

THE ROLE OF THE STATE IN CHILE  
POST 1973

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## INTRODUCTION

The purpose of this work is to explain why the economic model implemented in Chile during the last 14 years has been inconsistent within its own rules, and at the same time has been in favour of the upper-middle classes, particularly the financial bourgeoisie.

The work has been organised in five sections. Section I gives some aspects of the Chilean state before 1973, remarking the importance of the state in the development of the country since its independence.

Section II explains the "double-dimension" of the military state (the defensive and foundational dimensions) in order to understand the process of change that took place after the military coup.

Section III describes the essential features of the economic model carried out by the military government and gives a broad outline of its results.

Section IV explains in which way the economic model was inconsistent: the state did not withdraw from the economy, and did not play a neutral role. These concepts were essential in the model's rules. Even more, this inconsistency was on behalf of the main economic groups.

Finally, Section V contains some brief concluding considerations where the main emphasis is put on the paradoxical fact that the failure of the model has produced the required conditions in order to return to the state a central role in the future economic recovery of the country.

## I. ASPECTS OF THE CHILEAN STATE BEFORE 1973

If there is an element that can be found throughout the history of Chile since its independence, it is the presence of a strong state. This strong state played a central role in the future development of the country. Its influence extended not only to the economic area - where it was the main economic agent - but also to the institutional. The state contributed to the consolidation of the nation through the creation of a large network of public services, encouragement and financing to the private sector, through its role of direct producer, and its increasing responsibilities within society (the welfare state and its redistributive policies).

This strong state that emerged was the result of the way in which Chile became an independent nation. This state represented the interests of the Central Valley landowners, who were the ones able to control the army, on the one hand, and to impose the idea of having a central authority on the other. It was an authoritarian state, for the benefit of an oligarchy, and one which had the task of providing the physical infrastructure which was necessary for the expansion of the export sector of the economy. A sector which was a key element in the functioning of the country until the late 30s.<sup>1</sup>

Broadly, this was to be the characteristic of the Chilean society until the beginning of the 20th century. It is true that there was a period (1850-1880) during which the oligarchy had to share its privileges and that the orientation of the economy (and by this means, the role of the state) was towards a 'laissez-faire' one, in this way the authoritarian state was gradually weakened. However, by the end of this period the authoritarian state of the earliest post-independence days arose (mainly in an economic sense), in such a way that would become a central

actor until today. Nevertheless, this state also had an increasing autonomy from the oligarchy as a consequence of two phenomena: the share of power that affected the landowners' oligarchy, and because of its role of recycling the revenues from the export sector.

The reason for this emergence is the development of the nitrate industry, which implied an important and explosive increase in state revenues. The income from export revenues from nitrate became the fundamental source of income for the state. Mainly all the revenues were distributed into the domestic economy by the apparatus of the state.

This massive increase in revenues allowed the state to finance the infrastructure works that it thought was its role: the railway system was established; the armed forces were modernised; a national system of public education was founded.

The interesting thing about this is that after the nitrate industry declined, and with it the state revenues, the role of the state remains unchanged. The pattern of the Chilean economy was structured in such a way that the activity of the state was central.

The role of the state was also felt during the first three decades of this century through the emergence of the so-called "social-question".<sup>2</sup> The state took on the responsibility (not without a rough struggle between the dominant classes and the working class) of coping with some of the demanding social reforms: better wages, protection against inflation, social security, and the legalisation of trade unions.

Nevertheless, this pattern of development that was outwards oriented, with more or less a liberalist philosophy, and the apparatus of the state controlled by the oligarchy and its links with banking, mining

and industrial entrepreneurs, changed towards a new development pattern where the economy became inward oriented and the apparatus of the state was controlled for the first time by the middle and working classes. The direct cause of this change is the 'impulse' of the industrialisation process that took place under the Popular Front government (a coalition composed of the Radical, Socialist and Communist parties, middle classes and working class). The indirect cause is the Great Depression which gave birth to the 'need' for industrialisation as a consequence of the fall in import capacity. In this new scenario the state again played a central role.

Between the 40s and the military coup of September 1973, the idea of development was thought of as industrialisation: the engine of growth was a model based on import-substituting industrialisation. This implied a crucial role for the state as promoter, financier and direct producer of the process of industrialisation, on the one hand, as well as protectionism, on the other. It is important to remark that during this thirty years the country was ruled by different governments with different aims, however the idea of industrialisation and the role of the state was seen by all of them in a similar way.

