

**The Evolution of Neoliberalism & its Affect on Chile**

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Chile is recognized as a neo-liberal leader within Latin America. It has had much success within foreign direct investment (FDI), international trading and agribusiness. The market driven neo-liberal approach has been adapted by Chile as well as a handful of other Latin American countries as a means to raise the economic value of their countries in order to be competitive in the world economy. As development in general has been much slower in this area of the world it has been difficult for Latin American countries to maintain a competitive advantage and or level of autonomy within global economics and political affairs. This move to neoliberalism has also provided Chile with a dominant power position within the region of Latin America. Chile has benefited from the large store of naturally occurring resources within their country, especially those that can be mined. Mining accounts for more than 50% of FDI within the country and also represents close to half of Chile's exports (OECD, p.14-15). Chilean policies have also been carefully engineered in regards to FDI by providing foreign investors what can be seen as an unfair advantage in terms of subsidies and tax breaks. The question remains as to whether or not the neoliberal actions taken by the Chilean government have been best for their people. Today Chile stands as one of the more competitive Latin American countries within the global marketplace but there still seems to be a great discrepancy between the wealthy and the poor. Chile leads the way in Latin America for things like 'Human Development, competitiveness, income per capita, globalization, economic freedom, and low perception of corruption', but it has a high level of economic inequality especially in comparison to other surrounding countries within Latin America (United Nations Development Programme, p.238, 2007). So at first glance it may seem that everything is *statistically* falling into place but the

recent protests observed in Santiago are beginning to unveil another story, one that is not about GDP, but a more personal story about the heart of Chile, its people.

The definition of neoliberalism has incurred much scholarly debate in its use. Boas and Gans-Morse conducted a thorough analysis into the confusion surrounding this term, and found that there are three general problematic aspects within its use. First, neoliberalism is used unevenly among scholars belonging to different ideological groups. When it is used it generally does not reflect a positive assessment of the free market. Second, neoliberalism is generally left undefined even when utilized as a key variable. Third, neoliberalism seems to take on a chameleon like effect portraying a different meaning depending on the article in which it is used in. Boas and Gans-Morse have observed the term being connected to themes such as economic reform policies (being the most common), development models, ideologies, and academic paradigms (Boas & Gans-Morse, p.137-140, 2009). The term was first created by the 'Frieberg School of German economists' as a means to describe a type of philosophy as being moderate in comparison with classical liberalism. This initial interpretation of neoliberalism connotes positivity. Once neoliberalism began to be utilized by Chilean intellectuals in describing the radical economic reforms put into place by Pinochet it began its evolution into becoming a negatively charged word (Boas & Gans-Morse, p.139, 2009). In their analysis Boas and Gans-Morse found that 45% of its usage elicited a negative connotation, 45% were neutral, 8% were mixed and only 3% of the time was it viewed in a positive light (Boas & Gans-Morse, p.142, 2009). When neoliberalism was first defined it was seen as new form of liberalism that embraced humanistic and social values at the same level of the market economy. The first neoliberalists believed that a moderate free market would support welfare policies (Boas &

Gans-Morse, p.146, 2009). So in essence this word described an economic opportunity for a state to leverage in order to increase the social well being of its people. This definition is at complete opposition of what neoliberalism generally reflects today. There seems to be a recurring phenomenon of words evolving over time within the international arena, especially when 'multidimensional in nature'. An idea is sparked, and then a philosophy is born generally with good intentions, but within its application the integrity of the initial concept becomes degraded resulting in an outcome that counters the very goal in which was trying to be achieved. The root behind the idea of neoliberalism is that of capitalism, and as there is great debate regarding whether capitalism is the most beneficial economic system or even sustainable has yet to be determined. The failure of neoliberalism could very well be a result of the flaws within its capitalistic foundation. The term neoliberalism came to fruition in the 1950's, and Chileans pro-market intellectuals began to adopt the word in the 1960's. These pro-market intellectuals identified with the word in the same way as did its German inventors, the word embodied humanistic values and social welfare. Santiago Labarca refers Manuel Rivas Vicuna, a Chilean politician here:

"He was a liberal, but not a 19th-century liberal; rather, he was...a 'neoliberal.' He placed the idea of freedom above all other values. Nonetheless, that freedom was only unlimited in the ideological realm, while in the economic realm it should be bounded by solidarity with all mankind.... [H]e concerned himself with preventing man's exploitation of man, which had been the outcome of the old laissez-faire, laissez-passer liberalism. Thus, his enthusiastic work on the foundations of social legislation and his membership on the Labor Legislation Commission (Labarca, p. 12, 1965)."

