Chile as a laboratory of economic reforms

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Through government intervention in a free-market experiment, the Chilean rich had substantially increased their economic dominance. It is, therefore, understandable that a recent study for the Organisation for Economic Cooperation and Development (OECD) asserted that the costs of Chilean adjustment were "among the largest in Latin America," and concluded by posing the question: "Would this type of adjustment have been feasible in a democratic regime?" The so-called "success story" regarding Chile is dubious. It is aid-driven or based on exports of primary products; Chile, the most heralded example, relies on copper for more than 30 per cent of export revenues and agroexport for most of the rest, and thus is highly subject to "terms of trade shock" from policies of the rich nations.

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From 4.6 per cent in 1980 to 4.2 in 1991; over the same period the share going to the poorest 50 per cent declined from 20.4 to 11.5 per cent, and the richest 10 per cent rose from 35.6 to 47 per cent. In structure terms, the Chilean economy, with its highly skewed income distribution and primary processed goods and its shrinking manufacturing base, was likely to be more fragile by the end of the 1990s than it had been before the Pinochet period. We must also add the undermining of democracy that Chilean "Chapo" subsided upon, not necessarily to translate Milton Friedman's theories into reality.

After ten years of experimentation of free-market by the Pinochet regime, the economy did not show any signs of long-term growth. As concluded by Chilean economist Patricio Molitor, "Chile's worst economic crisis in 50 years," the state and the government had to intervene massively to bail out the sinking ship. The leading proponent of state intervention, economist David Felix notes, was "an institute which is a stronghold of Hayekian libertarianism and the major think-tank of Pinochet's government." The Treasury Minister in 1983 has promised the "foreign banks that the government would not risk having to bail out their loans to private Chilean firms."

Reviewing Chile's "economic miracle," Latin American economist Cathy Schneider observes: "From the standard neoclassic features of market reforms—sharply increasing poverty, huge increases in income inequality, and the continued stagnation of the economic and political systems—there has been very little discernible impact on the world view of the typical Chilean. Most Chileans today, whether they own a small business or sub-contract their labour on a temporary basis, work alone. They are dependent on their own initiative and the expansion of the economy. They have little contact with other workers or with neighbours, and hardly relate with their family. Their exposure to political or labour organisations is minimal, and with the exception of some important welfare provision such as health care, they lack either the resources or the disposition to confront the state."

The very partial social safety net that the communities has accomplished what brute military repression could not. It has transformed Chile, both culturally and politically, into an agrarian and industrial parochial grassroots communities, to a land of disconnected, apolitical individuals."

In short, through government intervention in a free-market experiment, the Chilean rich had substantially increased their economic dominance. It is, therefore, understandable that a recent study for the Organisation for Economic Cooperation and Development (OECD) asserted that the costs of Chilean adjustment were "among the largest in Latin America," and concluded by posing the question: "Would this type of adjustment have been feasible in a democratic regime?" The so-called "success story" regarding Chile is dubious. It is aid-driven or based on exports of primary products; Chile, the most heralded example, relies on copper for more than 30 per cent of export revenues and agroexport for most of the rest, and thus is highly subject to "terms of trade shock" from policies of the rich nations.

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