During the 40s and 50s, the state played a major role through the creation of important state enterprises.<sup>3</sup> The constitution in 1939 of the State Development Corporation (CORFO) was a major issue. It was through the CORFO that the State played its role of direct producer.

Since the second half of the 50s the state has taken mainly the role of financier: it supports the private sector through subsidised credit.

In the 1960s, under the Christian Democratic government, the state again became involved in direct investment and still played its role of support

to the private sector.

Finally, during the Allende government, the State controlled a large part of the economy. The purpose of the Allende programme was to have an economic sector of state ownership that would become the prime motor of capital accumulation.<sup>4</sup> However, the programme was fulfilled only partially: the state had in its hands many enterprises, but a lot of them without economic significance. The important thing is that the role of the state was also central to the view of how development - and in the particular case of the Socialist government, how a deep social change - had to be reached.

It is perhaps important to point out that the presence of the state in the economic sector was also extended to the social aspects. It tried to improve the distribution of wealth through several policies, such as indexation, social security, education, etc. It tried during the Frei and Allende governments to carry out an agrarian reform.

The burden of the responsibilities assumed within the social welfare was one of the causes of the chronic deficits which were present throughout the 40s and the early 70s.

This brief view of the role of the state in Chile is useful in order to understand the deep significance of the radical change in relationship with the developmental model operated in Chile as a consequence of military intervention.

## II. THE PROCESS OF CHANGE

The political and economic model of the military government implies a shift from a developmental model based on import-substituting industrialisation, with a strong intervention of the state as a promoter, financier and direct producer, towards a monetarist model whose central plank

was the restoration of the free operation of the market and a secondary role for the state.<sup>5</sup>

The change from one model to another is something that can be found from the very beginning of the military regime. It is possible to distinguish several steps adopted by the military government in relation to the economic policy; however, from the beginning one thing was clear and present in the different steps adopted: the state had to withdraw from the economy. That was the immediate lesson learnt from the "Unidad Popular".

Several interpretations have been made about the military state trying to explain its internal logic, characteristics and aims.<sup>6</sup> In order to understand the process of change that took place in Chile after the military coup, it is useful to resort to an interpretation that puts the emphasis on the "double dimension" of the military state.<sup>7</sup>

This interpretation is intended to be applied to other Latin American authoritarian states. However, it characterises the Chilean regime because of the deep and significant weight of the two dimensions, in comparison with other Latin American military dictatorships.

The defensive or counter-revolutionary dimension of the Chilean regime can be defined as the immediate reaction against what was going on in 1973. It is the response to a political crisis.<sup>8</sup> A crisis that is related to a historical dichotomy between the continuation and deepening of the partial process of democratisation, which would require a drastic alteration of the "dependent capitalist" development pattern, on the one hand, and the recomposition and deepening of the "dependent capitalist" model, on the other. The political crisis implies the confrontation between classes and social sectors.

In this sense, the military regime played a defensive or counter-revolutionary role in order to resist the threat to the current order, that comes from popular mobilisation, ideological radicalisation and polarisation of society. The regime sought to demobilise, to normalise, to calm down the popular mobilisation and its organisations. The achievement of these goals implied the rupture of the political regime.<sup>9</sup>

The polarisation of society and some degree of anarchy, added to the "radical" political programme of the Allende government, was a serious threat to the prevailing order, that justified the action of the Armed Forces. "It was a response from the threat of below".<sup>10</sup> There were three main objectives behind this defensive dimension - to control the popular mobilisation; to break up the popular organisations; and to reestablish order.

These objectives were reached through the use of force: repression. The use of force was legitimised by the situation of internal war and by the need of the militaries of destroying the enemy : marxism. The ideology behind it was national security, which its main elements were the assimilation of marxism and unpatriotic, all kinds of opposition to the new government was looked at as instrumentalised forces that were considered enemy of the nation, and the priority given to destroy the internal enemy ('marxist 'subversion'). The state was viewed as an organic whole, prior and superior to the individuals and to any groupings with it.<sup>11</sup>

Nevertheless, as already remarked, there is another dimension: the foundational one. This dimension is an attempt to reorganise Chilean society in all its different spheres. This attempt not only implies the imposition of a certain economic model. It goes beyond. It means a new cultural model: new ways of imagining society and viewing its

history.

