

The Chilean Economic Miracle: A Model for Latin America?*

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Chile is now widely regarded as the most successful developer in Latin America and as a model for the region. This article looks behind this success and examines three elements of the Chilean development model to which critics have drawn attention: the dependence on exports of primary commodities, the environmental sustainability of such production and its social costs. The final section discusses whether the Chilean model is neo-liberal or neo-structuralist and raises questions about its applicability throughout Latin America.

“Chile is a country rich in thinkers, rich in its capacity for thought and action; Chilean philosophers, engineers, scientists, Chileans in general have the necessary intellectual and emotional resources but we live in a world in which the capacity for reflection is destroyed because we are told that there is only the one way to do things. One cannot even ask if this is how we want things to be because globalization establishes the way and we have to follow along and be devoured by this dragon of globalization. But we don't have to allow ourselves be devoured by this dragon or allow ourselves be dragged down by the direction the world is taking. We can change direction. Throughout the world the same problem is being encountered – the negation of the human through placing a supreme value on the economic.”

- Professor Humberto Maturana, Faculty of Sciences, University of Chile¹

Over recent decades Chile has come to be seen as a development laboratory, attracting a level of international attention not

warranted by its relatively small size. It was from Chile that the structuralist theories of the UN Economic Commission for Latin America and the Caribbean (CEPAL in Spanish but usually referred to as ECLAC in English) emerged in the 1950s as the first Third World critique of the dominant free-trade theories of comparative advantage. From the late 1960s, Chilean universities and think tanks were to the fore in the elaboration of dependency theory. At the same time, the country provided a series of almost textbook examples of how the principal development models of the period could be implemented in practice – from the pro-capitalist, free-market policies of President Arturo Alessandri (1958-64), through the “Revolution in Liberty” of the reformist Christian Democrat, Eduardo Frei (1964-70), to the marxist, state-led model of economic and social transformation implemented by President Salvador Allende (1970-73). While the military regime of General Augusto Pinochet (1973-90) took power determined to eradicate revolutionary politics from Chilean life, it soon embarked on its own right-wing, neo-liberal revolution which has resulted in a more enduring transformation of the country’s economy and society. Recognising certain economic successes of the military dictatorship, the civilian government of President Patricio Aylwin (1990-94) decided to maintain the same export-led, free-market economic model while investing in redressing the social inequality inherited from the military, a policy of “growth with equity”. This policy continues to be followed by his successor, Eduardo Frei.²

The results are the envy of Latin America. For over a decade now, Chile has had annual growth rates of over 6 per cent (with the exception of 1990 when it was 3 per cent). Its average GDP growth rate of 7 per cent between 1991 and 1995 was the highest in Latin America. As Table 1 shows, over a range of indicators of macroeconomic stability as measured by ECLAC for the years 1992-94, Chile occupies a consistently high position. Furthermore, since 1977 Chile has had the highest level of net capital inflows of any of the major Latin American countries when measured as a percentage of GDP. Alongside this impressive macroeconomic record, since the return to democracy in 1990 Chilean governments have made a determined attempt to reduce poverty with the result that the percentage of households in poverty has been reduced from 39 per cent in 1987 to 24 per cent in 1994 while urban unemployment has fallen from 11.9 per cent to 6.3 per cent of the labour force over the same period.³ Chile therefore is being

Table 1: Latin America and the Caribbean (14 countries): indicators of macroeconomic stability (1992-94 average)

Country	Consumer prices (December - December variation)	Central government deficit (-) surplus (+) (% of GDP)	Balance on current account of balance of payments (% of GDP)	Cumulative external debt/exports of goods and services (1994)	Trade balance (% of GDP)	Competitiveness of real exchange rate, 1994 (1990 = 100)	Total interest on external debt/exports of goods and services	Domestic savings/GDP
Argentina	9.7	-0.2	-3.1	404.0	-1.9	78.0	16.3	16.4
Brazil	1522.5	-1.0	0.7	308.0	2.9	91.0	16.8	22.9
Chile	11.2	1.9	-2.7	152.0	-0.4	96.5	8.5	24.7
Colombia	23.4	1.0	-2.2	179.0	-2.6	75.3	13.1	16.7
Costa Rica	15.3	-3.6	-6.6	110.3	-5.8	101.3	6.4	15.8
El Salvador	13.7	-3.6	-4.6	232.8	-15.3	82.8	7.0	13.4
Guatemala	12.5	-1.2	-6.5	100.8	-9.1	84.6	5.6	9.2
Honduras	21.4	-6.5	-11.8	266.2	-4.4	125.3	18.0	13.4
Mexico	9.0	1.7	-7.3	271.0	-5.0	82.1	24.0	17.5
Nicaragua	11.8	-8.5	-51.0	2992.0	-27.2	103.8	103.9	-9.5
Panama	1.3	-0.9	-2.4	182.0	0.8	100.0	0.0	34.0
Peru	37.2	-0.3	-5.4	415.0	-3.2	87.2	21.2	18.6
Dominican Republic	7.9	0.3	-3.4	184.7	-5.7	96.2	7.5	18.5
Venezuela	49.5	-4.5	-0.8	223.0	2.2	94.2	15.9	19.8

Source: ECLAC, Economic Survey of Latin America and the Caribbean, Santiago, Chile, (various years); International Monetary Fund (IMF), International Financial Statistics, Washington, D.C., (various years); and ECLAC, Characteristics of the Central American Isthmus and the Dominican Republic which might affect their participation in the Free Trade Area of the Americas (FTAA) (LC/R.1584), Mexico City, ECLAC subregional headquarters in Mexico, November 1995.

