

CHILE THE LEGACY OF DICTATORSHIP AND THE CONSTRUCTION OF DEMOCRACY

by Sergio Bitar

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The Central Question

Chile lives today at a crossroads. Glimpsing the future is difficult when long and short term processes are interwoven, as are favourable and unfavourable socio-economic phenomena. Today's Chile is an ambiguous case. The opposition won a plebiscite mandated by a constitution which the dictatorship designed to perpetuate itself. The opposition fought the dictatorship but had to negotiate with it and accept (even if implicitly) its norms. The opposition won

the 1989 presidential elections, but the new president will be subject to critical institutional restrictions which will be difficult to remove in a congress where the pro-Pinochet forces veto power. The transition did not result from an opening from within the regime, nor was the dictatorship swept away from outside. One can observe in Chile elements of the transitions in Argentina, Uruguay, Brazil and Spain. Chile is an ambiguous case.

The central question after Pinochet's authoritarian period is how to open the

political system and democratize the economy, while simultaneously channeling social demands and assuring stable growth. There will be inevitable turbulences; abuse has been overwhelming and will not disappear with the stroke of a pen. The question is which are the principal negative consequences of the dictatorship and how can they be repaired; how to give way to a participatory scheme with social justice, avoiding economic dislocations that are difficult to control and which undermine political stability.

Two Fundamental Propositions

The current situation leads us to formulate two fundamental propositions. First, favourable conditions exist in Chile for the creation of a new democratic institutionality which can ensure an expansive and stable economic process. Second, while the current economic model will not be maintained, radical changes are not likely to take place. Instead, a progressive process of reforms will occur.

These statements assume a democratic political consensus, that is, a basic agreement to create a new institutionality and strengthen a broad socio-political alliance which can provide "governability" for a prolonged period of time. It also assumes the pre-eminence of the programmatic over the ideological, allowing for essential changes, but taking into consideration the necessary gradualness to assure macroeconomic balances.

A program of this nature requires, in my judgement, a political understanding of the center left, uniting primarily Christian Democrats and Socialists. An understanding between sectors of the center with groups linked to Pinochet's government could threaten long-term stability. Today this is unlikely, but not impossible.

This paper discusses the economic legacy of the Chilean dictatorship. I do so in light of the future, as I believe one must evaluate the past and its consequences in order to contribute to the construction of a democratic society.

The sixteen-year period of military rule was characterized by extreme rigidity in political life and the implementation of a free market, neo-liberal economic model. The effects of this combination have been profound, as structural modifications have taken place in Chilean society. During the authoritarian period, repression and political rigidity assured order, but generated sentiments of frustration, passivity and anger. They permitted the imposition of a new political and economic order; nevertheless, this institutional order was disputed and lacked legitimacy. In turn, the new economic model produced a partial modernization but also created strong inequalities.

There is less bureaucracy and more entrepreneurship, fewer strikes and more discipline and work output. But there is also fear. Even the dominant sectors feel insecurity. Among wide sectors of the population there is fear and a thirst for justice, for human, economic and political rights.

The dictatorship left, then, a mixed legacy.

Comparing Initial Conditions

Four phenomena have, in various measures, obstructed democracy and economic stability in other Latin American countries, but do not seem likely to occur with the same intensity in a post-Pinochet Chile: narcotrafficking, armed struggle, military *caudillismo* and high inflation.

Narcotrafficking has not been a serious problem and the country is outside the principal lines of circulation, except for the northern border. Neither the uncontrolled economic effects, nor

inflation rates and were forced to implement drastic stabilization programs. Inevitably these programs cause tension among various social sectors because of changes in the distribution of income and in relative prices. In Chile, the problem is different. Since low inflation rates were associated with repressive measures which will have to end, the question now is how to make changes in income distribution without activating inflation.

Is a Smooth Transition Realistic?

It seemed clear by 1989 and early 1990 that a smooth transition to democracy

level of exports will tend to decline. In 1989 imports increased at a pace which cannot be sustained. Privatizations will not continue, nor will the stock exchange maintain the reckless increases of recent years. The infrastructure of roads, railroads, harbours, irrigation and other facilities are used to capacity. Therefore, any additional pressures might capsize a relatively fragile economy.

Certainly the economic program of the new government is not confrontational, but its goals of sustained growth and income redistribution will generate political tensions. There will not be, therefore, a smooth transition.

The inheritance from the dictatorship is very heavy. Its negative effects can be observed in three principal areas: (1) inequality, with the risk of a social explosion; (2) fragility of the productive base necessary to sustain growth; and (3) weakness of institutions necessary to channel social aspirations and to materialize expansionary policies.

