPD, poverty reduction, is less impressive when the methodology deployed is more closely scrutinized. Adjusting for changes in family size, urbanization, and consumption patterns, Larraín (2008) calculated the poverty rate in Chile in 2006 at nearly 29%. In another study, Marcel Claude (2002) calculated that the income necessary to satisfy basic human needs (food, shelter, clothing, utilities, transportation, and etcetera) was in fact triple the

³³ Figures on inequality drawn from the online date of CEPAL: <http://websie.eclac.cl/sisgen/ConsultaIntegrada.asp>.

official poverty line in 2002, and that 80% of the population was to unable meet all its monthly needs.

In addition to its failure to rectify the extreme inequality built into the economic and political model of the dictatorship, the CPPD likewise proved unable to tackle the continued reliance of the country upon natural-resource exports. Industrial policy maintained the basic lines established by the military regime of targeting support towards the diversification of resource exports, with the exception of a handful of initiatives like a CORFO program to attract foreign-direct investment in the information and communications-technology sectors that had generated around US\$200 million in exports by 2008 (Agosin et al., 2009, 34-35). In addition to the lack of political will and resistance from economic conglomerates, trade agreements served to shrink significantly the space for industrial policy, beyond the question of tariff support for ‘infant industries’. The inclusion of Chile in the World Trade Organization (WTO), for instance, compelled the government to abandon the successful drawback scheme. As Gallagher (2008) convincingly demonstrates, moreover, regional and bilateral trade agreements impose significantly greater restrictions on macroeconomic and industrial policies than those found in the WTO.

As a result of a weak industrial policy, primary products represent 67% of all exports and resource-based exports comprise over 90% of total export value. As Chile failed to diversify its exports beyond natural resources, moreover, the annual growth of exports slowed from 15% in the mid-1990s to under 5% between 1998 and 2007 (Mesquita Moreira & Blyde, 2006, 5; Schwellnus, 2010, 22). In the case of copper, there was actually a regression of export diversification. As the copper industry was privatized, with the share of CODELCO in copper exports falling from 85% in 1980 to 30% by 2008 (Nem Singh, 2010, 72), the domestic value-added of copper exports plummeted. By the mid-2000s the share of refined copper in total copper

exports had fallen from 97% in the early 1970s to barely 50% (see J. G. Palma, 2008).³⁴ As countries with similar export profiles in the 1970s, like Malaysia, diversified away from resource-based exports into industrial and higher-value added products with higher wages, Chile remained dependent upon exports from the semi-processed and unprocessed resource sectors.

Chile Since the Transition III: The Reconstruction and Integration of the Middle and Working Classes

The transformations in the economic structure and the social-constructivist project of the military regime have produced profound transformations of the middle and working classes in Chile. At the level of socio-economic structure, the disarticulation and reconstitution of the middle class continued. On the one hand, salaried employment in the public sector fell dramatically from its high of 18.4% of the EAP in the early 1970s to 9% by 1980 and then 6.8% by 1995. As middle-class workers were pushed out of their traditional base in the public sector, they were incorporated into the private sector dominated by the economic conglomerates, as salaried professionals and small and medium-sized business owners providing inputs and services into national and global supply chains. The private-sector salaried middle class accordingly saw its numbers swell from 20.3% of the EAP in 1980 to nearly 30% by 2009. The reconstitution of the state-based middle class into small and medium-sized business owners is evidenced by the more than doubling of the percentage of business owners in the EAP and the rise in the share of small-business owners in the top 40% of income earners, from 21% in 1980 to 31% by the end of the 1990s (Boccardo, 2012, 63; León & Martínez, 2001, 18-20).

The decimation of the organized working class continued under the influence of repressive labour legislation and trade policies that encouraged deep transformations in the

³⁴ The decision to privatize the copper industry, by encouraging private investment while starving CODELCO for funds, also cost the country untold billions in annual revenue.

economic structure. The working class declined as a share of the EAP from 34.5% in the 1970s to 28.9% towards the end of the 1990s. The drop in working-class numbers was precipitated by the collapse of blue-collar employment in industry and construction, which together decreased from 25.8% of the EAP in the 1970s to barely 10% by 2009. Workers in industry and construction were in part reintegrated as precarious employees in the commerce and service sectors, driven by the explosion of workers in subcontracting firms, whose numbers reached approximately 1.2 million by the middle of the 2000s (Ruiz, 2007, 37). As a result, the combined representation of the working class in commerce and services more than doubled as a percentage of the EAP from 7.4% to 16% (Boccardo, 2012, 63; León & Martínez, 2001, 18-20).

Rural labour underwent a similar process of deep restructuring. Trade liberalization and indebtedness in the late 1970s and 1980s produced what one farmer referred to as “a second agrarian reform”, where indebted farmers had their lands confiscated and sold to large capitalist farmers and foreign and domestic conglomerates (Gómez, 1989, 21). The second agrarian reform provoked a massive decline in the number of small farms. The share of farms under twenty hectares fell from 42.3% in 1979 to 22.6% in 1997 to only 4.6% by 2007 (Clark, 2011, 160; INE, 2007). As small farmers were pushed off the land, they were incorporated into the rural and urban proletariat. In rural areas, former farmers were transformed into temporary labourers. The percentage of the rural labour force in temporary employment rose to 34% by 1997 and then to 68% by 2009. The casualization of rural labour, moreover, was highly gendered. Between 1990 and 2009, the number of women in the rural labour force rose 142% and women represented 36% of temporary workers, despite the fact that they comprised only 25% rural workers (Soto Baquero & Klein, 2012, 149-151). Because the share of agriculture in the EAP declined from 20% in 1986 to 12% by 2010, however, rural employment proved inadequate to absorb the dispossessed

farmers, resulting in an increase in the urban population from 75% to 84% by the late 1990s (Riesco, 1999, 104).³⁵

Transformations in the socio-economic structure coincided with the reintegration of labour into the new order via rapid increases in both stable and precarious employment, real wage increases and consumer debt, and the growing differentiation between the middle and working classes. The growth in output over the past three decades was driven in large part by increases in the labour force, which rose 105% between 1980 and 2010, compared to the population, which rose only 45%. The expansion of the labour force was led by women, whose participation rate more than doubled from 22% in 1970 to 47% by 2010.³⁶ Unlike most countries in Latin America, however, employment growth in Chile was led by the formal sector. Formal employment as a percentage of the labour force in Chile by 2010 had reached 61.7%, compared to 47.4% in Argentina, 47.1% in Brazil, and 33.2% in Peru, and more than 70% of labour contracts in Chile were permanent (Mauricio, 2012, 11; Ruiz & Boccardo, 2009, 41-42).