widely referred to as the Latin American “tiger”, a clear comparison to the success of the East Asian “tigers” of South Korea, Taiwan, Singapore and Hong Kong (an exclusive league to which Ireland has also acceded over recent years as the so called “Celtic tiger”). For the World Bank, Chile had become an important role model for the entire region.⁴

In Chile itself, however, dissident voices have been raised about the basis on which this success has been built and about its sustainability. The economist Fernando Ignacio Leiva refers to “the other face of the Chilean model” and writes that “behind the existing facade is hidden a very different reality to that normally presented in official discourse; behind the figures, in the conditions of the daily lives of the workers of the country, lies the ‘hidden face’ of the model.”⁵ This article looks behind the facade and examines three elements of the Chilean development model to which critics have drawn attention – the dependence on exports of primary commodities, the environmental sustainability of such production and, finally, its social costs. These are not offered as an exhaustive analysis of the Chilean model; rather, they reflect some debates around central issues which are currently taking place in Chile. A final section will discuss the nature of the Chilean model and questions it raises in the context of its application throughout Latin America.

The other face of the Chilean model

1) Export-led development: Moving into a second exporting phase or stuck in low value-added commodities?

Central to the transformation of the Chilean economy over the past 20 years has been the change from being an economy directed primarily to production for a highly protected internal market (the phase of import substitution which lasted from the 1930s to the 1970s) to being an economy directed towards production for export. Estimated in US dollars at their 1994 value, the value of Chilean exports has increased from \$1,783 million in 1960 to \$3,502 million in 1973 (the year of the military coup) and to \$11,538 million in 1994. Exports showed an annual real increase of 10.3 per cent over the period 1985-94 and constituted an ever growing share of GNP, up from 20 per cent in 1980 to 35 per cent in the 1990s. These figures justify

the description that exports constitute “the motor of growth of the Chilean economy”.⁶

This reorientation of the Chilean economy is seen by some analysts as being similar to the successes of the East Asian economies. An examination of the main Chilean export products, however, shows that most of them are primary commodities with low added value – copper, wood and wood products, fish products and fresh fruits. Table 2 shows the percentage breakdown of the country’s exports by natural resource sectors for the years 1988 to 1994. In 1994, 55.9 per cent of exports were of unprocessed natural resources while 32.3 per cent were processed. Of the 11.7 per cent of exports made up of industrial products, most came from the chemicals and metallurgy sectors with textiles and clothing making up a smaller share. In this regard, therefore, Chile seems much closer to the profile of a traditional underdeveloped country, exporting natural resources and adding relatively little value at home.

Table 2: Chilean exports by sector (% of total)

Year	Mining	Fisheries	Forestry	Agriculture	Natural resources sub-total
1988	60.1	11.9	11.2	15.3	95.5
1989	60.6	11.5	10.6	12.8	95.0
1990	56.3	11.1	9.8	12.4	94.0
1991	50.3	10.6	10.4	15.1	92.4
1992	47.8	12.1	10.5	18.5	91.5
1993	44.1	12.4	13.2	18.5	88.4
1994	45.5	11.7	14.0	17.1	88.2

Source: Prepared on the basis of data from the Office of International Economic Relations, Ministry of Foreign Relations, 1995

How, then, does one understand the nature of the Chilean economy? Is it an economy that is well advanced on the route to becoming developed, as some claim,⁷ or is it just a newer version of typical underdevelopment, as others say. One encounters widely divergent views on this question among economists in Chile today. An outline of what can be regarded as positions on both extremes of the argument illustrates these divergences.

The economist Alvaro Díaz argues that Chile has already entered “a second exporting phase”. By this he means that the economy is showing the capacity and dynamism to add ever

greater value to its products, particularly through the use of modern technology, thereby generating forward and backward linkages in the economy. He rejects the notion that this can only be done through industrial exports and argues that "instead of being a problem and as indicating backwardness, the presence of a vast and rich productive sector of natural resources has industrialising effects and constitutes itself as an active agent which promotes and diversifies development".⁸ Thus, for example, he argues that the processing of natural resources has shown a notable improvement in the sophistication of the technology being used. He also points to the fact that, between 1987 and 1994, the percentage of processed and manufactured natural resources has increased from 25 per cent of total exports to 36 per cent. Secondly, D'az emphasises that the export of manufactured goods not based on natural resources has grown seven times between 1987 and 1994. Thirdly, there has been a big increase in the export of non-financial services over the same period. Finally, he includes the growth in direct Chilean investment in neighbouring countries as evidence of the successful development of the Chilean economy.