Could there be a Social Explosion?

Today an "explosion" is a remote possibility. Nevertheless, tensions exist of a magnitude which necessitate careful guidance or the overflow of demands might not be contained.

The dictatorship left a high concentration of economic power to a limited few in the private sector. This concentration is higher than in the past and occurs in a context in which the state's capacity for balancing such power has declined. The number of public enterprises has been

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the wake of corruption and crime are relevant factors in Chile. Although attentiveness is necessary in order to contain any advance, the limited importance of narcotrafficking represents a comparatively favourable factor for the Chilean future.

Armed struggle was not a significant element during the sixteen years of the dictatorship and will not be a factor in the transition, provided that political unity is maintained and that Pinochet will not instigate destabilization schemes. However, there are risks of violent actions or terrorism. Paramilitary groups of the extreme right may become autonomous and target the democratic government, but they can be contained in a democracy, and it is possible to foresee a future without terrorism.

The more risky formulation is to be bet on the inexistence of military *caudillismo* in post-Pinochet Chile. I think, nevertheless, that the hierarchical nature of the armed forces, which served to introduce a violent dictatorship without visible cracks within its ranks, is still intact and ensures that the institutional turn to democracy will be without insubordination. The risks of *caudillismo* and coups exist, but they will be less significant than in Argentina, which has a tradition of factionalism within the armed forces.

There is, moreover, a fourth element favourable to democracy: comparatively low rates inflation. Democratic governments in Brazil, Argentina and Uruguay inherited from their dictatorships high

was indeed possible. In circles close to the Pinochet government as well as in some opposition media, there is the perception that the economy has been successful, that economic take-off is firm, and that it is possible to absorb the more pressing social demands. Accordingly, the only pending task would be to "complete" the political opening necessary to establish democracy.

The economic indicators of 1988 and 1989 sustain this perception: low inflation (14% in 1988, but a disconcerting 21% in 1989), high growth of the Gross National Product (6.8% in 1988 and almost 10% in 1989), an increase in real salaries (6.7% in 1988 and nearly 1% in 1989), high commercial surplus (US\$ 2200 million in 1988 and US\$ 1500 million in 1989), and a significant reduction in unemployment. There is also a perception of efficiency and stability. What better sign of stability, some say, that after Pinochet's defeat in the plebiscite the stock exchange dropped less than in the United States at the time of Bush's election, and that trading increased after the presidential election?

Nevertheless, 1988 and 1989 were uncommon years. They will be remembered by Pinochet partisans as "golden" years of economic improvement and political opening, but this situation cannot be repeated. External factors will not be maintained as they were in 1988 and 1989. The transfer of resources abroad will increase and external debt payments will rise considerably in 1991. The high

CHILE		
Real Wages and Gross National Product (Percentage Variation)		
	Real Wages (IGSS)	GNP
1984	0.3	6.3
1985	- 4.5	2.4
1986	2.0	5.7
1987	- 0.2	5.7
1988	6.7	6.8
1989*	0.5	10.0

*1989 figures are estimates.
Source: Índice General de Sueldos y Salarios, Instituto Nacional de Estadísticas, and Producto Geográfico Bruto, Banco Central de Chile.

considerably reduced. The concentration of property and wealth in private hands accentuates inequality and cons-

titutes a base of considerable political power that could obstruct the decisions of a democratic government. Such a concentration of economic power originated not because of technical necessity, but merely because of a centralization of financial resources, which rapidly accumulated in few hands. The level of concentration has increased further with the indiscriminate exchange of debt.

lation, for its part, discriminates against workers in ways that must be ended.

The middle class has also lost economic power. Part of it was integrated into the "modern sectors." The rest has remained stagnant, without means of upward mobility through either employment or education.

Also to be considered is the insensitivity of an elite accustomed to the

The Fiscal Blockade

The scarce availability of fiscal resources, deliberately provoked by the dictatorship, poses important obstacles for solving the key issue of inequality.

The dictatorship reduced tax rates (value-added tax, business and personal income tax, smaller tariffs), taking advantage of sources of temporary income (the sale of assets) in order to reduce sources of permanent income (taxes). However, the income originating from the sale of public enterprises will end. Room for maneuvering is limited, as the dictatorship sought to tie the hands of the new democratic government. "Modernization" is unlikely to spread to the entire social body, and the overall economic tendency indicates that tensions due to inequality will not be easily solved.

Income redistribution requires tax modifications and other measures whose political implementation will create tensions, especially if populist measures are avoided and macroeconomic balances as well as low inflation rates are maintained. It is therefore important to cultivate confidence in the economy by placing emphasis on health, housing and education improvements, rather than concentrating exclusively on increases in wages and salaries.