It is a project that seeks an extension and reconstitution of capitalism, from a domestic point of view, on the one hand, and a reinsertion into the world capitalist system, on the other.

The reinsertion into the world economy is a consequence of the need to satisfy the requirements of the capitalist reorganisation at a world level, where the periphery capitalist countries have a determined role or function.

The internal reconstitution of capitalism is a consequence of its characterisation: it is a distorted capitalism because of both the strong trends in society towards the share of power and redistribution; trends which put the system in check.

In order to eliminate these trends necessitates the defensive dimension and therefore the rupture of the prevailing political system as the only answer to the political crisis. The latter issue means that there has to be something which can replace the collapsed system. In this sense, the long term project is an attempt to reconstruct a new socio-political organisation that is coherent with an accelerated development, after a crisis which the dominant sectors of society saw as the dissolution of the system.

As already remarked, there can be distinguished several phases in relation to the evolution of the foundational dimension. However, it can be said that April 1975 marks the beginning of the new development pattern imposed by the dominant and victorious block of power.<sup>12</sup>

The main elements of the foundational dimension (or new development

pattern) are: on the economic ground an outwards development model; a protagonistic role for the market; and a subsidiary state. On the political ground, the depolitisation of society; a negative view of the past; and the idea that the base for national recuperation is economic freedom, and this is a first requirement in order to obtain political freedom.

The poor improvement in development and the crisis of 1973, is explained because of the way it worked the political system and the excessive participation of the state in society. It is important to remark that this long-term project was not adopted without conflicts within the block of power. The hegemony group into it was the financial fraction, who was the one with the ability to offer Pinochet a coherent "rational" and "non-ideological" project.

### III. THE NEW ECONOMIC MODEL AND ITS RESULTS

I will first describe the essential features of the economic model; secondly I will point out the broad outline of its results.

As already remarked, the foundational dimension implied an attempt to reorganise the whole of Chilean society. In order to do this it was thought, by the military and its ideological team, that the neo-classical economic theory was the right tool through which society would change. The poor economic development of the country during the previous 30 years was attributed, in addition to the functioning of the political system, to the development strategies and economic policies implemented in Chile after the Great Depression.

In my opinion, there are four elements that can give some idea of the neo-liberal economic model implemented.

1. In the first place, the market was thought to play a major role in the resource allocation process and at the same time the state was relegated to a secondary role - this means a subsidiary state. The development strategy was defined by the idea of eliminating state intervention in the economy and allowing the free operation of market prices. The state gradually decreased in importance: a limited presence as a producer and as a development agent. The economic role of the state was to be that of a facilitator of the allocative decisions of the private sector - now the main economic agent. The state has to play a "neutral" role and worry about issues such as national security, give the central infrastructure for the application of the model and keep watch that the economic agents play fair under the new rules.

The primary objectives pursued in relation to the state were the reduction of the size of the public sector and the achievement of fiscal equilibrium. In order to achieve this, there was a substantial decrease in public unemployment; a taxation reform which included the elimination of some direct taxes and the strengthening of a value-added tax; reduction on public expenditure; and the privatisation of several state enterprises, as well as, activities, namely the social security system.

2. A second element is related to the foreign trade policy. One aspect of it has to do with the concept of an open economy. Within the framework of the market as the main economic agent into the economy the external economic relations with the world trade were considered essential. An open economy was the fundamental requirement for an efficient and full integration into the world economy; even more for a little country such as Chile. Practically all restrictions other than tariffs were removed, and these were rapidly reduced from the high level they had in 1973. At the end of 1973, the average nominated tariff on imports to Chile was 94%. By June 1979, a gradual policy

of tariff reductions had brought nearly all tariffs down to a uniform 10% except for automobiles.

The idea behind this policy was to eliminate distortions between the internal and external markets in order to improve the competitiveness of national production, and therefore exports.

Another aspect of the trade policy is the promotion of exports and mainly the non-traditional exports (vegetables, fruit, timber, fishmeal).