He does, however, see a number of serious problems that the country faces in the second half of the 1990s, problems generated by its economic success. Central to these is what he describes as the "backward institutions" both of the state and of the private sector.⁹ He argues, for example, that greater efforts should be made to pick sectors that could potentially be "winners" as well as to facilitate the restructuring of sectors that are losing competitiveness. Referring to the private sector, he writes that most professional organisations are failing their members because both their technical capacity and their social functions are out of date. He concludes that Chile's "great economic dynamism contrasts with the rigidity of its institutions. Overcoming this divergence is a central task for this decade and the form in which this is done will determine whether the country is capable of combining development with equity."¹⁰

The studies of the economist, Rafael Agacino, offer a very different view of the state of Chilean industry. He has examined the ways in which industry adjusted to the new liberalised economic context being created by the military dictatorship, particularly in the wake of the serious economic crisis of the early 1980s. He finds a widespread pattern that industry increased its productivity not through any large-scale investment in state-of-the-art technology but rather through reducing labour costs. He concludes that the crisis of the early 1980s did not lead to a

process of deindustrialisation as some predicted but neither did it result in a modernised manufacturing sector. Instead “the basic component of its response was not a substantial modification of the technological basis of production but rather extending production through the massive contracting of workers on low wages, particularly in firms with more than 50 workers”.¹¹

In a later study, he examined the 26 industrial sectors which contributed 98 per cent of exports and 80 per cent of manufacturing employment in the three-year period 1992-94 looking in particular at the origin of the inputs into their production. He concluded that any diversification within the exporting sector comes not from a move into more industrialised products with higher value added but rather from diversification into the exploitation of other natural resources. “If today Chile exports relatively less cellulose and fish meal, the reason is not because it is exporting relatively more radios, cars or light machinery but rather because it is exporting more fruit and wood products,” he writes.¹² Disagreeing with the proponents of the view that Chile is entering a “second exporting phase”, he concludes that “the ‘productive modernisation’ does not appear to involve any clear and sustainable tendency that would be associated with the consolidation of industrial sectors that ‘incorporate greater added value’ to production for export but rather shows that the logic of the liberalisation of the economy has strengthened an export base highly dependent on natural resources.”¹³

The views of Díaz and of Agacino are two ends of a spectrum. A more representative view would be less optimistic than the former but less pessimistic than the latter. In this view, Chile is displaying remarkable productive dynamism, has successfully broken into a wide range of international markets with its products but is still facing many problems in moving beyond the first relatively easy phase of export promotion into a more modern, high-tech economy, adding more value at home and building up a labour force characterised by ever higher levels of modern industrial skills. Some other problems related to the nature of the Chilean productive process will be detailed in subsequent sections of this article.

Another way of understanding the nature of the Chilean productive process and especially its economic and social impact is by examining a regional economy. The region of Biobío some 500 kms south of Santiago is the second most populous region of the country with a population of 1.7 million. It contains

Chile's second largest city, Concepción (population: 331,027) and the contiguous port city of Talcahuano (population 248,543), one of the country's most important ports. In the period of import substitution up to 1973, the region constituted a "pilot region" for Chile's development with a diversified range of industries, both public and private, including textiles, ceramics, sugar, glass, chemicals, hydroelectric plants and shipping. It was also an important farming region in which many farmers benefited from the agrarian reforms of the Frei and Allende governments. Production was mostly for the domestic market.

With the neo-liberal reorientation of the Chilean economy, the region has become the second most important exporting region of the country, contributing 16.3 per cent of national exports in 1995 (a figure which had grown from 10.7 per cent in 1983). A breakdown of the region's exports shows that, in 1995, 91.7 per cent came from the forestry and fishery sectors (71.6 per cent and 20.1 per cent respectively). To help the development of the forestry industry, state subsidies since 1974 have facilitated an increase in the area under forestry from 150,000 hectares to 750,000 hectares. This has had major consequences for the ownership of land in the region, with a concentration of ownership in the hands of large national and transnational companies; (only some one third of those who received land under the agrarian reform are still on the land). In terms of value, cellulose (derived from wood pulp with little processing involved) constitutes the largest export, followed by fish meal and semi-elaborated wood.

The social and environmental costs of these industries will be dealt with under different headings later in this article. In purely economic terms, however, the result has been to make the region more dependent on a smaller number of industries; the formerly diversified economic base with a mix of farming and a range of industries has been greatly reduced. Ownership of the region's productive capacity has been transferred from the hands of regional groups or from the state to a small number of national and transnational companies. Most significant, however, is the lack of coherence between the high rate at which the region's exports are growing and its declining share of national GNP. Between 1983 and 1994, the national growth of exports was 203.6 per cent whereas exports from the Biobío region grew by 329 per cent. The respective figures for 1995 were 38 per cent and 52.7 per cent. However, the region's share of the growth of national GNP is showing a tendency towards a

persistent decline, reaching levels 10 per cent less than the national growth rate in 1994 and 1995.¹⁴ This is further reflected in higher regional rates of poverty and unemployment. Here is one region in which the reorientation of the economy towards exports and a far greater rate of growth of such exports than the national average has failed to translate into comparable growth rates in the regional economy.

2) Environmental costs: Are environmental protection and the dynamism of the model compatible?

The environmental limits to the Chilean model of development are increasingly being mentioned by development experts, though they are still largely overlooked in the mainstream literature on the country's economic growth. For example, the veteran Chilean development theorist, Osvaldo Sunkel, has drawn attention to the environmental costs of the government's plans to double the value of exports over the next six years. When most exports are based on the exploitation and use of natural resources, he asks: "How can you prevent the rate of exploitation from outrunning the rate at which these resources could be replenished or replaced?"¹⁵ He furthermore draws attention to the environmental costs of the government's declared policy of reducing poverty. Raising the living standards of the poorest one third of the Chileans "is going to bring strong additional pressure to bear on utilizing the country's basic ecosystems, natural resources and the environment," he points out.¹⁶