Chile also made gains in reducing the scope and marginality of informal employment, which has in significant part been transferred to the formal sector. The World Bank estimates that only 25% of the EAP in Chile work in 'vulnerable' forms of employment (unpaid family and own-account workers), comparable to countries like South Korea and Greece.³⁷ As a result of corporate restructuring and subcontracting, an estimated 45% of informal employment is concentrated in the two highest income quintiles and 25% of workers with no contract belong to the top income decile (Amuedo-Dorantes, 2005, 596; Martínez Bengoa & Díaz, 1996, 126). The gap in average monthly earnings between formal and informal workers in Chile is accordingly

³⁵ Figures on the share of agricultural employment in the EAP drawn from the online database of the National Statistical Institute.

³⁶ Statistics on labour-force participation drawn from the online database of the World Bank.

³⁷ Data on vulnerable employment drawn from the online database of the World Bank.

only 10%, considerably below the gaps of 66% observed in Argentina and 25% in Brazil (Mauricio, 2012, 14).

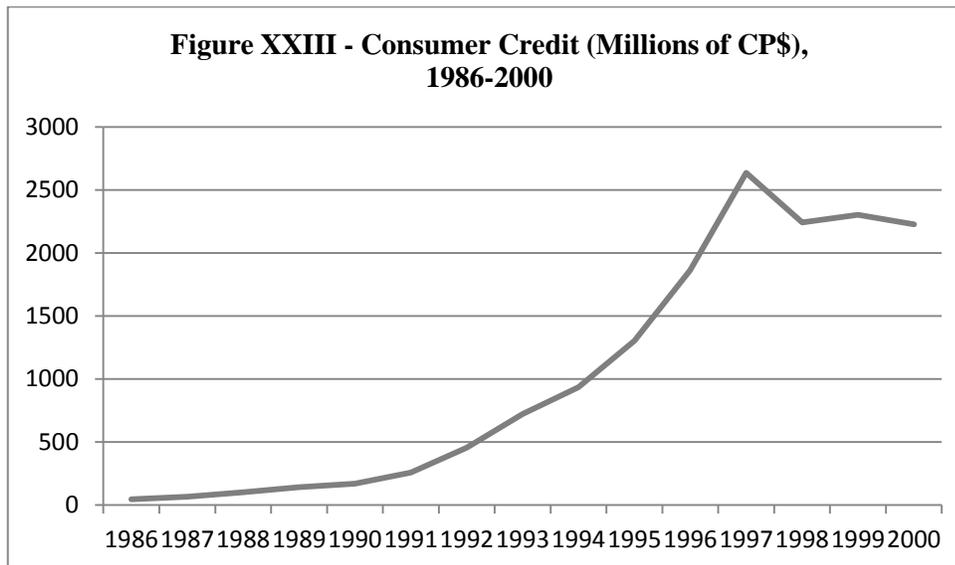
Informal employment, nevertheless, remains a significant problem for many Chileans. Although the monthly income gap between formal and informal workers is low, the gap in income between workers in the formal and informal sectors is 36.5% (Solimano, 2012, 114-115). Moreover, part of the small gap between wages of formal and informal workers is explained by another chronic problem faced by Chilean labour: the increase of precarious forms of labour contracts. As a result of the aforementioned decline in rates of unionization and collective-bargaining coverage since the 1970s, even the more 'secure' workers in the formal sector find themselves in precarious conditions. For instance, while 70% of labour contracts in Chile are permanent, half of these last fewer than three years and 20% are terminated within the one year (Ruiz & Boccoardo, 2009, 41-42). The trend towards greater formality in the economic and contract structure, therefore, has been counterbalanced by the growing precariousness of the formal economy and the downward redefinition of 'permanent' contracts.

As the levels of economic output and employment expanded rapidly, wages similarly rose rapidly. Average real wages rose 3% per annum between 1986 and 2005, with gains distributed fairly evenly among skill categories (Solimano, 2007, 16). The minimum wage also increased sharply over the 1990s and 2000s so that by 2011 the minimum wage of US\$410 per month was one of the highest in Latin America. Nevertheless, any discussion of wage levels must keep in mind the earlier and substantial decline in wages under the military regime. When compared to 1970 levels, real wages did not recover parity until the early 1990s and did not reach their peak under Allende until 1999, while the wages of teachers and public employees remained below pre-coup levels into the new millennium (Illanes & Riesco, 2007, 399). There is also a strong concentration of incomes towards lower levels and nearly 60% of Chilean households have a

monthly income of under CP\$300,000 (US\$600). When one factors in the private costs borne by families for education and health care and the fact that Chile is most expensive country in Latin America, the reality is that the majority of Chilean families live quite modestly (COLLECT, 2011, 9; Rey, 2007). In fact, a recent study by Zahler (2011) found that while the top income decile receives an average income higher than the average incomes in the United States and Norway, approximately 60% of the population lives on incomes at or below the average income of Angola.

The gap between the reality of continued low wages and precarious and temporary employment for the majority of the population, on the one hand, and a growing economic output of goods and services for consumption, on the other, was filled in significant part by an explosion of consumer credit. The rise of the 'credit-card citizen' has played a central role in the ontological reconstruction of the working and middle classes. Consumer credit plays a dual constructivist role in capitalist society. On the one hand, credit is a means of social domination whose disciplinary mechanism is unique because it is completely commodified. And on the other hand, credit serves to individualize and privatize forms of social identity, social consumption, and social advancement: "Credit, much more than trade unions, appears as the instrument of progress" (Moulian, 1997, 105).

Beginning in the early 1990s, consumer credit in Chile increased sharply, from approximately CP\$170 million (1.8% of GDP) in 1990 to a peak of CP\$2.6 billion (5.9% of GDP) prior to the East Asian financial crisis in 1997.



Source: Elaborated from data in Sapaj et al. (2001, 30).

Consumer credit was provided not just by banks but also by retail firms that took the lead in the credit-card market, particularly for the low-income segments of the population. Credit-card penetration (per 1,000 inhabitants) is 826 in Chile, nearly eight times that of Mexico, more than Brazil and Argentina combined, and more than three times the rate in Germany (R. Zahler, 2008, 24). The share of retail credit cards as a percentage of total consumer credit tripled over the 1990s from under 10% at the beginning of the decade to over 30% by 1999, driven by the profits generated by interest rates that reach as high as 50% (Amar Sapaj et al., 2001, 43; R. Zahler, 2008, 29). Indeed, Chile is the only country in the world where major retailers have more credit cards in circulation than banks, with credit-card debt totalling nearly US\$6 billion in 2008 (OECD, 2011a, 23). Average household debt burdens have accordingly soared from 27% in 1995 to nearly 70% by 2008 while the ratio of debt service to income nearly doubled over the course of the 2000s to 21% (CCS, 1996, 5-6; Fuenzalida & Ruiz-Tagle, 2010, 302).