3. A third characteristic element of the model was the liberalisation of the financial system. The financial system was also essential to the implementation of the model: the financial sector had the mission of channelling financial resources to the private sector, which was the economic agent in charge of allocating them in accordance with market signals. It was supposed that the liberalisation of financial sector would contribute to an increase in the rate of savings and investment.

The majority of the banks that had been nationalised under the Allende government were returned to private ownership. Interest rates were left totally free. There were no restrictions on the use of financial loans. New financial entities were authorised with few restrictions. The financial authorities only interfered with the financial system just to set up the minimum legal restrictions. Easy entry was given to foreign banks. In order to integrate the Chilean economy into the international context, there was a gradual easing of restriction on capital movements. There was no restriction on operations in hard currencies.

4. A fourth element is constituted by the privatisation process of

state enterprises and activities. The state enterprises privatisation policy was taken with the explicit aim of withdrawing the state from the economy and letting its place to the efficient private sector. This policy was so wide-ranging that more enterprises were privatised, than the number of enterprises expropriated by the Allende government. However, it is important to remark that some public enterprises remain in the public sector; among these are the Copper Corporation and the National Oil Enterprise.

One of the major activities that passed to the private sector was the social security system. The retirement pension scheme, hitherto financed through a distribution system, was replaced by one of individual capitalisation in private social security financing societies created by the new system.

In relation to the results of the model it could be said, looking at the main economic figures, as well as the overall external and financial situation, that it is far from being successful.

The evolution of the GDP shows that the Chilean economy obtained fair and appreciable growth rates between 1977 and 1981. However, the figures also show that there has been a huge fall in the year 1975 (-12.9) and 1982 (-14.1%). These latter figures are significant because they tend to diminish the real importance of the growth rates between 1977-81 (table 1).

Nevertheless, it is perhaps more important in social terms to look at the figures of the GDP per capita. Here it can be seen in a clearer way why it is possible to maintain that the model has not been successful: after 10 years of being applied, (1975-85) the GDP per capita not only has not improved, it has in fact declined (table 2). This is the reason

why after looking at these figures it can be said that Chile has lost a decade of progress.

In terms of the rate of unemployment this has been extremely high (table 3). Never in the whole period has the rate of unemployment been able to reach the historical average of 6% of the labour force.

The evolution of real wages is another example of the lack of success and injustice of the model. The table 4 shows a clearly regressive income distribution. Real wages never reached their 1970 level.

The reduction of public expenditure was reflected in the evolution of the public social expenditure per capita (table 5). In comparison to 1970 every year between 1974 and 1986 is lower.

The evolution of investment constituted one of the main failures of the model. All the changes towards a liberalisation of the financial system were made in order to increase national savings and investment. However, today it seems that major freedom in the financial sector does not necessarily imply major saving and investment rates: during the whole period between 1974-1986 gross domestic investment as a percentage of GDP did not reach 16%. The previous decade has an average of more than 20% of GDP (table 6). The main reason for the low investment is that private domestic investment was not capable of replacing the withdrawal of the state from economy.

In relation to the external sector, the figures are not better. The extreme liberalisation on capital movement together with the criteria of "open economy" led to a huge increase in the external debt, and therefore to constant deficits in the current account and instability in the balance of payments, in general (table 7). The evolution of the total external debt, as well as the relation between debt/GDP,

interests/exports, etc. shows that the Chilean situation is worse than the Latin American average, on the one hand, and that the debt burden will be a serious obstacle for future economic growth, on the other (table 8).

Trade liberalisation contributed to a spectacular increase of imports, which produced trade deficits between 1978 and 1981. In 1982 the trade balance improved because of drastic cuts on imports, rather than in major exports (table 7). It is important to remark that there was a significant change in the composition of imports. In effect, in 1981 the structure of imports was 19% of capital goods and 38% of consumer goods (table 9). This trend can also be seen even after the significant cut in imports in 1982 where the consumer goods still represented a significant proportion. This last situation is explained because of the increasing dependence of the Chilean economy in relation to imports.

Also, the commercial liberalisation in combination with the high cost of credit made possible a massive bankruptcy within that fraction of the productive sector that was not capable of competing against cheap import goods. More than half of the productive sector was insolvent in 1982.

With regard to the financial system the situation is both dramatic and paradoxical. Dramatic because between the end of 1981 and 1982 the financial system was practically insolvent and almost in bankruptcy, and paradoxical because it was the state that intervened the largest commercial banks. This implied that the government which had made almost a doctrine of faith of non-intervention by the state in the economy had under its control none other than the financial sector itself.