The Institute of Political Ecology (IEP) believes these limits to the Chilean model of development have already been reached.¹⁷ Indeed it goes further and argues that Chile's economic success has been built on an unsustainable exploitation of the country's natural resources. "The economic growth experienced in Chile is sustained upon the indiscriminate and deregulated exploitation of the country's natural resources and in particular the extractive activities, namely mining, fruit production, forestry and fishing. It is also based upon the excessive and deregulated use of the environment as a sink for the emissions, residues and waste arising from production processes, traffic and consumption."¹⁸ It adds that "the depletion of natural capital in Chile also represents a panorama of neglect. At each stage in the process there is an absence of control; there has been no systematic measurement of resources, no establishment of environmental standards, and consequently

no regulation, no monitoring and no inspection. The result is the progressive loss in the quantity and quality of natural resources.”¹⁹

The IEP gives examples related to each of the principal export industries which are based on natural resources. It draws attention to the excessive use of pesticides in the fruit export industry, a use which has grown notably over the last decade. Of those pesticides currently used in Chile, some 130 contain active ingredients listed by the UN as posing a danger to human health. Studies indicate that the intensive use of these pesticides results in conditions such as congenital malformations, sterility, abortions and cancer among temporary fruit workers.²⁰ In the forestry industry, a Central Bank study published in 1995 found that Chile has lost between 400,000 and 900,000 hectares of native forest between 1985 and 1994 due to the expansion of pine and eucalyptus plantations woods favoured for export as well as due to fires and competition from agriculture. Plans by the Trillium Corporation to intensively exploit 356,000 hectares of native forest on the Chilean part of Tierra del Fuego (on the very southernmost tip of the continent) and another 30,000 on the Argentine part became a major controversy in Chile in mid-1996. US press reports indicated that 70 to 80 per cent of production would be in the form of wood chips for export while the rest of the wood would be sent to the US for furniture making.²¹

The boom in fish exports “has been achieved at the cost of the total neglect of marine environmental conservation”, says the IEP.²² The huge expansion of the fish catch over the last decade and a half (from 3.5 million tons in 1981 to 8 million tons in 1994) has caused the over-exploitation and subsequent exhaustion of various species, including anchovies and Spanish sardines. The expansion of fish farming has led to severe pollution in lakes and seas as well as having consequences for the balance of the ecosystem. The intensive fish meal industry, particularly in the city of Talcahuano, is releasing untreated smoke and liquid wastes into the local environment where there is a high density of population. Finally, the mining industry has been associated with high levels of arsenic in the air, soils and drinking water detected in the north of Chile. A further serious problem is emerging in this desert region where 90 per cent of large and medium scale mining operations are located. At the beginning of this decade, copper mining was using 15 per cent of the region’s water; with the expansion of mining, however, it is estimated that it will be using 35 per cent of the region’s water by the year 2000.²³

In the Biobío region which has been profiled above, the environmental costs of the forestry and fishing industries have been significant. Between 1978 and 1986, 31 per cent of the native forest in the region's coastal mountain range was felled and burned. The Bío-Bío river which forms the region's main inland waterway receives large quantities of solid wastes containing organochlorides from the cellulose and paper industries as well as forestry pesticides used in the river's catchment area. The port city of Talcahuano, a heavy industrial zone as well as a major fishing port, is described as "one of the most polluted industrial zones in the world"²⁴ and has been declared a "saturated zone" by the Chilean government. A Talcahuano environmental recovery plan was put in place by the government in late 1994. Not surprisingly, another consequence of the Chilean development model for the region has been the increased demand for energy by the expanding industrial sector. As a result the national electricity company (ENDESA) (which was privatised by the military government) is building a hydroelectric plant on the upper Bío-Bío river, the first of some nine plants due to be built along that stretch of the river. The effect on the local eco-systems as well as on the indigenous Pehuenche people (a group of the Mapuches) coupled with the fact that the plant will bring little benefit to the local region has made it another flashpoint of environmental concern.²⁵

For the IEP these environmental costs make the Chilean model unsustainable and it recommends a form of fair trade that would incorporate into the trade model considerations such as equity, equal ecological exchange between developed and developing countries and the participation of the entire society in establishing ecological standards.²⁶ More mainstream economists, however, while admitting the environmental costs incurred, see the possibility of addressing these problems within the present model through investment in clean up operations and through implementing standards for environmental protection. For example, Meller et al estimate that resources for clean up operations and for reducing the environmental damage caused by new projects "could reach between 1 and 2 per cent of GDP". However, they add that "many of the improvements in environmental quality produce benefits comparable to the costs".²⁷ Their examples include savings on health spending from improvements in air and water quality and the fact that native forests are now better protected since wood from plantations rather than from these forests is now being used for the production of wood chips for export. They do very

cautiously admit however that “some slow-down in measured GDP growth is not unlikely following an effort to preserve and enhance the environment.”²⁸

3) Social impact: Poverty reduction versus increased inequality

Supporters of the Chilean model point to poverty reduction as a major achievement. The reduction in the level of poverty from 44.6 per cent of the population in 1987 to 28.5 per cent in 1994 and the rate of indigence (extreme poverty) from 16.8 per cent to 8 per cent over the same period is regarded by economic advisors in the Treasury Ministry as indicating that Chile has one of the fastest rates of poverty reduction of any country in the world.²⁹ (They estimate that the figure for poverty has dropped to 24 per cent and the figure for indigence to 6 per cent of the population in 1996 but the most recent official figures available in September 1996 are for 1994.) Meanwhile unemployment has fallen from 10.9 per cent in 1987 to 6.8 per cent in 1994.³⁰ However poverty, particularly in urban areas, was still far higher in 1994 than it had been in 1970 since poverty increased very substantially under the military dictatorship.³¹ Furthermore, the same official survey which shows a drop in poverty between 1992 and 1994 shows a slight rise in the already grossly unequal distribution of income in Chile (see Table 3). Thus the richest 20 per cent of households saw their share of income increase by 0.9 per cent while the poorest 20 per cent saw their share decrease by 0.3 per cent from 1992 to 1994. While these percentages are minimal, they indicate a trend towards greater inequality rather than towards greater equality despite the government’s declared objective of “growth with equity”.

