



## Neoliberalism as a capitalist revolution in Chile: Antecedents and irreversibility

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### Abstract:

*This essay offers a historical perspective on the economic reforms carried out by the Chilean civic-military dictatorship that governed the country between 1973 and 1990. The regime applied some of the earliest and most extensive neoliberal reforms in Latin America, which included labor flexibilization, the end to agrarian reform, capitalization of the countryside, and privatization of public enterprises in almost all sectors, including pension funds, healthcare and education. Unlike the rest of Latin America, after the mid-1980s these reforms produced high growth, although they generated economic inequality and the concentration of wealth. The reforms must be understood in the context of the ideological polarization of the Cold War, which meshed with an internal conflict between views favoring the free market on the one hand and state intervention on the other. This conflict grew after the Depression of 1929 until it could no longer be contained within Chile's frustrating political and administrative system.*

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The civic-military dictatorship that governed Chile between 1973 and 1990 applied one of the most comprehensive neoliberal reform packages in Latin America, which emphasized labor flexibilization, the end to agrarian reform, capitalization of the countryside, and privatization of public enterprises in almost all sectors, including pension funds, healthcare and education. Unlike the rest of Latin America, after the mid-1980s these reforms produced high growth, although they generated economic inequality and the concentration of wealth. Implemented by repressive means, the reforms produced unemployment, deindustrialization, low growth, and inflation, leading observers to describe them with such terms as "experiment", "failure," and "laboratory" (Meller, 1983; García and Wells, 1983; Edwards and Cox, 2002). Pilar Vergara, however, ultimately characterized the regime as "revolutionary" for having set in motion "a project of global restructuring that breaks violently with the tradition of Chilean society, both at the level of economic relations and in the nature of the State, and, even, in terms of predominant ideological-cultural conceptions" (Vergara, 1982, p. 413). As the regime entered a second phase, it implemented structural economic

\* Where not otherwise noted, all translations are our own.



reforms that civilian forces, after the 1929 Depression, had not been able to achieve within a democratic context (Ffrench-Davis, 2002; Silva, 1996; Meller, 2000).

The efforts described above formed part of a violent exercise in obstacle removal, which began with the overthrow of the socialist government of Salvador Allende on September 11, 1973, and was followed by extensive human rights violations, a five-year state of siege, a 14-year curfew, and 15 years of electoral suppression, in addition to military intervention in universities that resulted in the dismissal of dissenting professors and the censorship of scholarship critical of the reforms. Although this civic-military regime, headed by general Augusto Pinochet (1973-90), was one of many anti-communist security regimes at the time, it did not return the copper mines nor the telephone companies to the very US corporations that had supported the coup financially (Soto and Villegas, 1999). At the same time, Pinochet sold a large part of the confiscated banks and industries to entrepreneurs and returned some of the reformed land (Vylder, 1989, p. 57). Meanwhile, the 1971 nationalization of copper, achieved thanks to a long political negotiation, begun in the late 1960s, was not reversed, and copper resources were instead used for military expenditures at a time of economic crisis. Ultimately, the concentration of power in the figure of Pinochet allowed for market decentralization to replace an economic model in use since the 1930s that emphasized industrialization, protectionism, and social mobility (Sigmund, 1982; Spooner, 1994; Barros, 2001). Ultimately, the regime established one of the most comprehensive neoliberal economic models in the world (Kurtz, 1999, pp. 399-402) - what Gárate (2012) has characterized as a “capitalist revolution” - which only deepened after 1990, producing irreversible, structural change.

How did this irreversible capitalist revolution come about? For authors such as Markoff and Montecinos (1994), “right-wing economists waited for their time until Pinochet’s coup, when they offered their knowledge to military leaders lacking economic thought of their own” (p. 21) According to Valdés (1995), the military did not have a clear project nor its own advisors, except for the navy which maintained a close relationship with liberal economists. Huneus (2000, p. 59) suggests that the military fell into power because of the collapse of democracy, which explains why “the military only contributed the doctrine of national security”. Clodomiro Almeyda, a socialist leader and former defense minister of the Allende government, pointed out that the Chilean military lacked a consistent developmentalist ideology and that the vacuum was filled “under the inspiration of the Chicago School’s neoliberalism” (Almeyda, 1987, p. 108). Finally, Hobsbawm (1994), in locating the Chilean case in the global history of the 20th century, noted that the dictatorship had allowed American advisers to establish an unrestricted free market economy.