Should current constraints be underestimated, the image could spread of an inefficient democracy, and many individuals may refer to the "kindness" of the dictatorship, particularly during the last Pinochet years. A segment of the political right may use this issue to call for military intervention.

A program of this nature requires, a political understanding of the center left, uniting primarily Christian Democrats and Socialists.

Also remaining is the ballast of a greater inequality of incomes than in the past. The indicators are abundant. Despite the economic improvement which has occurred since 1984 (after the abrupt fall of 1982-83), real salaries have grown only slightly, and in 1988 were still 7.5% below those of 1981, according to the National Institute of Statistics. Food consumption per capita has also dropped as has that of calorie and protein intake.¹ In 1987 the minimum wage was 44% lower than the average in 1981 and 1982.

The housing deficit has grown and the number of inhabitants per room or house has risen, resulting in the problem of the "allegados" (long-term residence of relatives or friends) which never before existed to such a magnitude. The national health system has been basically dismantled, leaving nearly 80% of the population in lamentable conditions, with very low quality of medical attention. Primary school enrolment has dropped. The social expenditure for health, education and housing is less than in the past and this has occurred together with a spectacular increase in unemployment between 1981 and 1987.

These realities are accompanied by memories of a better time.² It is not an exaggeration to speak of two Chiles. An important group is economically and politically marginalized and feels itself so, while a minority believes that Chile resembles a developed country.³ Quality of life indicators reveal abysmal differences among the different districts of Chile's capital, Santiago, in terms of health, education, telephones per capita, and municipal expenditures. The "erradications" of shantytowns have also created a physical segregation.⁴ Labour legis-

dictatorship, distrustful of democracy, and which sees its privileges at risk. Their static concept of national "security" carries them to rigid positions and has turned them into supporters if not instigators of repressive actions.

Something more inaccessible for analysis is the reaction against abuse and exploitation, and the pressure to recover dignity. One should not underestimate the power of such feelings on the part of large segments of the population.

Certainly all of these factors do not lead on their own to a social explosion. Poverty and inequality are not enough, nor even consciousness of them, to cause a social explosion. One consideration is the level of disorganization among dispossessed groups. For example, trade unions, which included nearly 35% of the work force in 1973, only affiliated about 12% in 1988. In addition, the occupational structure changed during this period, increasing the number of informal, temporary and unemployed workers. Many workers have little or no connection with others, and lack distinct

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consciousness and interests. Second, and even more basic, fear of repression is intense and will remain for a prolonged period of time.

While these problems may change and fear dissipate under the new democratic government, social integration and consensus must be encouraged or the risk of a social explosion could be high.

In summary, there will not be a smooth transition and the potential for a social explosion remains. The dictatorship left a difficult legacy, but it is possible to move to democracy without major setbacks.

1984-88: Economic Miracle or Mere Recovery?

Partisans of the "Chicago model" proclaim the economic results of Pino-

chet's last years as extremely successful and evidencing a "take-off" stage. For some, Chile could become the Korea of Latin America's Southern Cone. Undoubtedly, there are some advantageous features in the model. Three trends favourable to dynamic growth which should be consolidated and improved deserve particular mention. The first is the important structural transformation of the agricultural sector, where a new mode of exploitation has emerged which is agile, innovative and with the capacity for expansion. The second trend is the rapid increase of exports. In 1988, these reached nearly 37% of the GNP while copper exports amounted to only 45% of the total. This represents an important diversification with respect to the past. Businesses are adjusting well to the demands of the external market. The third change is a greater inclination of many Chileans to engage in independent entrepreneurial activity, reducing the traditional demand for administrative jobs in the public sector.

take-off, because the simple extrapolation of the current scheme presents weaknesses that limit the expansionary potential in the medium term. The negative effects of the dictatorship's legacy are apparent in the following areas:

(1) The rate of investment has been lower than the historical rate. An accumulated investment deficit exists. This result is surprising, for it occurred despite conditions of political safety offered by Pinochet to large enterprises, to the enormous concentration of income, and to foreign capital in the form of generous concessions. The reduction of public investment explains part of this result. The national infrastructure of roads, railroads, bridges, energy and irrigated land finds itself overextended and insufficient.

(2) Technological development has been meager, due in large measure to a simplistic conception of the "free market" model which fails to address the need for technological innovation. There

often superficial. Train ticket sales are computerized, but the cars and equipment are obsolete and inefficient. One could just as well speak of a "window dressing modernization."