Table 3: Income distribution by household

Quintil	1990*	1992	1994
Poorest 20%	4.2	4.8	4.5
2	8.8	8.6	8.3
3	12.9	12.3	12.1
4	19.0	18.3	18.2
Richest 20%	55.1	56.0	56.9

Source: CASEN Survey 1992 & 1994.

*The 1990 figures have not been corrected by the new series of national account figures. The definition of income does not include imputed rental income.

These basic facts are not disputed. However, interpretations of their significance vary with a particular divergence of opinion as to whether economic growth itself will lead to a continuing reduction in levels of poverty (through incorporating ever greater numbers into the workforce) or whether there is evidence of a slowing down of poverty reduction caused by particular problems inherent in the Chilean model. Cowan and De Gregorio of the Treasury Ministry argue that, on present trends, if growth continues at an annual rate of 6 per cent, by the year 2000 the rate of poverty will have been reduced to 18 per cent of the population and the rate of indigence to 3.5 per cent. They calculate that, on these trends, poverty would be eliminated by the year 2006 and indigence by the year 2019.³² On income distribution, they argue that the slight worsening in the figures between 1992 and 1994 was due to cyclical features and that a return to normal growth patterns should show a slight improvement from 1995 onwards when official figures become available. Reduction in the income distribution gap will come about, they argue, as the poor are incorporated through economic growth into the labour force; their incomes should in this situation rise at a faster rate than do those of people in higher income brackets thus slowly improving their relative position.³³

Fernando I. Leiva, on the other hand, argues that by 1992 the "easy phase" of poverty reduction had been exhausted. He argues that workers are losing their income share due to the growing flexibilisation of labour as more and more of the workforce are employed on short-term contracts, on a temporary basis, or through a sub-contracting system which absolves employers from paying workers' social security payments. With a weak trade union movement as a result of labour laws and repression under the dictatorship³⁴ and with exporters under growing competitive pressure to cut costs, there is a downward pressure on wages. Official figures show that among the poorest 20 per cent of the population the percentage of workers receiving incomes lower than the minimum wage rose from 48 per cent in 1992 to 67 per cent in 1994.³⁵ Alongside this trend, the percentage of workers among this same poorest 20 per cent who had stable employment dropped from 83 per cent to 75 per cent over the same period.³⁶ As a result, Leiva concludes that since the early 1990s "poverty in Chile is not linked fundamentally to 'marginality' or 'informality' but is rooted to a significant extent in the nature of the labour market. Instead of becoming the vehicle for the alleviation of poverty and

inequality, a flexible/deregulated labour market in Chile has acted as a mechanism for reproducing poverty under conditions of economic expansion."³⁷

The Biobío region, profiled above, despite its economic dynamism "is one of the regions with the least social development".³⁸ Unemployment in early 1996 was 8.3 per cent above the national average while it reached up to 23 per cent in some communes. Professor Antinao concludes his survey: "The benefits of development have tended to be concentrated among a minority in the region. This process of income and wealth concentration was very intensive between 1978 and 1988 but it has shown no clear signs of substantial modification in the 1990s."³⁹ The mechanisms through which the benefits of development are concentrated have been described as follows: "Plantation companies put pressure on small farmers to sell their land. Amongst other things these pressures consist in refusing to take on family members for plantation work, blocking off roads, and enclosing land with newly planted woods. There are many instances of such tactics being used in the Eighth Region [Biobío region]. Once they have sold their lands the small farmers come to depend on the forestry companies for their survival or are obliged to migrate to urban centres in poverty conditions."⁴⁰

In this situation, poverty takes on new meanings argues Gabriel Salazar, widely regarded as the leading historian of Chile's social movements. He makes a distinction between material poverty and poverty of citizenship, and draws attention to the fact that more and more of the jobs to which the poorest 40 per cent of the population have access "are more precarious and worse paid", that more of them are in the informal than in the formal sector, and that less and less of these jobs provide adequate social security cover.⁴¹ Furthermore, the unemployment rate for those aged between 15 and 24 years of age is three times the rate for the adult population. Thus, he concludes that for this 40 per cent of the population "self-integration into the modern economic development of the nation" is not possible.⁴² The result of this poverty of citizenship for Salazar is, especially among the young, an attitude of "greater apathy about education and greater hopelessness about the market; an increasing sense of dissidence rather than of integration into the model."⁴³ These conclusions are also consistent with a poll by the daily newspaper *La Epoca* which showed an increase from 49 per cent to 58 per cent over a seven-month period in the numbers saying they are not

interested in politics while a further 31 per cent said it interests them little.⁴⁴ This widespread political apathy is increasingly causing concern in Chile.