In this regard, the present essay studies the internal path of polarization of the plans, policies and economic models that interacted with the ideological polarization of the Cold War, resulting in a hard confrontation between the positions in favor of free market and those of state intervention in the economy long before 1973, moving from the local to increasingly international linkages, and which contrasted within a frustrating political and administrative system that only processed changes slowly. Since 1970, the path gave way to an accelerated and radical process of change, which went from outright questioning of private property to a capitalist revolution. In this sense, although in general terms Gárate’s (2012) thesis of capitalist revolution after the military coup of 1973 is accurate, the approach in this essay suggests that it began to take shape much earlier and that it required both authoritarian and democratic phases to establish and consolidate itself.

## 1. Neoliberalism as the end of a cycle of economic and social debate in Chile

In 1973 a long historical process of economic intervention by the Chilean state came to an end – an intervention that had been used to diversify the productive structure of the country, although without averting inequality, income concentration, and low growth (Ffrench-Davis and Muñoz, 1990, pp. 121-156; Salazar, 1992, pp. 97-118). Yet the year also witnessed the end of a long cycle of intellectual and political debate on the various models that aimed to solve these underlying problems. Especially relevant are the debates that began since 1948 with the installation in Santiago of the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), as part of both regional and Chilean debates that stimulated various academic and political responses.

In particular, in 1954 the ECLAC published a study on the main trends of the Chilean economy in the period 1925-1952 that was drafted by Aníbal Pinto Santa Cruz, a lawyer from the University of Chile with postgraduate studies in public finance at the London School of Economics who was one of the main intellectuals at ECLAC. The study highlighted the profound impact of the Depression of 1929 and the Second World War on an economy closely linked to international trade, but observed that after these external shocks the Chilean economy did not fully reintegrate with the global economy. The country was thus confronted with “the inescapable need to change its structure in order to continue growing” (ECLAC, 1954, p. 9). Pinto Santa Cruz (1959) published a book, *Chile, un caso de desarrollo frustrado* (“Chile, a case of frustrated development”) that is still influential and that raised several long-term dilemmas that would form part of the unleashing of the military and business coup of 1973. During the 19<sup>th</sup> century the country had had a strong international and commercial orientation without state interference, in line with the expectations of the classical liberal creed, although without a focus on capitalist development based on increases in productivity and productive diversification. Pinto criticized what at the time was presented as an “infallible panacea”: free trade. A second aspect noted by Pinto was the great contradiction between deficient economic expansion and the development of democracy; he stated that there was a contradiction that “will have to be broken either with a substantial expansion of productive capacity and a progress in the distribution of the social product, or by a frank attack against the conditions of democratic life that, in essence, are incompatible with a stagnant economy” (Pinto Santa Cruz, 1959, pp. 10-11). This was due to the fact that in the 1950s there was a strong inflationary process, industrialization based on import substitution showed signs of depletion, and there was stagnation in both agriculture and GDP per capita (Ffrench-Davis, 2018, pp. 281-282). By 1970, Pinto noted the persistent “relative advance of the social organization and of the institutional forms with respect to the changes at the level of the economic structure” (Pinto Santa Cruz, 1970, p. 5).

By the end of the 1990s, once the socialist experiment and the capitalist revolution were over, Norbert Lechner (1998, pp. 231-232) recognized that one of Pinto’s regressive alternatives had been met, that is, “the more or less violent containment of social pressures in order to ‘balance’ them with the material base”. The military force factor had been substantial and its possibility of participation was signaled in 1970 by the French sociologist Alain Joxe, who commented that interventions of the Chilean military in politics had been few but decisive in changing society and reshaping the state, although Joxe was referring to those that had taken place until the 1930s, adding that “a military intervention in Chile is equal to ten in other

countries: it is perfect. The political tranquility of the Chilean military comes from the lasting satisfaction that a work well done provides" (Joxe, 1970, p. 43).

## 2. The Cold War and the limits to the economic debate

The Depression of 1929 demonstrated the limits of an outwardly-oriented economy completely dependent on the export of commodities, and put on the table the need for structural changes to be achieved by greater state intervention and the promotion of industrialization. These had to be negotiated with the institutionalization of a relative majority that emphasized the preservation of institutional stability. By the 1950s, there had been an environment of economic and political stagnation, in which the process of change in Chile was characterized by the preservation of institutional stability rather than the promotion of social mobility and change (Martínez and Tironi, 1985, pp. 52-53). At an external level, the country had managed to establish a close economic link with the United States, which translated into large investments in mining and services, and established Chile as a solid supplier of raw materials; the country received, in return, resources but also increased pressure to adopt free trade policies.