(3) Education has been neglected. Higher education enrolment for Chileans between 19 and 24 years of age was lower in 1987 than in 1970. There is less research than in the past, affecting the universities' academic quality. A very high percentage of youth remains outside of productive activity, suffering high rates of unemployment. All of these factors have damaged human capital as a factor of growth.

A New Export Stage

Although the level of exports has been high, the current emphasis on natural resource exports is a structural aspect detrimental to future growth. In addition, exporting is concentrated in few, generally foreign-owned, enterprises.⁷ Chile has exhausted the "easy" stage of exporting. Now it should initiate the second, more difficult stage, with greater emphasis on processing, manufacturing and services, in order to achieve an export structure more similar to that of South-east Asia.

In order to achieve this new phase, the country must overcome the three previously mentioned weaknesses in the areas of investment, technology and education. It must also overcome the anti-state, anti-planning and anti-cooperative phobia that characterized Pinochet's economic policy.

This new export phase will not be arrived at automatically, with more market mechanisms, nor by relying on the inertia of the current model. New institutions and policies are required, along with an increase in the rate of public and private investment, plans for sectoral investment, regional agreements, etc.

The democratic forces will also need to confront another delicate problem: an excessive level of military expenditures which is not compatible with an increase in investment and an attack on poverty.

Nevertheless, it would be superficial to focus only on the above. During the entire authoritarian period, growth, seen in perspective, was actually poor and below the Latin America average. Between 1974 and 1987 the GNP grew at an average rate of 1.7% according to CIEPLAN figures and 2.5% according to official figures.⁵ According to ECLA, the Chilean growth rate was 2.3% in the period 1974-87 and 2.6% between 1974-88, while that of Latin America was 3.1% and 2.9% for equal intervals (in 1980 dollars). Between basically those same years, 1974 and 1989, per capita GDP had a very low annual increase of just 1%.

In truth, the real acceleration of growth started in 1984, after the fall in GNP in 1982-83 (-15%). The key question is whether six years of growth (1984-89) represent the beginning of a new expansionary phase, a permanent take-off, or a recovery after the fall.

In my judgement, these years do not constitute a real take-off, nor can they be interpreted as mere recovery. It is not

has been improvement in the quality of entrepreneurial management in many businesses, but not in the capacity for productive and technical innovation. This insufficiency constitutes an impediment for future expansion.

Dictatorial discourse has highlighted the regime's presumed modernizing success. However, that success is limited to financial and agricultural activities, and extends only to certain socio-economic groups, while leaving grave consequences in other sectors. For example, the number of temporary workers in agriculture increased from 198,000 in 1975 to 300,000 in 1987.⁶ While there is indeed modernization in some areas, it is

CHILE
Production, Consumption, Investment
(% GNP, 1981)

	1980	1981	1982	1983	1984	1985	1986	1987
GNP per capita	96.3	100.0	84.5	82.5	86.2	86.8	90.2	93.8
Consumption per capita	79.7	85.3	74.9	71.4	71.1	69.2	70.7	72.1
Formation of fixed capital	17.0	19.5	12.7	10.6	11.4	12.8	13.5	15.4
Net transfer of funds	4.1	12.4	1.3	-2.8	0.3	-2.9	-3.6	-2.9

Source: Banco Central, Instituto Nacional de Estadísticas, and Ricardo French-Davis "Adjustment and Conditionality in Chile," Draft. CIEPLAN, October 1988.

The current concentration of investment in the hands of a few economic groups entails important risks. Pinochet placed the bulk of decision-making in the hands of few national and foreign conglomerates, further accentuating this tendency in the last few years through debt-equity swaps. Simultaneously he reduced public sector investment. In this way, he made the fate of the coming years depend upon the political sensitivities of a small group of individuals.

External Indebtedness of the Dictatorship

The burden of the external debt represents another major legacy of the authoritarian period. In fact, the Chilean debt burden achieved two Latin American records:

(1) The greatest private sector indebtedness (nearly 70%), which was massively transferred into the public sector. Not surprisingly, the proportion of debt destined for investment was minimal and lower than the Latin American average.

(2) One of the highest levels of indebtedness in the region, in relation to GNP (surpassing 100%). After the massive debt for equity swaps it continued to be approximately 70% in 1989.

The authoritarian legacy in the area of production, added to economic and social inequality, represents significant obstacles for the future. It is much more difficult to change the productive structure while reducing inequalities under democracy, than to grow as the dictatorship did, regardless of human cost.