Nevertheless, there are two areas where the economic policy has been successful. One has to do with the stabilisation policies. It cannot be denied that the inflationary trends have changed in a positive way. However, the costs of such policies were extremely high because of the form in which inflation was controlled: through control of money supply, reduction of the government deficit and freeing prices, which are policies that affect mostly the poorest classes.

The other successful policy is related to the promotion of non-traditional exports, which have grown significantly. Non-traditional exports rose, as a production of total exports from 11% in 1974 to 38% in 1981. Their share in GDP rose by around four points between 1970 and 1980. Nevertheless, it has to be noticed that the composition of the non-traditional exports is of primary products, which means that they are, as well as the traditional exports, very sensitive to world prices.

#### IV. THE FALSE SUBSIDIARY AND NEUTRAL ROLE OF THE STATE

As has been remarked, the economic model supposed that the state had to play a passive role. This passive role was expressed through the idea of two concepts: first, a subsidiary state, that implied a withdrawal of the state from the economy. Secondly, the withdrawal of the state was understood as the way through which the state must become a neutral agent.

The reasoning behind these concepts was that the state will become a neutral actor in the economy and that in this way it will not interfere with the signals from the market, on the one hand, and that it will not make the same errors that were made during the previous 30 years of "statism".

With regard to this reasoning I want to point out two things. First,

the idea of withdrawing the state from many of its activities in order to play a neutral role is fallacious. It is difficult to understand - and even more, to defend as a fair policy - how the state of a third world country can play a passive role, in order to try to be neutral, in a society with such differences as exist in Chile (table 10). In other words, the idea of a subsidiary state and neutral policies mean favouring the "status quo" situation in relation to income distribution. Instead of neutral roles, it is necessary - in societies with huge social differences - to have compensatory rules in order to try to give similar opportunities to all their members.<sup>13</sup>

And secondly, there have been several issues throughout the application of the model where the state has played an important role in an open contradiction within the model rules, on the one hand, and has not kept a neutral position on the other. It has to be added that its intervention has been in benefit of the upper middle-class, particularly the financial bourgeoisie.

In relation to this last point, I will describe five issues where it can be observed that the state has not played a neutral (three first arguments) and a subsidiary role (the last two arguments).

1. A first situation where it can be seen that the state did not play a neutral role has to do with the state enterprises privatisation process. In effect, the privatisation of state-owned enterprises was carried out under very peculiar conditions. First, the privatisation coincided with a serious recession of the Chilean economy. Secondly, there were high domestic interest rates. Thirdly, the privatisation process was carried out in a short period of time. These three conditions implied that only those who had liquid resources or access to foreign credit could take part in the sales. This implied that <sup>any</sup> private

economic agent was in a condition to buy enterprises - first failure of the supposed egalitarian conditions of the private agents. In other words, the environment around the privatisation process was extremely advantageous for some economic agents: business conglomerates. Nevertheless, there is another element that is far more important: public enterprises were sold at lower prices than their real value. This meant that the state gave to the economic groups an implicit subsidy, which has been estimated around 30% of the firms' net worth (table 11).<sup>14</sup>

2. A second issue which constitutes an example of the non-neutral role of the state is related to the privatisation process of the social security system that took place in 1980. As has been remarked, the retirement pension scheme changed from one financed through a distribution system to one of individual capitalisation. The former was financed by the contribution of the active labour force and the second one through personal contribution. The reform of the security system instituted the creation of the so-called AFPs (pensions funds administrators) who are the ones who will administer the individual contributions: will invest the contributions, as well as will pay to the contributors when they retire.

It is not the intention here to analyse the reform of the social security.<sup>15</sup> The issue I want to point out is that the reform has meant an important deficit for the state, on the one side, and that the economic groups - once again - are making profits from it, on the other. First, the reason for the deficit is located in the fact that the existing pensions (up to the date of the reform) and that of those workers who will be retired in less than five years will be the responsibility of the public sector, on the one hand, and that the incomes from the active labour force have diminished as a consequence of the shift of the majority

of workers to the new system. In other words, the state remains with the same burden but with fewer resources to face it. In order to have an idea of what the real dimensions are of the situation it is useful to notice that the social security deficit to 1985 was equivalent to nearly 8% of the GDP (table 12).