It is obvious that Chilean intent imbued within the word neoliberalism in the 1960's was positive, and the vision for these pro-market intellectuals was that of Chile's people benefiting

greatly from the integration of this philosophy into current political affairs. The result was that this new age pro-market philosophy packed with optimistic intentions was adapted by Chilean society, but seemingly with a twist. During the 1980's the term became much more popular but its definition reflecting that of a radical market fundamentalist approach. The shift of the definition seems to point to the association of the word to Pinochet's economic reforms in Chile and other surrounding countries (Boas & Gans-Morse, p.147-151, 2009). The shift in meaning can be observed in this quote by Eduardo Silva:

“First, the draconian nature of the stabilization measures and the speed and thoroughness of the market liberalization were without parallel in the recent history of Chile or Latin America. Second, the policies were intended to set in motion a sweeping transformation of the Chilean economy. Neoliberalism in Chile was also radical in its insensitivity to adversely affected economic sectors, including many capitalists and landowners (Silva, p.97, 1996).”

For the purposes of this paper we shall utilize the negatively charged definition of neoliberalism that is most commonly associated with Chile and radical forms of free-market economics.

Before 1973 Chile had been recognized as a beacon of democracy and political stability within Latin America. Salvador Allende, a socialist leaning President of the time was overthrown by a coup led by Augusto Pinochet. Later it was revealed that the military backing Pinochet was unofficially endorsed by President Nixon and the CIA. These American forces worked to spread opposition and discontent against the current regime (Herrera, 1998). This military government was not trained to manage a country, and so they handed over the reins of managing the country to the business community which also had supported the coup. Upon taking the advice of corporations this new government quickly formed new laws and began reconstructing the Chilean constitution. The constitution that was put into place in 1980 provided corporations an

increased amount of economic and political freedom and flexibility and was argued that these changes would ensure 'economic growth and political stability' (Anderson, 2000). After the coup much of the world shunned Chile for human rights violations and opening up the country to FDI was seen as a way of reaching out to gain international acceptance. These modifications were successful and over time Chile greatly increased their economic growth at an average of 6 to 7 percent annually. Although this growth occurred as a result of the exploitation of natural resources, low wages and an unequal distribution of wealth. To attract FDI the government changed both mining and water codes. Decree 600 attracted large investments by allowing companies to own water rights at the expense of local communities. Many local farmers were forced to abandon their lands and agricultural activities in small communities were reduced. In regards to the forest sector the government put into place Decree 701 which subsidized 75-90% of company costs and completely freed them of paying taxes. Forest substitution practices have been adapted by these big farming companies who also receive 96% of the subsidies leaving local farmers with a measly 4%. Chilean forest production increased by 1600% as a result of these policy changes, and according to the Central Bank if policies remain Chile's native forests could be obliterated by the year 2025. Although the country of Chile has benefited from growth economically and politically from an international perspective, social costs have also been high. "Our poverty rate grew from 20 percent of the population in 1970 to 40 percent in 1985. Today, after 13 years of 6 to 7 percent annual growth, almost 30 percent of the Chilean population (about 4 million people) still struggles at the poverty level. And poverty today is not because of the lack of jobs, since the unemployment rate is only 5 to 6 percent. The poor have jobs, but they have very low-paying jobs (Anderson, 2000)." It seems clear that huge gains for the

country of Chile have been made economically in the spirit of neo-liberalism, but these have not rewarded the working class in the same way.

Cameron and Hershberg argue that inequality within the liberal strategy “is the result of differences in the assets of individuals and that the full functioning of market mechanisms is the best means by which to reduce such inequalities while stimulating actors to be productive, which would lead to the growth of wealth generated for the benefit of the whole of society (p.175, 2010).” Chile has implemented a number of equalization strategies including; AUGE (universal access with explicit guarantees), Chile Grows With You, pensions reform (2008, Bachelet), subsidy to low-income students, Chile Solidario, fiscal responsibility light tax reform, educational vouchers, pensions reform (Lagos), privatization of public services, and labor-market liberalization. The Chile Solidario program attempted to reduce poverty by providing cash transfers, psychosocial support, personalized attention, and extended coverage to 250,000 families (Cameron & Hershberg, p.178). They also reformed the pensions system by connecting performance levels to pensions. Education vouchers were distributed a means of creating more competition between schools. Education incentives created in the name of competition are reminiscent of the neoliberal environment experienced in the West. The labor market began to define school objectives, whose mission was to provide industry with human capital. “The role of the citizen within this milieu became one of political conformity rather than political engagement since the neo-liberal social structure was dictated almost entirely by market logic (Hyslop-Margison & Sears, p.2, 2006).” Social initiatives implemented throughout Chile did spur economic growth and a reduction in poverty but the problem of inequality still remains. Chile has a Gini coefficient of 0.57 making it one of the most unequal countries in all of Latin