Despite the strong gains in real wages and the ‘democratization’ of access to credit, transformations in the socio-economic structure have exacerbated the disparities between the private-sector middle class in salaried positions and small and medium-sized businesses, on the

one hand, and the working class in precarious employment and marginalized sectors, on the other. The share of the middle class (salaried employees and independent contractors) in the top four income deciles rose from 46% in 1971 to 54% by 1990 and then to 59% by the second half of the 1990s. The strongest gains were registered by salaried employees in the private sector (23%) and independent contractors (45%), while salaried workers in the public sector actually saw their share of the top four deciles decline by 29%. The working class, on the other hand, experienced a sharp decline in its representation in the top four income deciles, from 37% in 1971 to 24% by 1990 and down to 16% by the second half of the 1990s. The sharpest declines were registered in industry and construction (62%) and commerce and services (46%), the latter of which comprised the area of strongest employment growth for the working class. At the same time as more and more of the working class moved into the lower income deciles, the category of working poor ballooned, with 28% of labourers in industry and construction and 25% of workers in commerce and services classified as poor by the end of the 1990s (León & Martínez, 2001, 22-24).

As the working class lost ground, social provision was privatized, and public provision was impoverished and stigmatized, the opportunities for upward mobility for children from working class and marginalized families were limited and a deep socio-geographical segregation was ensconced. Although the expansion of post-secondary education has resulted in moderate improvements in upward mobility, children of the top quintile are more than ten times more likely to complete post-secondary studies than children of the bottom quintile (León & Martínez, 2001, 28). What is more, post-secondary education is only one part of a broader system of social signification and networking. Rather than post-secondary studies, it is ancestry and class background that determine salary and wage levels in Chile. As Núñez and Gutiérrez (2004) and Núñez and Pérez (2007) found, labour-market outcomes in Chile are strongly correlated to last names and class background, far more so than to academic achievement. University graduates

from upper-class families earn on average 50% more than similar graduates from lower socioeconomic strata, and the “class earnings gap” is nearly twice as large as the gender gap and more than three times the racial gap. The inequalities produced by this privileged network based upon ancestry and class are compounded by profound levels of socio-geographical segregation in Chile. In Santiago, the isolation index is 90%, meaning that families from poor neighbourhoods have only a 10% chance of interacting with families from a different socio-economic background (Lambiri & Vargas, 2011, 30). Not surprisingly, Chile has comparatively low levels of intergenerational mobility (Núñez & Risco, 2004).

As discussed above, one of the foundational objectives of the military regime was the displacement of identity formation and social action from the collective-political realm to the individual-market realm. Prior to the coup of 1973, social identities were formed, interests were aggregated, and opportunities for gain and advancement were channeled for the most part through participation in labour unions and political parties. Real wages and employment, service provision, and access to productive inputs were determined primarily via the established forms of collective organization and representation. From 1973, however, state repression, economic restructuring, and the privatization of service provision have disarticulated organized labour in both urban and rural spaces, rendered wages and employment dependent upon levels of investment and productivity, and conditioned access to services such as education to levels of income obtained in the private marketplace.

In the disarticulated and individualized neoliberal Chile, approximately 50% of the population defines itself as “middle class” (Ruiz & Boccardo, 2009, 49). This ‘middle-classization’ of the country reflects two interrelated processes. On the one hand there is the aforementioned decline of collective forms of identity formation and interest aggregation and the privatization and stigmatization of public provision. Indeed, a central component of what it

means to be 'middle class' is precisely the non-reliance upon state provision. On the other hand there is the rapid expansion of private-sector employment and the 'democratization of consumption' via credit that has made social-status signifiers like cars and cell phones available to an unprecedented swath of the population. Things that used to be luxuries of the top decile, such as foreign travel, are now widely available to the middle and lower-middle income earners. This new 'middle class' is the highly individualized and privatized representative of the 'neoliberal citizen' whose needs are attended to on the basis of individual circumstances rather than as occupiers of structurally-conditioned class positions (L. Taylor, 1998, 128). It is the socio-economic counterpart and complement to the hegemonic capitalist class, a disorganized and depoliticized center that maintains a political and economic system dominated by a small minority.

The processes of disarticulation, individualization, privatization, and segregation have resulted in a significant level of de-alignment and depoliticization within civil society. Since 1990, non-identifiers on the Left-Right continuum have risen from 25% to 42%, and 40% of Chileans do not identify with any political party (Luna Fariña 2006: 184). Moreover, there have been dramatic increases in those who never read political news, watch political forums, or discuss politics (Carlin 2006: 639) and voter turnout has declined precipitously. Between 1989 and 2009/2010, the percentage of the voting-age population that votes in elections declined from 86% in congressional and presidential elections to only 59%. Voter turnout in municipal elections, moreover, fell from 80% in 1992 to a mere 41% in 2012, the first election since the electoral system was reformed to make registration mandatory but voting voluntary.³⁸

Depoliticization and declining electoral participation are also strongly impacted by socio-economic class and age. Recent studies have found a strong positive correlation between income

³⁸ Electoral data drawn from the website of the International Institute for Democracy and Electoral Assistance: <http://www.idea.int/vt/countryview.cfm?id=45>.

and education, on the one hand, and voter registration, on the other. Inhabitants of the most affluent neighbourhoods of Santiago are four to five times more likely to be registered to vote than inhabitants from the poorest neighbourhoods. Moreover, as young people move towards more individualized forms of self-fulfillment and non-hierarchical and non-institutional forms of participation, not only have they become less politically active than their predecessors in the 1960s, they are becoming increasingly so (Carlin 2006: 646; Olivarría 2003: 28). Voter turnout among youth is strikingly low, with barely 25% of the population between eighteen and thirty voting in the 2005 elections. Among the eligible population under twenty, voter turnout declined from 51% in 1993 to 14.7% by 2009. What is more, the positive correlation between income and voter turnout is stronger among youth, the result of which is that the class bias of voter turnout is in fact increasing over time as a result of the dynamic replacement of older cohorts in the voter universe by younger ones (see Corvalán & Cox, 2011).