And secondly, the reform has permitted a major concentration of wealth. In fact, the AFPs are private corporations under the control of the major economic groups. Precisely when the reform was launched the economic agents capable of creating AFPs were the large business conglomerates. These economic groups through the control of the AFPs have obtained more economic power: the resources they handled are equivalent to 8% of GDP. They have the control of these resources, and practically no obligations, because a large fraction of the current passive labour force is financed by the state.

3. A third point in regard to a non-neutral policy is related with changes in the taxation system. During the military administration there have been several reforms, of which the most important took place in 1975 and 1984.

From the analysis of the 1975 taxation reform it can be inferred that direct taxes have diminished in importance in comparison with indirect taxes. A value-added tax was strengthened and completed, in this reform. This has implied a regressive distribution of the tax burden. The authorities' philosophy is that indirect taxes are more efficient because they do not produce distortions; they are "neutral". To say that an indirect tax is neutral is seriously misleading: it is not difficult to see that an indirect tax is a very good way of making a regressive income distribution to the low-income sectors. Value-added tax is considered one of the most regressive in relation to income distribution.<sup>16</sup>

The important issue about the 1984 taxation system reform is that it implemented a significant reduction on direct taxes which has aggravated vertical inequity. The authorities have justified this policy by saying that direct taxes have three main problems: they are not neutral; they constitute an incentive to tax evasion; and do not provide an incentive to savings and productive efforts.<sup>17</sup> It is doubtful whether these reasons justify the unfair situation of an indirect tax.

4. A first situation of a non-subsidary role of the state can be found in the issue about the state as producer. It has already been remarked that one of the most important postulates of the economic model was the discontinuation of the state in its role of producer. In this sense the wishes of the Chicago boys were to privatise all state companies. However these found a hard opposition to their plans from the military. The military maintained that there were some enterprises considered strategic for national development and security. This is the reason why the state controlled around 30 companies in 1982. The interesting thing about this is that the state-owned companies have been of crucial importance to the regime, as a consequence of their revenue contribution to the government. In effect, the revenues of state enterprises as a percentage of GDP represented nearly 25% of it.<sup>18</sup> It is also interesting that the state not only obtained revenues amounting to nearly 25% of GDP, but that it also spent it, producing a wide effect through aggregate demand.

This means that notwithstanding the efforts from the Chicago economists and the government, in general, the state still plays a major role in the Chilean economy.

5. Finally, a second aspect where non-subsidary behaviour from the military government can be found refers to the crisis of the financial

system and the public guarantee to the private external debt.

The first signs of the financial crisis were felt in 1982 when the government was forced to declare 14 financial institutions insolvent. Nevertheless, the crisis was recognised in January 1983 when the government was forced to intervene in another seven institutions, including the largest commercial banks (Banco de Chile and Banco de Santiago) and to provide them with liquidity, in order to avoid a major collapse.

Immediately after the intervention, the Central Bank was forced to inject US\$1.1 billion in fresh credits.<sup>19</sup> This is clearly not a subsidiary role.

The situation was evidently contrary to the postulates of the economic model, at least in two ways. First, because the intervention of the financial system led to almost the same situation that existed before the crisis, where public institutions - Central Bank - had a preponderant role over the financial system. Secondly, because according to the ideas maintained by the model, the government did not follow the rules that say that there is no intervention of the state and that inefficient economic agents must go into bankruptcy. In this sense, the state has not played a subsidiary role. Even more, it has not been neutral either: it has not given to other indebted economic agents the kind of support that it has given to the financial sector.

With regard to the ex-post public guarantee to the private debt, the situation is similar. When different sectors of Chilean society began, in the late 70s, to be alarmed about the future consequences of the increasing external debt, the government said that there was nothing to worry about; the external debt, it said, has been contracted by the private sector and with private creditors, so that the Chilean

state has nothing to do with it. Today it is well known what happened: in 1983 and in the successive foreign debt rescheduling, the Chilean state has given a public guarantee to that fraction of the external debt contracted - and enjoyed - by the private sector.