Salazar remarks that in Chile up until 1989 poverty carried “a strong explosive charge” since it led to a critique of the country’s model of development. Since the return to democracy, however, poverty is treated “on a Lilliputian scale, as a series of micro problems and micro solutions”.⁴⁵ Instead of understanding poverty from the standpoint of the poor and the failure of the dominant social and economic system to offer them a full and equal place in society, poverty is now understood from the top down as a series of technical problems to be resolved within the present neo-liberal, market system. Within this model, the poor are treated as “object groups or beneficiaries” rather than as “actors with their own life plans and action networks, who resolve problems of survival and living together with a surprising micro-level efficiency.”⁴⁶ “The poor of the earth are left with no proper or viable historic project of their own,” he writes.⁴⁷

Models and prospects

Chile is widely regarded as a showcase of neo-liberalism.⁴⁸ Yet there are those in Chile who argue that the country is not following a neo-liberal model but rather a neo-structuralist one. This refers to the development model elaborated by ECLAC which is also referred to as “Changing Production Patterns with Social Equity”.⁴⁹ While this shares with neo-liberalism a belief in the importance of macro-economic stability, the need to generate productive employment and technological modernisation, it explicitly parts company with the neo-liberals on a number of key points. Among these is the need to incorporate considerations of equity into economic policy and not just to leave it to economic growth alone to foster equity and the need for a more active state to, for example, increase tax revenue rather than cut expenditure, force savings measures rather than reduce wages, facilitate investment in human capital, promote participative wage setting rather than labour flexibilisation, help industry break into fast-growing markets of high purchasing power and promote a massive programme to speed up the spread of best technologies.⁵⁰ Those who argue that Chile has made the transition from neo-liberalism to neo-

structuralism point, for example, to the active social programmes of the state since the return to democracy and the impact these have had on reducing poverty. For others, however, the state remains subsidiary as evidenced by its failure to maintain high standards of environmental protection or to more actively promote the defence of workers' rights and a strong workers' movement.⁵¹

Others address the issue of models in a wider comparative framework. Alvaro Díaz describes three models of development – the Asian, the neo-liberal and the Nordic. The first is not applicable to Chile, he argues, because of its emphasis on the export of industrial products and its requirement for selective protectionism which is much more difficult to implement in the liberalised trading environment of today. Furthermore Chile's rich natural resources lead it in a different direction. The main difference between the neo-liberal and the Nordic models, Díaz identifies as being the role of the state – passive and subsidiary in the former, committed to stability, social welfare and democracy in the latter. This, coupled with the exploitation of natural resources as a motor of successful development by countries such as Norway, Finland and New Zealand, leads him to regard it as an “interesting reference-point for Chile.”⁵²

This discussion touches issues which go to the heart of the dilemma of development today as governments seek to strike the right balance between state and market, a balance that will stimulate production and economic growth while ensuring that the benefits flow widely throughout society, that the environment is protected and that the skill-base, the earning potential and the technological capacity of the economy are enhanced. The attraction of Chile for the countries of Latin America is that it has clearly managed the former; the big question is whether it has managed it through neglecting the latter. Speaking to people who are part of the poorest 40 per cent of Chilean society – urban and rural workers, unemployed youth, trade union leaders at local plant level – as well as to people who work with them particularly in the NGO sector, one is left with the very strong impression that it has.

The historian Luis Ortega reminds us that this is not the first time that Chile has looked a promising candidate in the development stakes. In 1870 it was one of the 20 richest countries in the world. Together with Ireland, Argentina, Spain and Portugal it was to slip back in the following century to be replaced by Japan, Finland, Iceland, Kuwait and the United Arab Emirates. There have been at least three periods in this

century – in the 1910s, the 1930s and from 1955 to 1970 – when it was being euphorically announced that Chile was finally on the way to development. Each period of euphoria was followed by one of depression. Ortega asks: Is history to repeat itself? He points out that on each occasion when productive expansion gave hope for the future Chile failed to make the necessary structural transformations, especially those which involved power relations – such issues as the ownership of land and mining rights. He now sees grounds for pessimism and for optimism. His pessimism lies in the fact that Chile's exports are still by and large concentrated in primary products with little added value. His optimism, however, stems from the structural transformations carried out by the Frei and Allende governments which broke up the landed oligarchy and modernised the mining industry.⁵³

Ortega may be failing to take into account that the Pinochet years have resulted in a new concentration of economic power to which the Chilean state seems very subservient. Major structural transformations are again needed if Chile is on this occasion to share the benefits of growth more widely among its population and to build up a more modern, high-tech productive base. Yet, has the Chilean state the political will or capacity to carry out such structural transformations? In a recent lecture he gave in Mexico, President Fernando Henrique Cardoso of Brazil touched on the challenges to the state in an age of globalization when he warned that capital markets “act as veritable monitors of national activities”. Governments, he went on, “are obliged to seek among the contradictions and inconsistencies, and also in the windows of opportunity of the emerging system, strategies capable of reaffirming the priority of the national interest, of strengthening the vocation of countries ... for sovereign self-determination and, above all, consolidating our capacity to influence the building of the future.”⁵⁴ This defines the challenges facing the state in a globalized world system.

As the governments of Latin America seek to meet these challenges, the Chilean model offers them no easy answers. For Chile, as for the rest of the region, the hardest challenges still lie ahead. Chile does indeed offer many lessons but these are as much warnings about what should not be sacrificed in the rush for economic success as they are recipes for successful development.

All extracts from Spanish-language documents in this article have been translated by the author.

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His latest book, Poverty amid Plenty: World and Irish Development Reconsidered, is to be published shortly by Trócaire and Gill & Macmillan.