Class Rule and Economic Development: Hegemony, Contradictions, and Renegotiation

Building upon Chapter IV, this chapter began by examining the spread of the neoliberal project beyond the capitalist class to the reconstitution of the state and the middle and working classes via the social modernizations and the Constitution of 1981. Much like financial reform and the privatization of the productive structure of the 1970s were not adequately captured by the conventional neoliberal language of deregulation and state withdrawal, so the social modernizations cannot be properly understood in the same terms. Rather, behind the ‘deregulation’ of labour markets and the ‘privatization’ of social provision rested a profound project of social engineering and class reconstruction. The social modernizations, moreover, attest to the importance of transcending the ontology of states-and-markets in order to comprehend that state and civil society as mutually-constitutive entities. Social-security reform

consisted of much more than the transfer of responsibility for old-age pensions from the state to market. The transformation of the state involved in the privatization of social security also reconstituted the social subjectivities of civil society via the reorganization of the relationship between members of civil society and the institutions of the state and the transformations of the processes of identity formation and the pathways of interest articulation and aggregation, individual advancement, and social reproduction.

The constructivist project of the neoliberal planners, however, was far from a smooth and continuous process. The detonation of the greatest economic crisis since 1929, the socialization of corporate debt and control, and the revitalization of opposition forces within civil society all posed unforeseen and foundational risks that threatened the deepening and stability of the neoliberal constructivist endeavour. It was argued, nevertheless, that the military regime was able successfully to weather the storm of the economic and political crisis beginning in 1982. The second wave of privatizations built upon the transformations in the economic structure initiated in the 1970s to reorganize the capitalist class more firmly in the new export industries and the burgeoning service and commercial sectors. At the same time, Pinochet skillfully exploited the divisions among opposition groups to integrate moderate elements into the subsidiary state, protected by a series of authoritarian enclaves.

The economic and political order inherited and reproduced by the CPPD was organized around a hegemonic capitalist class that exercised an unprecedented level of economic, political, and ideological power. The state and the subordinate sectors of civil society were incorporated into this new hegemonic order as dependents upon the private accumulation of capital via the exploitation of natural resources. The subsidiary state and the neoliberal model of citizenship sought to transform society into a Hayekian aggregation of individuals whose social reproduction was contingent upon market processes and individualized and privatized channels for social

advancement and realization (L. Taylor, 1998, 24). Political identity was supplanted by civil identity and politics was shielded from demands that could not be met within the existing distribution of economic and political power and the organization and balance of social forces.

The question that emerges, however, is does the establishment of a profound capitalist hegemony in Chile – which manifests in the subordination of the state and civil society to a powerful and cohesive capitalist class, the general acceptance of the private sector as the sole legitimate driver of national development, and the individualization and marketization of social identity and advancement – augur for the future stability of the neoliberal order? It must be remembered that hegemony is a dynamic and dialectical process that does not eliminate the tensions and contradictions of society so much as it mediates and renegotiates them. As discussed in the Introduction and Chapter I, the manner in which capitalist hegemony is constructed, the inequalities and contradictions institutionalized and internalized, shapes future transformation and reproduction. In Chile capitalist hegemony was instituted in the context of an organic crisis of the state, the rise of neoliberal ideology, and the structural and institutional weakness of labour. As a result, institutionalization of capitalist hegemony took the forms of deep inequalities of power, income, and opportunity and an increasingly stagnant economic structure dependent upon the exploitation of natural resources, on the one hand, and a rigid and exclusionary political system plagued by a series of structural and institutional obstacles to change, on the other.

Over the course of two decades, as the CPPD proved unable and unwilling to address the deeper structural and institutional challenge facing the nation, tensions slowly began to build. A strong sense of unease exists within the Chilean population, with only 21% of the country characterizing the economy as good or very good, 60% of the country believing the country is either stagnating or declining, and nearly 94% of the population registering either little or no

confidence in political parties (CEP, 2012, 7, 9, 16). The past several years have witnessed a surge of popular mobilizations and protests across a variety of areas from education and subcontracting in the mining industry to environmental protection. But do these social movements and mobilizations indicate the rise of a post-neoliberal order in Chile? If neoliberalism is conceptualized as a set of policies to reduce the role of the state in market, then the answer would appear a tentative yes. Such a definition of neoliberalism, however, can leave one tilting at windmills. State intervention and social provision were never anathema to the neoliberal project; quite to the contrary, the role of the state in constructing and maintaining the neoliberal order provides ample evidence of such.

If, on the other hand, we define neoliberalism not as a set of policies but rather as a constructivist project to institutionalize and deepen capitalist hegemony and its individualization and privatization of social identities and advancement, prospects are decidedly more mixed. The first reason is that the objectives of many of the social movements in Chile, such as improving the access to quality education, are not necessarily incompatible with the neoliberal ontology of individual identity formation and social advancement in the private market. And while there is a significant segment of the student movement in Chile that advocates for free public education as a right of citizenship available to all, the movement itself is internally conflicted as to its final objectives and it is unclear whether the public supports the kinds of revenue generation and institutional transformation such an ambitious agenda implies. Unless social demands with widespread public support begin to challenge the basic social ontology and market-based imperatives of neoliberalism, it may be premature to talk about the emergence of a post-neoliberal future.

Related to the first point, the second reason to be cautious in declaring the arrival of post-neoliberalism is the absence in Chile of the kind of shared and collective consciousness from

which a post-neoliberal alternative could develop. In a world where most people see their interests primarily in individual and privatized terms, it is no surprise that the alleged turn towards post-neoliberalism has yet to produce clearly articulated alternative projects in most countries. And those countries in which one could argue such a shared consciousness and clearly articulated alternatives may be developing, like Venezuela, are precisely those countries where the neoliberal project failed to institutionalize itself and transform the foundations of state and society. One of the characteristics of the popular mobilizations in Chile to date have been their inability to move beyond the interests of the individuals that comprise them, whether students who want improved access to better quality education or subcontractors in the mining industry who would want the same working conditions as permanent workers. In fact, the relative timidity of the labour movement in Chile in the face of public protests from other social sectors is a striking reminder of not only the individualization and privatization of social consciousness, but also of the final point.