America (Cameron & Hershberg, p. 179, 2010). So this idea of neo-liberalism as a means to reducing inequality seems like somewhat of a myth. The modern day neoliberalistic mentality is more about making the numbers look good on paper than ensuring the well being of people.

Neoliberal policies adapted by the Chilean government throughout the 1980's and 1990's have failed to produce 'equitable prosperity' or 'widespread poverty reduction'. Over the last two decades the ruling class has adopted policies with the intention of reducing the state's role within the economy. In the early years of this policy reformation streak the reformers assumed that the market was the answer to reducing poverty. Although today it is becoming apparent that there is a need for the creation of targeted programs managed by the state for the inclusion of current excluded community groups. But the neoliberal opposition that dominates the political landscape still perceives the minimalist form of democracy as being a decisive force for stability within economic growth. Assuming that the market eliminates poverty the neoliberals believe that social programmes should be limited. Neoliberalist policies also tend to focus on individuals and families instead of communities because there is an underlying belief that this is a more efficient practice and provides more support for macro-economic stability. Today there exists two competing perspectives within Chile, the neoliberalistic free-market approach and the growing community development approach that focuses more on the internal needs of the country.

The community development perspective views neoliberal ideas of democracy and current policy creation practices as inadequate. "It defines democracy in terms of citizen impact and policy outcome that improves people's lives. Furthermore, participation in policy design

and monitoring must occur on the part of both poverty-oriented organizations and the citizens of poor communities (Tiechman, p.69, 2009).” Here the poor must take part in the process of the formation of policies as it is only they who have the necessary local knowledge required to influence policies in their favor and that will achieve the highest impact. Poverty within the community development perspective is also viewed not only in terms of income, but is also ‘shaped by local contexts’. In this view the state must take part in improving social welfare especially in regards to negative impacts exerted on the people by free-market economics. A general theme within this perspective is its focus on social cohesion and community building. The neoliberalistic approach of avoiding social welfare projects that cater to the community and only to individuals within society seems counterintuitive. It is almost as if it is engineered as a front to give the impression that the state is assisting its citizens in terms of social welfare, but by doing so in such a separatist way can only result in the prevention of community building and a stronger Chilean working class (Tiechman, p.67-69, 2009).

The steady increases in Chile’s economic growth rates have continued to influence politicians and policy makers to hold strong to their neoliberalistic tendencies. Chile’s government is structured such that most of the power resides in the state executive branch including the presidency and finance ministry, while congress lacks much influence. This structure systematically prevents participation, facilitating a ‘closed policy process.’ According to law the Finance Ministry holds ultimate power regarding anything pertaining to budget, which as a result puts the Finance Ministry in a position absolute power regarding public policy making. Congress lacking much deciding power only retains the ability to ‘approve or decrease expenditures’ lacking the ability to ‘increase or redistribute them.’ The neoliberalistic

conception that all policies brought forth should first and foremost support the market is apparent within the construction of this governmental system (Teichman, p.67-70, 2009).

Throughout the 90's and without much success the people of Chile lobbied for increased protection for workers and better health care. "One study of citizen participation suggests that Chilean citizens have been ever more excluded from the political arena and access to political power, with both parties and social movements becoming increasingly sidelined by government (Tiechman, p.70, 2009)." In general government interactions with civil society groups have been less than ideal. President Lagos stopped the consultation process of health policy on a whim leaving civil society groups upset. Many complain that congress dismisses anything they suggest. The Finance Ministry holds the stance that NGO's should have no part in policy planning as they are generally run by those outside the country and as such should have no influence. As concerns about government response to civil society grew throughout the 1990's the government reacted to the problem by taking out a loan from Inter-American Development Bank intended to assist in strengthening civil society. This move was different and many in the civil society sector were excited that they were at last getting the opportunity to participate and be heard. The loan provided funding for the establishment of a Citizen's Council intended to improve citizen participation within the creation of public policies. But even this action did not change the Chilean government's pattern, the council was created and members voiced their opinions yet the government never acted upon any of the recommendations put forth. After this most of the members quit. Even President Michelle Bachelet fell short of providing the kind of participatory government the Chileans were so hungry for. In two of her major policy initiatives the government did not consult with civil society. On the pensions reform