Footnotes

- 1 Interviewed by Faride Zeran, *La Epoca*, 7 July 1996
- 2 Both of these governments are coalitions of Christian Democrats and socialists.
- 3 Figures from *Social Panorama of Latin America 1995*, UN Economic Commission for Latin America and the Caribbean, Santiago, 1995
- 4 World Bank, *Latin America and the Caribbean: A Decade after the Debt Crisis*, The World Bank, Washington DC, 1993, pp. 30-31
- 5 Fernando I. Leiva: *Mercado de Trabajo Flexible, Pobreza y Desintegración Social en Chile 1990-1994*, Universidad Arcis, 1994, p. 5
- 6 Patricio Meller and Raúl E. Sáez, "Lecciones y Desafíos Futuros del Auge Exportador Chileno" in Patricio Meller and Raúl E. Sáez, eds, *Auge Exportador Chileno: Lecciones y Desafíos Futuros*, CIEPLAN, Santiago, 1995, p 13. The figures for the value of Chilean exports are also taken from this article.
- 7 See, for example, the report entitled "Chile dejará de ser emergente" in *Estrategia*, 4 March 1996 in which the vice-president of J.P. Morgan in Chile, Felipe Rojas, predicts that the country will become classified as being developed within the next five to ten years.
- 8 Alvaro D'az: "Chile en la Segunda Fase Exportadora: dilemas para una Estrategia de Desarrollo" in *Estadística y Economía*, Instituto Nacional de Estadísticas 10, Santiago, p.69
- 9 *ibid.*, p.78
- 10 *ibid.*, p.78
- 11 Rafael Agacino and Gonzalo Rivas, *La Industria Chilena después del Ajuste: Evaluación y Perspectivas*, Documento de Trabajo 95, PET, 1993, Santiago, p 22
- 12 Rafael Agacino, *El Sector Industrial Chileno: Los Problemas del Crecimiento y la Distribución en un Contexto de Apertura Comercial*, Documento de Trabajo 108, PET, Santiago, 1995, p 10
- 13 *ibid.*, p 13. See also the conclusions of Carlo Pietrobelli in his study of Chile's comparative advantage: "The persisting strong specialization in natural resource-intensive manufactures per se is neither a favourable nor a disadvantageous pattern. However, to become internationally competitive on a sustained basis, it is necessary to develop the capabilities to add to these endowments and increase their market value through higher manufacturing value added, and there is no evidence that the country is pursuing such specialization. The existing dynamism within some resource-based activities is still compressed and narrow by industry and, within each sector, by a kind of technological effort, focusing on the less innovative technological efforts." Carlo Pietrobelli, "Developing Countries and Dynamic Comparative Advantage in Manufactures: Econometric Evidence from Chile" in David E.

Hojman, ed: *Neo-liberalism with a Human Face? The Politics and Economics of the Chilean Model*, Institute of Latin American Studies, The University of Liverpool, Monograph Series, No 20, 1995, p.210

- 14 Information in this section is taken from an unpublished paper by Professor Fernando Antinao, head of regional studies at the Centro EULA, the University of Concepción, and from an interview with Professor Antinao held in his office on 16 July 1996. The paper is entitled "Indicadores Económicos, Sociales y Demográficos en la Región del Biobío 1960-1995".
- 15 Osvaldo Sunkel: "Is the Chilean miracle sustainable?" in *Journal of Interamerican Studies and World Affairs*, vol. 37, no. 3, 1995, p.5
- 16 *ibid.*, p.7
- 17 Interview with Bert de Wel at the Institute for Political Ecology, Santiago, 22 July 1996
- 18 Rayén Quiroga Mart'nez and Saar Van Hauwermeiren, *The Tiger Without a Jungle: Environmental Consequences of the Economic Transformation of Chile*, Institute of Political Ecology, Santiago, 1996, pp.18-19
- 19 *ibid.*, p.21
- 20 See, for example, María Elena Rozas, *Plaguicidas en Chile: La Guerra Química y sus Víctimas*, Observatorio Latinoamericano de Conflictos Ambientales, Instituto de Ecología Política, Santiago, 1995, pp.87-112. This evidence is consistent with information given by a group of temporary fruit workers to the author of this article in an interview in Rinconada de los Andes, a fruit growing area north of Santiago, 19 July 1996.
- 21 Quiroga Mart'nez and Van Hauwermeiren, *op. cit.*, p.63
- 22 *ibid.*, p.65
- 23 *ibid.*, p.85
- 24 *ibid.*, p.71
- 25 *ibid.*, p.105
- 26 *ibid.*, pp.151-157
- 27 Patricio Meller, Raúl O'Ryan and Andrés Solimano, "Growth, equity, and the environment in Chile: Issues and evidence" in *World Development*, vol.24, no.2, 1996, p.269
- 28 *ibid.*, p.264
- 29 Kevin Cowan and José De Gregorio: "Distribución y Pobreza en Chile: Estamos mal? Ha habido progresos? Hemos retrocedido?", unpublished paper, Santiago, July 1996, p.18
- 30 The unemployment figure is calculated through official monthly surveys and is based on the percentage of those who answer in the affirmative that they have worked at least one hour in the previous week. Interview with Helia Henriquez, director of the Department of Studies of the Work Directorate of the Ministry of Labour, Santiago, 24 July 1996.
- 31 According to figures in CEPAL's *Social Panorama of Latin America 1995*, 17 per cent of households were below the poverty line in 1970 and 24 per cent in 1994; a further 6 per cent of households had been below the indigence level (extreme poverty) in 1970 while in 1994, 7 per cent of households were in this category. See Table 10, p. 145.
- 32 Cowan and De Gregorio, *op. cit.*, p. 20
- 33 *ibid.*, pp 8-13
- 34 Apart from repression of trade unions under the dictatorship, the labour laws were adapted in line with the free market ideology of the model being implemented. Central to this was the worker's freedom of choice. This greatly weakened the trade union movement. Legal reforms since the return to democracy have only modified these laws in minor ways; attempts at wider reform have met determined right-wing opposition in the Senate where the right has an effective veto partly due to the presence of eight senators