The third reason to be wary of a post-neoliberal transformation is the absence among most social movements of the kind of institutional capacity for collective organization not only to sustain public mobilizations but transform them into political movements at the level of party and state. In Chile prior to 1973 and many other countries, it was the powerful labour movement that provided the organizational base for the socialist and social-democratic parties that fostered collective identities and challenged the primacy of market imperatives. The military regime, however, not only dismantled the workers movement and its organizational architecture, it also developed a new institutionality into which workers were reintegrated as individuals in the private marketplace. Collective identities and institutions organized around the concept of class organization and struggle and collective rights to ownership of state and economy were replaced by privatized and individualized identities forged and reproduced through market-based or

market-driven channels. A more thorough transformation of the neoliberal order in Chile will likely require the development of new forms of collective identity and new organizations from which to sustain the pressure for socio-political change.

None of the above should be taken to mean that a turn towards post-neoliberalism is impossible. Quite to the contrary, the discussion in this chapter of the profound socio-economic challenges and political obstacles to change suggest the pressures for reform will continue to mount, particularly if copper prices return to their longer-term averages. The point is not that post-neoliberalism is impossible or far-fetched, but rather that we must be clear as to not only the meaning of neoliberalism but its social, economic, and political effects if we are to begin to theorize and organize around the construction of an alternative to it. In Chile neoliberalism involved not state withdrawal but the radical deployment of state power to reconstruct the foundations of civil society and the state and the formation of social identities and advancement. As one of the principal architects of neoliberalism in Chile commented, “One has to recognize that the process of modernization in Chile, apart from a series of sectoral reforms, included a serious attempt to modify the analytical and judgemental criteria of public opinion and to change the forms of thought in the society” (Büchi Buc, 2008, 237). Undoing neoliberalism and its effects, therefore, will prove a far greater challenge than a mere shift of policy: it will likely require a shift in the processes and institutions of identity formation and collective action that will be required to drive the process of transformation and reshape the social, political, and economic order.

CONCLUSION – THE STATE AND THE MAKING OF CAPITALIST MODERNITY

This dissertation has sought to provide a reinterpretation of the political and economic history of Chile from 1870s until the present within the context of a critique of the study of late economic development. It was contended that the literature on late economic development suffers from a persistent separation of the economic and political spheres that has led many authors to assume away the motive force of modern economic development, capitalism, rather than problematizing its origins and evolution. The principal arguments of the dissertation are framed in response to two questions that emerge from this central theoretical claim. First, how do societies move from a pre-capitalist society in which class rule is exercised and social reproduction is carried out primarily via non-market means to one in which class rule and social reproduction are negotiated primarily through market mechanisms? And second, how do the conditions and manner in which the process of capitalist transition and the institutionalization of capitalist hegemony take place affect the trajectory, form, and stability of economic development? The objective of the conclusion will be to summarize the principal findings and contributions of the dissertation to the literature on late economic development and Chilean political economy that have emerged from the attempt to answer these two questions.

The primary theoretical contribution of the dissertation is its contention that the study of late economic development should engage the sociology of its capitalist engine more rigorously at both the theoretical and empirical levels. When we discuss economic development, after all, we are in reality talking about *capitalist* economic development. The absence of a more theoretically-informed and empirically-supported discussion of the origins and evolution of capitalism as a social order is particularly striking given its revolutionary nature. Over the past two centuries, capitalism has transformed economic structures and technological capabilities, political institutions, and social subjectivities in a manner unprecedented in human history. As a

revolutionary force, moreover, capitalism inevitably disturbs the prevailing modalities and distribution of power within and between societies, posing simultaneously as opportunity and threat. Rather than confront and reflect upon the nature and development of capitalism as a revolutionary order, however, the tendency in the literature on late economic development has been simply to assume the existence of capitalist subjectivities and social relations, elide the question of power relations, and restrict the scope of debate to the institutional configurations of states and markets and the policies that are most conducive to sustained and equitable economic development.

The problem with the assumption of capitalist subjectivities and social relations, however, is that we are left with a “ghost in the machine”, to borrow a term from Gilbert Ryle (1969). As a result, while the literature on late development – and in particular the developmental-state literature – has much of import to say about what kinds of institutional configurations and public policies are supportive of economic development, it is much less convincing on the question of why some countries develop those institutions and policies while others do not. Works in the neo-Marxist and dependency traditions, for their part, have often committed similar mistakes. Such a critique may seem curious at first given that both neo-Marxist and dependency theorists have indeed grappled consistently with the origins and evolution of the capitalism. However, their mutual foundations in the class-succession thesis, the Marxist corollary to modernization theory, has led many neo-Marxist and dependency writers to assume the existence of a modern industrial bourgeoisie – counterposed to the backwards landed aristocracy, comprador merchants, and imperialist powers – wherever modern industry existed. The error of the radical analyses, then, is not an undertheorization of capitalism but its theoretical overdetermination, whereby the existence and behaviour of social actors are deduced from the logical secession of modes of production. The explanations for underdevelopment, then, must

necessarily reside outside the national mode of production itself, principally in the continued power and influence of feudal or imperial actors.

Chapter I outlined the basic concepts of a framework for analyzing the transition to capitalist modernity that seeks to transcend the separation of the political and the economic that has characterized so many studies of late economic development. It was argued that the political and economic cannot be properly treated as theoretically discreet spheres, even if they are subsequently integrated at the historical and empirical levels. Rather, the political and the economic must be theorized as mutually-constitutive and constructive parts of a sociological whole, of an integrated and contradictory system of class rule. Neither the political nor the economic sphere has any meaning, dynamism, or institutional expression in the absence of the other. The concepts of passive revolution and hegemony were presented in order to map out the structural pressures and social forces that propel, shape, and retard the transition from pre-capitalist to capitalist forms of class rule. The temporal dimension of capitalist transition is in turn complemented by the spatial dimension introduced via the concept of uneven and combined development, which investigates how systems of class rule are formed not endogenously but in articulation with other processes of state and class formation within an integrated and uneven global system.

The theoretical framework outlined in this dissertation likewise suggests a revision of the dominant understanding of neoliberalism in Chile and Latin America. Much of the debate over Chilean neoliberalism and beyond remains firmly entrenched within the states-and-markets ontology that is itself one of the principal legacies of neoliberal ideology. As such, the discussion of neoliberalism – and post-neoliberalism – is too often restricted to institutional-level debates over the ideal scale, scope, and kind of state intervention (Davis, 2005; Foxley, 2010; Grugel & Riggirozzi, 2012). If we accept, however, that state and civil society are mutually constitutive,

the neoliberal language of state intervention in and withdrawal from the market is supplanted by two central points: first, all state activity, even so-called deregulation, is constitutive of markets in a manner that is beneficial to some actors and deleterious to others; and second, more than the means by which the economic process is constituted, the activities and institutions of the state are constitutive and reconstructive of the basic subjectivities of civil society. As was demonstrated in Chapters IV and V, the effects of privatization, deregulation, and liberalization go well beyond the institutional level of markets; they are means by which the state helps to constitute and transform the values, expectations, and identities of socio-political subjects.