policy, which provided funding for the elderly she worked with a neoliberal economist that had served under Pinochet's regime. During the policy reform of the Santiago transportation system Bachelet had assistance from a 'neoliberal think tank headed by her finance minister' who proposed to cut the bus system in half (Tiechman, p.70-72, 2009). Hector de Cristo, director of Chile's oldest poverty organization stated, "the worst humiliation of the poor in a long time (Vogler, 2007)."

Poverty in Chile is greatest among its indigenous population, mostly prominently among the Mapuche, Aymara and the Colla. The Mapuche are seen as one of Chile's most unequal groups, as many of them live within shanty towns mostly surrounding Santiago (Agostini & Brown & Roman, p.1043, 2009). The population of the Mapuche people is 700,000 which make up 4% of Chile's total population. Over the years Mapuche territory has been stolen by different governments and they are now demanding something in return. Much of their land has been turned into large scale plantations producing commercial pine and eucalyptus trees, many of them being FDI and receiving tax breaks and subsidies from the government. The Mapuche people have participated in many protests including the torching of forests and destruction of farm equipment. The loss of their territory has caused many health problems especially in the area of psychological health. During Bachelet's term not much was done to counter the extreme poverty rates seen in the Chilean indigenous community. More than 32% of indigenous Chileans live below the poverty line, as compared to 20% of the non-indigenous population of the country. There are increased rates of death and spread of disease within the Mapuche population as compared with the general Chilean population as well. In 2006 the Imperial Intercultural Hospital opened to cater to this large urban population of Mapuche natives.

Although there still seems to be debate as to whether or not it is catering enough to the Mapuche way, that is still to be seen (Moloney, 2010).

“Some have described contemporary political systems not as democracy plain and simple but as *democracia con apellidos* –democracy with last names (“last names” refers to the adjective, which in Spanish follows the noun). In Chile it is not uncommon to hear the current system described as *democracia restringida* (restricted democracy), *democracia copular* (elite democracy), *democracia lite* (low-fat democracy), and *democracia entre comillas* (democracy in quotation marks). By speaking of *democracia con apellido*, Chileans were in part calling into question the democratic character of the new political institutions (Paley, p.3, 2001).”

After the regime change in Chile existed non-elected senators, continued military influence, a constitution previously constructed by their past dictator, and electoral rules that favored Pinochet’s followers. With these variables in place it seems that a transition into a democratic government would be very difficult. For regular people “democracy focused not on elections and political regimes but on the influence of ordinary people and organized community groups could bring to bear on the decisions that affected their lives (Paley, p.4, 2001).” Chile’s transition into neoliberalism has been more about global economic and political gains driven by capitalism and power, and continues to overlook is the well being of their people.

It seems that the relationship between democracy and free market economics has been very carefully constructed by U.S. foreign policy makers and Latin American politicians. During

the 80's and 90's many Latin Americans were acquiring the right vote within their countries, although they generally lacked the ability to influence the adoption of new public policies. "By the 80's and 1990s, these countries' economic frameworks were largely determined not by citizens but by employees of multinational corporations, experts within financial institutions, or staff of transnational lending bodies such as the International Monetary Fund.... At the very moment when countries regained democratic political institutions, key decisions about public life and the economy had moved outside the ambit of elections, beyond the reach of the electorate-indeed, beyond the reach of the nation-state. Elections may have been heralded as the sign democracy, but in the context of neoliberal economics, they had largely been emptied of democratic force (Paley, p.4, 2001)." It is sad to say, but until the political elite of Chile and other similar Latin American countries begin to care more about their people it seems that this neoliberal market driven approach will continue to dominate the realm of policy creation and prevent social growth required to empower people within society. It is apparent that the flow of money within Chile is dominantly being directed into the pocket books of foreign investors, corporations, and the political elite. The government has been hindering the development of policies that would advance and empower those of the working class. The neoliberal system seems to require society to stay as it is and without much growth, it will be up to the people to change the status quo by force.

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