Managing the Transition

The dictatorship bequeathed a legacy of economic, political and social exclusion unlike anything Chile had ever known. Today a demand for social integration exists, and the pressures for participation will increase. The high rates of unemployment, underemployment and temporary work caused the exclusion of large segments of the society, and also inhibited their ability to articulate social demands. Young people have been special victims of the exclusion, and, as a consequence, have lost a sense of belonging. The evolution from a situation of social exclusion with subordination, to integration with participation is of the utmost priority. Nevertheless, changes

in this regard take time. Moreover, a state weakened in its economic capacity is incapable of responding to all demands. Therefore, various steps are required to reorganize and strengthen the state.

A fundamental step is decentralization. Development of local power, reinforcement of the capacity for regional decisions, the election of neighbourhood councils and of other municipal organizations is necessary. Democratization of the base at the communal level is indispensable, along with the decentralization of financial resources. The dictatorship imposed a decentralized institutional framework which has operated as an instrument of control, not as a vehicle of participation. It is possible, however, to use the framework, altering its content.

Another required change is the promotion of cooperation among workers and entrepreneurs in order to negotiate improvements in living standards and a better distribution of economic benefits. In order to achieve this goal it is necessary to correct the grave powerlessness of the workers. The state might be able to establish minimum salaries and pensions and to improve health, education and living conditions, but it will not be in a position to implement a global income policy. Therefore, workers and employers have an important space for negotiation in this regard, but one that requires relative strength on both sides. Cooperation between labour and business will also need to focus on medium range goals such as improved productivity, increased investment, provision of and access to personnel training, and greater participation in decision-making bodies of companies, pension administration and intermediate organizations.

A third change, essential for the process of social and economic integration, is reinforcement of the state's capacity to regulate the economy in areas where the free market model has created serious distortions. To encourage the redistribution of income, control of economic and financial groups, agreements between various social sectors, technological research, selective investment, etc, it is necessary to endow the state apparatus with the instruments it is lacking today.

This temporary gap between governmental tasks and available instruments and institutions should be seriously contemplated in order to avoid breakdowns and frustrations on the part of large segments of the population.

The Armed Forces and Economic Changes

Finally, there remains an important question about the future involvement of the armed forces in the economic arena.

One of the least explained aspects of the dictatorial experience is why the armed forces accepted an economic model that involved a sharp reduction in the role of the state, a concentration of wealth, and increased foreign ownership. There was opposition to the model by some officers, but it was weak and ineffective.

Two hypotheses can be formulated to forecast their future action. The first is that the armed forces had no economic model of their own and accepted that of the "Chicago Boys" as simply an additional military order. The corollary is that they still lack a model and, for that reason, will not oppose the policies adopted by the new democratic government.

The second hypothesis is that in the last sixteen years a process of "ideologization" took place among the officers in the economic sphere. They still look favourably upon the policies of the "Chicago Boys." In addition, they have acquired experience in the exercise of political power and believe that they should participate more actively in extra-military functions. One can conclude from this that the armed forces will be an element opposed to change.

I am inclined toward the first hypothesis, without totally discarding the second. In any case, democratic forces will have to overcome extant "Chicago" economic conceptions. For that to happen, a coherent linkage must be established between the new economic orientations and modern concepts of security in a democracy.

The democratic forces will also need to confront another delicate problem: an excessive level of military expenditures which is not compatible with an increase in investment and an attack on poverty.

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Conclusion

With the end of Pinochet's government, a long cycle of ideological governments came to an end. Current evidence also suggests that the phase of global models for social and economic change has ended, and we will move toward a

more eclectic and pragmatic approach. The construction of a new democratic institutionality has first priority, and economic policy should be subordinate to that objective.

The dictatorial legacy leaves enormous obstacles. But a base of support also exists that permits the initiation of a

democratic consolidation process. This process faces numerous difficulties, and thus political and strategic consensus among the principal political forces is essential. An agreement is indispensable in order to enhance the credibility of the economic efficiency of democracy, and to advance democracy's legitimacy, so damaged by Pinochet's propaganda.

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The first years are critical, and in that brief period, the viability of a successful democratic transition will be largely determined.

Notes:

1. J. Echeñique, *La agricultura chilena*, Santiago, 1988.
2. A poll conducted in April of 1988 revealed the following situation:
Question:
Which social group has been most favoured during the last 15 years?
Answer:

The rich and the military	83%
The poor	14%
Middle class	3%
3. Joaquín Lavín, *La revolución silenciosa*, Santiago, 1988.
4. Eugenio Tironi, *Los silencios de la revolución*, Santiago, 1988.
5. Ricardo French-Davis, *Chile en el umbral de los 90*, Santiago, 1988.
6. J. Echeñique, *op. cit.*
7. C. Ominami y R. Madrid, *La inserción de Chile en los mercados internacionales*, Santiago, 1988.