V. CONCLUDING CONSIDERATIONS

It seems to be clear from what has been said so far that the economic model implemented in Chile has been unsuccessful and inconsistent within its own rules. The lack of success of the model is easy to see through an examination of the principal macroeconomic figures. The inconsistency of the model can be observed in several situations in which the state has played an active role. Undoubtedly, the intervention that took place within the framework of the financial crisis, as well as the public guarantee to the private external debt are the most telling examples.

These two situations - the lack of success and inconsistency of the model - makes possible to think that in the future the role of the state will be strengthened.

The failure of the model has produced the required conditions in order to return to the state a central role in any future economic recovery.<sup>20</sup>

It seems that the state will be the only agent capable of dealing with a significant increase in economic growth. Who else will be capable of achieving investment rates comparable to the historical ones? The private sector had its chance and - a very important element - resources, but it did not do it too well. The private sector is not capable today of taking over the responsibilities that used to be those of the state, not after the financial debacle.<sup>21</sup>

In any future democratic context repressed and unsatisfied demands will be so huge that the economy will have to improve very much and in the short-term. Who else has the possibility to do it, beside the state? It seems nobody. The market and its signals did not do it in 12 years; would it be able to do it in the short-term, in a democratic context, without the tools of repression, and with a huge external restriction? It does not seem likely.

The external restrictions on any economic recovery in the future are of significance. Within the current debt management it is impossible to carry out any economic policy without diminishing the debt service. In this sense it will have to be the state (as it is today, but with other goals) who decides what to do with the scarce external resources; not the market.

Arguments such as those above has nothing to do with an ideological point of view. At least that is not the emphasis here. What these arguments mean is that a central role for the state in the future is almost inevitable attending to the magnitude of the future needs. The forces of reality will necessitate the return of the state.

TABLE 1  
Growth of GDP

1960/64	3.8
1971	8.3
1972	2.1
1973	-4.1
1974	1.0
1975	-12.9
1976	3.5
1977	9.9
1978	8.2
1979	8.3
1980	7.8
1981	5.7
1982	-14.1
1983	-0.7
1984	6.3
1985	2.4
1986	5.0

SOURCE: Central Bank of Chile; for 1986 ECLAC.

TABLE 2  
GDP Per Capita  
(1970=100)

1970	100.0
1971	107.1
1972	104.0
1973	96.6
1974	95.9
1975	82.1
1976	83.6
1977	90.3
1978	96.0
1979	102.2
1980	108.3
1981	112.4
1982	94.9
1983	92.7
1984	69.9
1985	97.7
1986	101.6

SOURCE: Central Bank of Chile.

TABLE 3  
Rate of  
Unemployment a/

1970	5.9
1974	9.1
1975	17.6
1976	21.9
1977	18.9
1978	18.0
1979	17.3
1980	17.0
1981	15.1
1982	26.1
1983	31.3
1984	24.7
1985	21.7
1986	19.1

a/ includes labor force in government employment emergency programs PEM+POJH.  
SOURCE: CIEPLAN "Sintesis Estadistica", March 1987.

TABLE 4  
Real Wages  
(1970=100)

1970	100.0
1974	65.0
1975	62.9
1976	64.7
1977	71.4
1978	76.0
1979	82.2
1980	89.3
1981	97.3
1982	97.6
1983	86.9
1984	87.1
1985	83.2
1986	84.9

SOURCE: CIEPLAN "Sintesis Estadistica", March 1987.

TABLE 5  
Public Social  
Expenditures  
Per Capita  
(1970=100)

1970	100.0
1974	91.7
1975	75.0
1976	71.2
1977	78.7
1978	79.0
1979	82.8
1980	83.5
1981	84.4
1982	86.9
1983	77.6
1984	76.4
1985	74.0
1986	n.a

SOURCE: CIEPLAN "Sintesis Estadistica", March 1987.

TABLE 6  
Gross Domestic Investment, 1960-86  
(annual averages in % of GDP)

1960-1970	20.2
1971-1973	15.9
1974-1981	15.8
1982-1986	14.2

SOURCE: Central Bank of Chile, gross fixed investment from official national accounts in 1977 pesos.