At the historical and empirical levels, this dissertation contributes to a reconsideration of the conventional periodization of Chilean history, of how we explain the persistence of economic underdevelopment in Chile into the 1970s, and of how we understand the significance and impact of the Pinochet dictatorship and the subsequent democratic governments. As in much of Latin America, Chilean developmental history is most commonly divided into alternating periods of market-led/externally-oriented and state-led/internally-oriented developmental models, interpolated by the watershed decades of the 1930s and the 1970s and 1980s that drove the great pendular swings. Against this interpretation, this dissertation has proposed an alternative periodization that it is claimed can better account for the political and economic history of Chile and its developmental trajectory. The first phase runs from 1870 to 1970 and is conceptualized as the century of the passive-revolutionary transition towards capitalist modernity. The second phase begins from the 1970s to the present and is characterized as the period of competing revolutionary projects and the completion of the century-long transitional process via the construction and institutionalization of capitalist hegemony under the Pinochet dictatorship.

In addition to an alternative periodization of Chilean developmental history, this dissertation has provided an alternative explanation for partial nature of capitalist transformation

in Chile and its chronic economic underdevelopment. In Chapter II, the prevailing explanations for Chilean underdevelopment during the nitrate era were tested and found wanting. Accounts that emphasize the persistence and power of foreign capitalists (and the related Dutch-disease effects of the boom in mining exports), domestic compradors, and pre-capitalist landlords have great difficulty rationalizing the high levels of taxation of the foreign-owned nitrate industry, the unprecedented advance of modern capitalist industries in the last decades of the nineteenth century, the modernization of the forces and relations of production in agriculture, and the explosive growth of the state apparatus. Clearly there was significant capitalist transformation and industrial development in Chile in the decades from 1880 to 1920. The challenge is to explain its halting, partial, and restricted character.

The prevailing explanations for the inability of structural transformations in the Chilean economy during the period of ISI to place Chile upon a self-propelling and equitable developmental trajectory were similarly tested and found wanting. One of the most common explanations for the breakdown of ISI was the underdevelopment of agriculture, which drove food and labour prices up and restricted the internal market for industrial products. The two variants of this argument are the urban-bias/low-rate-of-return hypothesis and the structuralist explanation that linked poor agricultural performance to the pre-capitalist land-tenure structure of the hacienda. It was suggested, however, that neither of these theses are supported by the historical data. Although some policies, such as industrial tariffs, were harmful to the agricultural sector, terms-of-trade and profit levels were favourable for agricultural producers, who were additionally supported by a host of policies from taxation and credit to labour relations. The structuralist explanation, in turn, is rebutted by the acceleration of the capitalist modernization of agriculture between 1930 and 1960, which manifested in an unprecedented mechanization of agriculture and the rapid proletarianization of rural labour relations.

The second explanation for the failure of ISI to place Chile on a Smithian growth trajectory was the unravelling of the class coalition of industrialists, middle-class state employees, and organized labour, the so-called compromise state thesis, and its ancillary rationalizations of an exhaustion of the 'easy phase' of ISI and the shift of the PDC from centrist moderator to leftist agitator. It was contended, however, that the compromise state itself was largely a myth that is not supported by the evidence. Because proponents of the compromise-state thesis assume a set of shared interest and objectives that cross class divides, moreover, the explanations provided for the collapse of class compromise are similarly unconvincing. The claim, for instance, that the compromise state fell apart with the exhaustion of the easy phase of ISI is weakened by the data on fixed-capital investment, which demonstrated that investment stagnated not in the middle of the 1950s, when the class coalition allegedly broke down, but rather from the middle of the 1930s. The fundamental problem with all these explanations is that they seek to explain the collapse of a phenomenon – the compromise state – that never existed.

Chapters II and III contended that the partiality of capitalist transformation and the persistence of economic underdevelopment in the century from 1870 to 1970 is more convincingly explained by the working out of the passive-revolutionary dialectic of revolution and restoration, with its emphasis upon the transition towards capitalist class rule and the related processes of state and class formation within an uneven and combined world system. In the 1870s and 1880s, revolutionary capitalist pressures radiating from foreign markets and the rapid development of the nitrate fields of Atacama threatened the extant forms of class rule rooted in the export of agricultural commodities and the exploitation and domination of rural labour. Faced with an intensification of competition in foreign markets and the competition for labour with the nitrate industry, Chilean landlords turned towards the domestic market to shore up their economic foundations and class rule. Landlords shifted investment into industry and integrated immigrant

industrialists via economic and kinship ties, pressed for state protection of agriculture and industry that dulled the competitive pressures towards further capitalist transformation, and taxed nitrate exports to redistribute surplus towards local property owners. Control over the state apparatus was maintained via the continued preference for and enfranchisement of inquilino labour. The result was an oligarchically-controlled, exclusionary, and partial capitalist transformation of state and society.

But while the restorationist maneuvers of the dominant property owners could slow the revolutionizing pressures of capitalist transformation, they could not stop them entirely. The rapid expansion of the state bureaucracy that resulted from the taxation of nitrate exports spawned an increasingly assertive and politically-conscious middle class while the growth of mining and industrial production gave birth to one of the largest and most radical working classes in Latin America. The expansion of the state similarly enhanced the institutional differentiation between the state and the propertied sectors and institutionalized a party system that while entrenching landlord rule and facilitating the integration of the diverse propertied sectors in the near term, would nevertheless provide the political space for the rise of the middle and later working classes as powerful political forces. The structural pressures and social forces of the passive-revolutionary dialectic drove the process of capitalist transition forward, but in a faltering and uneven manner. Stability was maintained so long as nitrates provided the foreign exchange and state revenues required to reproduce the oligarchically-constrained capitalist expansion, but as the non-propertied classes grew in number and political consciousness, the nitrate crisis prompted by the end of World War I and the rise of synthetics triggered an economic and political crisis that would end the period of oligarchic rule and initiate a new phase of the passive revolution.