- nominated by the military before they left office. For details, see Lois Hecht Oppenheim, *Politics in Chile: Democracy, Authoritarianism, and the Search for Development*, Westview Press, Boulder, 1993, pp 156-157, 185 and 211-212. Trade union membership, which had been increasing in the late 1980s, has declined from a high of 22.4 per cent of the labour force in 1991 to 19.3 per cent in 1994. See Temas Laborales, Dirección de Trabajo, No 1, September 1995, Gráfico 7.
- 35 In April 1995, the minimum wage – the equivalent of US\$132.2 a month – was 41.5 per cent of what was estimated to be the minimum income – US\$225.9 monthly – required to feed an average household of 4.36 persons. Taken from Leiva (1996), Table A-8, p 28.
- 36 These figures are taken from Cowan and De Gregorio, op. cit., pp 11, 12. Referring to the growing flexibilisation of the labour force, a publication of the Ministry of Labour states: “In the 1990s, few economic sectors have not incorporated flexible forms of employment in a form that is quantitatively significant, be they workers who are subcontracted, seasonal, or on a short-term contract. It is the strategic sectors which are most characterised by having a nucleus of stable or “hard” workers side by side with floating masses of workers whether subcontracted (in mining and forestry) or working seasonally (fruit picking and, in general, agriculture)”. In 1994, 30 per cent of mining workers were sub-contracted while in agriculture there are 400,000 seasonal workers to 100,000 permanent ones whereas in 1964-65 there were 208,000 permanent workers to 147,000 seasonal ones. See Magdalena Echeverría, “Mejores Condiciones de Trabajo: Un Desafío Actual” in *Temas Laborales*, Dirección de Trabajo, No 2, January 1996, pp.5, 6.
- 37 Fernando I. Leiva: “Flexible labor markets, poverty and social disintegration in Chile 1990-1994: The limitations of World Bank policies”, unpublished paper, March 1996, p.12
- 38 Antinao, op. cit., p.28
- 39 *ibid.*, p.28
- 40 Quiroga Martínez and Van Hauwermeiren, op. cit., p.61
- 41 Gabriel Salazar, *Los Pobres, los Intelectuales y el Poder: Chile 1989-95*, PAS, Santiago, 1995, p.30
- 42 *ibid.*, p.32
- 43 *ibid.*, p.33
- 44 *La Época*, 17, 18 July 1996
- 45 Salazar, op.cit., p.20
- 46 *ibid.*, p 37
- 47 *ibid.*, p 47
- 48 Neo-liberalism is best defined as involving three elements: stabilisation, structural adjustment and export-led growth. The first involves fighting inflation through reducing the money supply, cutting public spending and raising interest rates. Structural adjustment involves imposing a functioning market economy in which the market determines the most efficient allocation of resources and the state plays a subsidiary role. Export-led growth is seen as the path to sustainable development and so the private sector is encouraged to diversify and find new markets for its exports. To facilitate this, barriers to trade on both exports and imports are greatly reduced. (See Duncan Green, *Silent Revolution: The Rise of Market Economics in Latin America*, London, LAB, 1995, pp.4,5.)
- In discussing neo-liberalism the following should be kept in mind: “Neo-liberalism does not properly speaking constitute a body of theory which is original and coherent. This dominant ideology is composed principally of practical propositions, ‘reinventing’ liberalism but introducing formulations

and proposals which are much closer to political conservatism and to the kind of social darwinism, and so far removed from liberal beliefs of the 20th century. Furthermore, these 'ingredients' are combined in different ways, thus producing many and varied neo-liberalisms". Sonia M. Draibe, "Neoliberalismo y políticas sociales: Reflexiones a partir de las experiencias Latinoamericanas" in *Desarrollo Economico*, vol.34, no.134, p.181

- 49 See ECLAC: *Social Equity and Changing Production Patterns: An Integrated Approach*, ECLAC, Santiago, 1992.
- 50 For this comparison between neo-liberal and neo-structuralist approaches, see Joseph Ramos: "Can Growth and Equity go Hand in Hand?" in *Cepal Review*, No 56, August 1995, pp.13-24.
- 51 For a critical discussion of neo-structuralism and the extent to which it is being applied in Chile today, see James Petras and Fernando Ignacio Leiva, *Democracy and Poverty in Chile: The Limits to Electoral Politics*, Westview Press, Boulder, 1994, pp.64-80.
- 52 Díaz, op. cit., p.82
- 53 Luis Ortega: "Los l'mites de la modernización en Chile: Siglos XIX y XX" in Gabriel Salazar, ed: *Problemas Historicos de la Modernidad en Chile Contemporaneo*, Proposiciones 24, Sur Ediciones, Santiago, 1994, pp.33-41
- 54 Fernando Henrique Cardoso *The Impact of Globalization on Developing Countries: Risks and Opportunities*, Presidência da República, Brasília, 1996, pp 15-16