This occurred in a regional framework in which American positions were confronting economic nationalism following the Inter-American Conference on the Problems of War and Peace ("Conference of Chapultepec") held in Mexico City in 1945 (Galindo, 2017). This situation continued throughout the Cold War (1948-90), a time of conflict between different theories of economic and social organization, which in Latin America led to a struggle within each state to define the future direction of its policies and its society, and a conflict between the two versions of modernity offered by socialism and capitalism (Westad, 2011, p. 10; Loth, 2011, p. 503). Chile became involved in that conflict despite a lack of strategic importance because the local political forces sought to participate "in the ideological debate, within the great framework of global confrontation" (Fernandois, 1998, pp. 152-153). Locally the issue was settled in 1948 with the installation in Santiago of the ECLAC and with the promulgation of the so-called "damned law" that outlawed the Chilean Communist Party (Huneus, 2009).

After the Allied victory, Chile sought to foster the autonomy of ideas and models by offering to be the headquarters of ECLAC, whose historical-structuralist proposals supported public policies of intervention in the economy – an approach rejected by the International Monetary Fund and the government of the United States, which were critical of any form of public dirigisme. The headquarters in Santiago became an important regional reference and stimulated a political and intellectual environment during the 1950s and 1960s, with debates among Latin American sociologists, political scientists, demographers, and economists (Brunner, 1999, pp. 72-77; Soares, 2001, pp. 129-130). In this context, the University of Chile (public and secular at the time; founded in 1842 by Andrés Bello) stood out with its various currents of thought inspired by the German historical school, the Keynesian school, structuralism, planning, and dependency (Martner, 1918, 1925; Will, 1964; Villalobos, 1981; Correa, 1997). Proof of this dynamism is that a program of economic history was initiated in its Institute of Economics in 1956, and then the Center for Economic and Social Studies (CESO) was created, which sought to develop a Marxist theory of dependency (Cárdenas, 2015). After

1973, the CESO was closed and the Institute suffered a political purge, as did the entire university system. However, even before 1973 enemies had surfaced and restrictions were proposed in the face of this turmoil.

### 3. Academic and political disputes at the end of the 1950s

A very important aspect at the time was the change taking place in the Chilean political and business right, which distanced itself from the state since both socialism and fascism had offered state solutions to the problems of production, accompanied by mass mobilization (Cristi and Ruiz, 1999, p. 84, 92). This stance converged with the criticism raised by Hayek (1944) in *The Road to Serfdom*, that identified tyranny with socialist policies and economic planning. Although at that time his postulates were still little known in Chile, they would later be disseminated under the civil-military regime, when Hayek himself visited Chile in 1977 and 1981 (Caldwell and Montes, 2015). Alongside this emergent ideological shift there were real problems in the Chilean economy: the high inflation that had increased from 17.3% in 1950-52 to 56.2% in 1953 and to 77.5% on average during the years 1954-55. In 1955 this problem led the government of general Carlos Ibáñez (1952-58), under pressure from big business, to hire the American economists Julius Klein and Julien Saks, who applied the first orthodox economic proposals of liberalization of the Chilean economy. The Klein-Saks mission proposed liberalizing foreign trade, prices, and markets for factors of production, privatizing state enterprises, substantially reforming the social security system, balancing public finances, rationalizing public spending, and imposing monetary discipline. These measures focused on monetary issues, managing to reduce inflation from 77.5% to 17.2% in 1957. However, they generated strong social protests and the contract with the American consultants was not renewed (Gárate, 2012, p. 102, 104; Lüders, 2012, pp. 3-5). Yet, their approach promoted some of the ideas and policies that would be developed later, following the neoliberal coup.

Thus, by the mid-1950s the Chilean economy witnessed an antagonistic confrontation between proposals emerging from monetarism and state dirigisme. Palma and Marcel (1990) discuss the reaction of the right and of employers to the redistributive ideas put forward by the Cambridge economist and renowned post-Keynesian Nicholas Kaldor, who was invited in 1956 to the ECLAC by Raúl Prebisch. In Santiago, Kaldor wrote an essay in which he questioned the distribution of income in Chile and the need to apply consumption taxes to higher incomes in order to increase the country's saving rate and limit the business class's excessive consumption habits. Despite the apparent openness to its main ideas, the study could not be published by ECLAC due to right-wing opposition – the same opposition that soon led to the presidency of engineer Jorge Alessandri Rodríguez (1958-64). It appeared in the magazine *El Trimestre Económico* in 1959 (Palma and Marcel, 1990, pp. 87-90), the same year that Pinto Santa Cruz published his *Chile, un caso de desarrollo frustrado*.