Chapter III provided an explanation for the persistence of economic underdevelopment between 1920 and 1970 and the breakdown of the system of formal democracy in the early 1970s

via an analysis of the institutionalized class relations that shaped state and civil-society formation. Despite the reformist efforts of President Arturo Alessandri in the early 1920s, the dominant response of the property owners to the collapse of external demand for nitrates and the overflowing of class tensions and demands in the form of the 'social question' was to assimilate further into the state apparatus and integrate the state-based middle class as junior partners to defend their economic positions and contain the pressures for more rapid and radical transformation. As the Great Depression wreaked havoc upon the national economy and the propertied sectors proved unable to elaborate and implement a developmental vision for the nation beyond the protection and expansion of sectoral privileges, the substitutionist middle class emerged by the end of the 1930s as the chief protagonist of Chilean politics.

Middle-class protagonism, however, were fiercely resisted by the right that used its congressional veto to block reforms to benefit organized labour and strengthen the autonomy of the state from propertied interests. The Radicals, moreover, were wary of policies, such as rural unionization, that would strengthen the left and undermine their protagonism. Rightist obstructionism and centrist diffidence, in turn, radicalized the leftist parties, who persistently sought to mobilize rural workers and break the power of the right in congress. The resultant political gridlock consolidated the shift in the locus of state power towards semi-autonomous agencies, to the detriment of coherent state planning and to the benefit of the bureaucrats and propertied interests that dominated policy decisions.

The private capture and balkanization of the policy-making process impeded the kind of institutional autonomy and centralized state capacity necessary to design and implement a coherent developmental program. As a result, the state lacked the necessary autonomy and capacity to discipline investors via taxation and performance requirements and public policy was generally incoherent and contradictory. The fragmentation of the state therefore reinforced the

incomplete capitalist transformation and the weak economic foundations of Chilean society. Protectionism and subsidy facilitated the expansion of industry under the control of a small number of economic groups with little interest in internal or external competition or productivity enhancements. Similar processes characterized agricultural development, where most of the growth was the result of import-substitution boomlets.

The country thus became trapped in a vicious cycle that had driven the Chilean political economy from the 1920s. The weak economic base led to the assimilation of the property owners into defensive positions within the state. The assimilation of industrialists and landlords into the state stunted the construction of the state-capacity required to discipline capitalist investors and construct a dynamic capitalist class, which in turn further undermined the economic foundations of the nation as high levels of protection and cheap credit resulted in cycles of import-substitution boomlets, monopolization, and underutilization, the result of which was a low-productivity and non-competitive industrial and agricultural structures. At the same time, the expansion of an inefficient industrial sector resulted in the rapid growth of a working class radicalized by the inability of the political and economic systems to meet their demands and initiated the redistributive battle over a stagnant economic base that would fuel processes of inflation and then expropriation. From the revolutionizing pressures of a restricted capitalist development thus emerged revolutionary socialism.

The political order held together so long as the suppression of the left vote limited the working class to the role of junior partner in a series of unstable coalitions. The spread of capitalist transformation in the countryside, however, and the electoral reform of 1958 would shatter the veneer of constitutional stability as the radicalization of the countryside polarized the political system irreparably. At the same time as the forces of socialist revolution gained momentum, moreover, bourgeois-revolutionary forces began to emerge on the right. Despite the

remarkable advances of the Christian-Democratic government of Frei Montalva, the intransigence of the restorationist right and the radical left overwhelmed the reformist efforts of the PDC to balance the revolutionary and restorationist poles of the passive-revolutionary dialectic. By 1969, the limits of the passive revolution were drawing nearer.

Chapter IV examined the watershed years from 1970 to the early 1980s and the two most polarizing governments in Chilean history. The conventional reading of these tumultuous years opposes Allende, the socialist revolutionary who sought to place the economy under state control, and Pinochet, the neoliberal counter-revolutionary who sought to get the state out of the economy. According to this narrative, the military dictatorship in Chile imposed an orthodox neoliberal rollback of the state-socialist development model of Allende, driving the pendulum back towards market-led and externally-oriented development. For the Chicago Boys, Allende was the logical culmination of a creeping statism that began during the nitrate era while for Garretón (1983) Allende represented only a partial crisis of the political order, because the system of formal democracy remained intact. This dissertation has argued, however, that the election of Allende triggered a “revolutionary situation” and an organic crisis of the state, in which neither capitalists nor workers could continue on as before. Indeed, the decision by the UP to rely upon mass mobilizations and arcane legal provisions to subvert the constitution in the construction of its social-property area strongly supports the thesis that the Allende victory had unleashed social forces whose demands could not be met by the existing political and economic structures.

The counterposition of Allende and Pinochet, moreover, neglects the fundamental unity of their political projects: the use state power to supersede the crisis instigated by the frustrated transition to capitalist modernity by radically reconstructing state and society. Allende is also intrinsically linked to Pinochet for another reason: the foundational transformation of Chilean society under Pinochet would in all likelihood have proven impossible were it not for the Allende

government. On the one hand, the statization of finance, industry, and agriculture under the UP and its concomitant enervation of the propertied sectors empowered the dictatorship to carry out a more radical project. And on the other hand, the UP experience impelled capitalists beyond their narrow and sectoral consciousness and provided the canvass upon which the dictatorial state could transform counter-hegemonic class consciousness into capitalist hegemony. Allende and Pinochet were in many ways opposites, but their opposition was dialectical, united by the crisis of the frustrated transition to capitalist modernity.

Chapters IV and V also provide a reinterpretation of the Pinochet dictatorship on three grounds: (1) why and how Pinochet opted for and implemented the radical project; (2) the nature and substance of neoliberalism in Chile; and (3) how to periodize and interpret the success or failure of economic policy under Pinochet. The dominant Bonapartist (state autonomy) and class-coalition explanations to the first question were examined and found to be incomplete. The state-autonomy thesis neglects the deep ties between the Chicago Boys in the upper echelon of both the policy-making and corporate hierarchies and the role of this state-private sector circuit in coordinating the deep transformations of the economic structure and the capitalist class. The class-coalition thesis struggles to explain why the military regime opted for the radical neoliberal solution when it was opposed by the vast majority of the entrenched industrial and agrarian interests that had developed under the shell of state protections. The alternative explanation provided here emphasized three components: first, the centralization of power in the hands of Pinochet and the decision by Pinochet to pursue the radical project as a means of undermining the socio-institutional power bases of rival junta members; second, the centralization of social and economic policy making in the Ministry of Finance, which addressed the institutional incoherence of the state that had frustrated previous transformational programs; and third, the rise of the Chicago Boys both within the policy-making apparatus of the state and within the dominant

fraction of the capitalist class, which provided the military regime with a social foundation from which to reconstruct the capitalist class.