TABLE 7  
Balance of Payments  
(millions of US\$ and index 1980=100)

Year	Exports (1)	Imports (2)	Trade Balance (3)	Current Account (4)	Balance of Payments (5)
1974	2151	1794	357	-211	-55
1975	1590	1520	70	-491	-344
1976	2116	1473	643	148	414
1977	2185	2151	34	-551	118
1978	2460	2886	-426	-1088	712
1979	3835	4190	-355	-1189	1047
1980	4705	5469	-764	-1971	1244
1981	3836	6513	-2677	-4733	67
1982	3706	3643	62	-2304	-1165
1983	3831	2845	986	-1117	-541
1984	3650	3357	293	-2060	17
1985	3804	2955	849	-1329	-99
1986	4205	3126	1079	-1203	228

Columns (1) to (3) are FOB.  
Column (5) only includes Central Bank.  
SOURCE: Central Bank of Chile.

TABLE 8  
Chile and Latin America: Total and Burden Debt, 1985-86

	Chile	Latin America
Total a/	20757	382080
Debt/GDP b/	125.5	55.1
Debt/Exports b/	448.1	371.5
Interests/GDP b/	11.6	5.2
Interests/Exports b/	41.3	35.2

a/ 1986 in millions of US\$

b/ percentages

SOURCES: Central Bank of Chile and ECLAC.

TABLE 9  
Structure of Merchandise Imports, 1970-83  
(percentages)

	1978	1979	1980	1981	1982	1983
Capital Goods	23	20	21	19	17	19
Consumer Goods	33	28	34	38	40	35
Intermediate Goods	32	33	32	34	36	38
Oil	12	19	13	9	7	8

SOURCE: Inter-American Development Bank.

TABLE 10  
Distribution of Household Consumption  
by Quintiles: Greater Santiago  
(percentages)

Quintiles	1969	1978
I	7.7	5.2
II	12.1	9.3
III	16	13.6
IV	21	20.9
V	43.2	51
Total	100	100

SOURCE: INE, Encuesta de Presupuestos Familiares, 1969 and 1978.

TABLE 11  
Subsidy in the Sale of State Enterprises a/  
(millions of dollars in 1978)

Discount rate 1974- 1978	Discount rate 1979- 1983	Value Sale Value	Value Assets 1978	Subsidy 1978	Subsidy 198-8	Subsidy as % of Assets Value
10	10	496.1	731.8	235.7	32.2	
25	15	533.1	731.8	198.8	27.2	

a/ the figures correspond to a sample of forty-one enterprises and banks, which represent around 60% of the firms auctioned. The value of the sale updated to 1978 assumed a four-year payment period for the industrial firms and eight quarters for banks, with interests rates of 10% and 8%, respectively.

SOURCE: Dahse, F. "Mapa de la Extrema Riqueza", Santiago, 1979; and CORFO, Gerencia de Normalizacion, 1979.

TABLE 12  
Social Security Deficit 1980-1984  
(as % of (I), (II), (III))

	Prestaciones Previsionales (I)	Public Sector Total Deficit (II)	GDP (III)
1980	20.6	-24.3	1.5
1981	47.4	-115.5	3.7
1982	70.4	281.6	7.3
1983	71.3	186.3	6.8
1984	73.7	244.5	6.9
1985	75.2		7.7

SOURCE: Arellano, J.P. "Políticas Sociales y Desarrollo Chile 1924-1984", CIEPLAN, Octubre, 1985, Santiago.

NOTES

1. Roxborough, O'Brien and Roddick (1977), p. 4-5.
2. Arellano (1985), p. 21-22.
3. Mainly the National Oil Enterprise (ENAP), National Steel Company (CAP), and the Electricity National Enterprise (ENDESA).
4. Fortin (1985), p. 147.
5. Fortin (1984), p. 310-311.
6. See Fortin (1985); Foxley (1983); Moulian and Vergara (1980); Garreton (1980).
7. Garreton (1979) and (1980).
8. Garreton (1979), p. 5-6.
9. Ibid., p. 6.
10. O'Donnell (1978).
11. Fortin (1985), p. 179.
12. Moulian and Vergara (1980), p. 43.
13. Meller (1983), p. 131-132.
14. Foxley (1983), p. 66-67.
15. A very complete analysis of the reform can be found in Arellano (1985).
16. Vergara (1981), p. 146.
17. Arellano and Marfan (1987), p. 155-156.
18. Fortin (1985), p. 173-174.
19. World Bank (1984).
20. Lagos (1984).
21. Pinto (1987), p. 126.

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