The second contribution relates to the debate over the nature and substance of neoliberal reform in Chile. The standard interpretation of the military regime was that it sharply reversed decades of creeping statism and swung the developmental pole back towards a market-based and externally-oriented developmental model via the retreat of the state from the economy and civil society. This dissertation has contended, however, that neoliberalism in Chile is more clearly and thoroughly explained as a constructivist and state-led bourgeois revolution that completed the century-long capitalist transition. Rather than bolster the traditional economic elites after the assault of the UP years, the military regime actively and aggressively constructed the capitalist class over the course of two decades. Policies of asset privatization, land reform, foreign-debt swaps, and state subsidies and supports all sought to transfer resources and economic power to new and emergent capitalist actors at the expense of the old economic elite in the hopes of constructing a powerful and hegemonic capitalist class that would be the true foundations of the 'subsidiary state'. The social modernizations of labour, social security, education, and health care were similarly far from mere examples of 'deregulation' and 'privatization'. The Labour Code represented a powerful reregulation of labour relations designed specifically to debilitate organized labour as a collective actor and conduit for economic advancement and political mobilization. The objectives of the privatization of social security, education, and health care, moreover, went well beyond restricting the role of the state. Much as was the case for the privatization of finance, industry, and agriculture, the privatization of social provision was a fundamentally constructivist endeavour whereby the state instituted a new set of social relationships and subjectivities designed to constitute individualized social ontologies and pathways for advancement. The deeper objective of the social modernizations was to subsume

the state and middle and working classes as subordinate pillars of the hegemonic capitalist class and its networks of private capital accumulation.

Finally, Chapters IV and V contribute to the debates over how to periodize and interpret the success or failure of economic policy under the dictatorship. The prevailing periodization divides the military regime into a period of 'orthodox' neoliberal reform until the early-1980s and a period of 'pragmatic' reform the 1983 until 1989. Upon closer examination, however, it is clear that the state persistently engaged in socio-economic engineering throughout the so-called 'orthodox' period and many of the reforms of the pragmatic period were continuations and expansions of previous policies. The extension of financial regulation and trade protection, moreover, were either mild or temporary stop-gaps. Despite some moderate corrections to the policy errors of the 1970s, it has been contended there were far greater continuities in social and economic policy in the 1970s and 1980s than is recognized by the conventional periodization. Additionally, centre-left critics who contend the economic policies of the military regime during the 1970s were an utter failure are correct to highlight the role of public investments from the 1960s in the new export industries and the speculative bubble that emerged towards the end of the 1970s. Such criticism, however, need not require that we ignore the transformative impacts of the 1970s reforms, from public investments and the surge of private investment in agriculture, forestry, and industry to the permutations in the models of corporate organization and the ideological orientation of the capitalist class that secured the foundations for the unprecedented economic expansion from the middle of the 1980s to the Asian Crisis of 1997.

Finally, Chapter V examined how the way in which capitalist hegemony in Chile was constituted drove rapid economic development while embedding a series of inequalities and constraints that now threaten to undermine economic and political stability. As discussed in the Introduction, the institutionalization of capitalist hegemony is a necessary but not sufficient

condition for rapid and inclusive economic development and the manner in which hegemony is constructed greatly affects not only developmental trajectories but also the possibilities for the future renegotiation of hegemony. In Chile capitalist hegemony was institutionalized in the context of an organic crisis of the state, neoliberal ideology, and the structural and institutional collapse of labour. As a result, capitalist hegemony was instituted upon an unstable foundation marked by deep inequalities of power, income, and opportunity and an increasingly stagnant economic base dependent upon the exploitation of natural resources.

In addition, the particular state-civil society complex in which capitalist hegemony was instituted now represents an enormous obstacle to its renegotiation to place Chile on a more sustainable and equitable developmental trajectory. On the one side stands a capitalist class with an unprecedented and unbalanced accumulation of economic, political, and ideological power. On the other side rests a state apparatus and subordinate sectors of civil society thoroughly penetrated and shaped by capitalist power. From its position as motor of the national economy for much of the twentieth century, the state was structurally subordinated to the capitalist class and institutionally constrained by the internal hierarchy within the state apparatus – at the apex of which sits the powerful and neoliberal Ministry of Finance – and a set of constitutionalized restrictions upon the capacity of the center-left to make reforms beyond the margins of the extant order. Political parties, moreover, were radically transformed from vehicles for popular mobilization to closed and elitist bulwarks of the subsidiary state while the structural and institutional capacity of the middle and working classes for collective organization was eviscerated and replaced by privatized and individualized subjectivities. Ironically, it was the very depth of the neoliberal transformation of Chile, yielding an overwhelmingly powerful capitalist class, institutionally-constrained and subsidiary state apparatus, and disarticulated, individualized, and privatized middle and working classes, that has rendered the political system

chronically unable to address the most pressing challenges facing the country and now represents the primary obstacle to the deepening of socio-economic development and the renegotiation of capitalist hegemony.

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APPENDIX A: LIST OF INTERVIEWS

1. Louis Lefeber, founding Director of the Centre for Latin America and the Caribbean (CERLAC) and author of the Alliance for Progress Report on Chile, in Toronto, Ontario, 5 April 2011.
2. Rolf Lüders Schwarzenberg, former Vicepresident of BHC and former Minister of the Economy (1982-1983), in Santiago, Chile, 19 July 2011.
3. Manuel Riesco Larraín, founder and Vicepresident of the Centre for National Studies on Alternative Development (CENDA), in Santiago, Chile, 25 July 2011.
4. Cecilia Montero, former researcher at the Corporation for the Study of Latin America (CIEPLAN) and the National Center for Scientific Research (France), in Santiago, Chile, 29 July 2011.
5. Ricardo Lagos, former President of the Republic of Chile, in Santiago, Chile, 4 August 2011.
6. Sergio Gómez, consultant for the Food and Agriculture Organization (FAO) and former researcher at the Latin American School of Social Sciences (FLACSO-Chile), in Santiago, Chile, 5 July 2011.
7. Sergio Bitar, former Director of the Industrial Promotion Corporation (CORFO), Minister of Mining (1973), Senator (1994-2002), Minister of Education (2003-2005), and Minister of Public Works (2008-2010), in Santiago, Chile, 8 August 2011.
8. Álvaro Diaz, economist at the Economic Commission for Latin America (Brasilia), former Chilean Ambassador to Brazil (2007-2010) and Deputy Minister of the Economy (2000-2005), in Santiago, Chile, 9 August 2011.