It was in this atmosphere of reaction to state interventionism that another change was effected, this time of an intellectual and professional order: The decision to form a new generation of economists. Its origins can be located in an agreement signed in March 1956 between the Pontificia Universidad Católica de Chile (PUC, founded in 1888 as a Catholic institution under the control of the Archbishopric of Santiago) and the University of Chicago, supported by the International Cooperation Administration (later known as USAID) (Valdés, 1995, p. 126). The PUC established a program in economics with postgraduate scholarships in

the United States that was adopted by the ecclesiastical authorities as it was “conservative from the point of view of its classical orthodoxy” (Baraona, 1994, p. 50). The arrangement stimulated increased visits by US professors to analyze the Chilean case, such as Arnold Harberger in 1956, a prominent professor at the University of Chicago, who criticized Chilean protectionism and the resistance rooted in the country to market solutions. He noted, “the belief that deindustrialization can really happen by making trade free is, in my opinion, the real reason why so many Chileans believe that protection is necessary” (Harberger, 2000, pp. 412-413). Meanwhile, Kaldor criticized the low savings rate of entrepreneurs and applied the recipes from the Klein-Saks mission. Another professor, Tom E. Davis from Cornell, paid attention to the internal conditions of capital accumulation during the 1960s, such as real wages, tax rates, the interest rate, and the impact of social security on capital formation, concluding that social security in Chile was a determining factor for the deficient accumulation of capital and job creation. According to Davis, a radical reform was unfeasible because of the deep-rooted culture of social pressure and political clientelism, making the problem unlikely to disappear peacefully (Salazar et al., 1999, p. 63).

This is how 1958 became a year of political confrontation between orthodox and heterodox diagnoses and measures, which featured prominently in competing presidential programs. That contest was won by the representative of the right, engineer Jorge Alessandri Rodríguez, who defeated the socialist candidate, doctor Salvador Allende of the Popular Action Front (FRAP), and the candidate of the Christian Democratic Party (PDC), the lawyer Eduardo Frei Montalva. Each candidate advocated opposing solutions to the same problems.

The PDC emerged as a third way between socialism and free trade capitalism, highlighting in its program the contributions of ECLAC economist and Harvard postgraduate Jorge Ahumada Corvalán, who in his 1958 *En vez de la miseria* (“Instead of misery”) pointed out the degree of structural crisis in Chile, marked by poverty and stagnation. He continued collaborating with the party until he managed to shape the program that would lead to the triumph of president Eduardo Frei (1964-70); he died in 1965, leaving behind a legacy of ideas developed by ECLAC (Urquidí, 1965). FRAP presented an economic program prepared by a group of economists and engineers trained at the University of Chile and linked to the ECLAC and to public bodies, influenced by a corpus of ideas with three sources: the productive development of the Chilean state since 1939, carried out by the Corporation for the promotion of production (CORFO); the structural approach of the ECLAC; and the state planning and industrialization of the socialist bloc (Fernández, 2015, pp. 171-172). This group held that the political system was the obstacle for the economic and social development of the country, posing a questioning of private property to generate massive redistribution and overcome the economic stagnation, since “the use of part of the resources has been anarchic and disorganized” (UA, p. 41). Finally, Alessandri’s winning program had been prepared by economists working in the business sector who, although they pointed to cross-cutting problems in the other programs, such as economic stagnation, low agricultural production, and the growth of bureaucracy, proposed as solutions to establish free competition led by private activity, to lower customs protection to have freedom of importing, the modernization of local industry, to lower costs, and to increase productivity. All this was not to be achieved through proposals such as that of regional integration put forward by the ECLAC, because it was thought to increase trade costs due to insufficient transport infrastructure and the low consumption capacity of the Latin American region. It was deemed better to promote ‘secure’ and ‘reciprocal’

markets (Alessandri, 1958, pp. 13, 14, 24-26), that is to say, trade with the United States, a secure buyer of Chilean commodities and a source of credit and technology.

#### **4. The Third Way of the political middle ground: planning and the entrepreneurial State**

At the end of the 1950s, a survey among Chilean businessmen showed favorable opinions regarding the role of the state in providing protection and incentives for industry without questioning private property. However, the need to manage debts with international organizations, particularly with the United States, increasingly demanded a framework of social transformations compatible with programs such as the Alliance for Progress, promoted since 1961 in the USA by president John F. Kennedy. These changes increased the use of planning in some sectors of the economy, for which the government formulated the 1961-70 National Economic Development Program (Palma, 2012, p. 271). Since the 1960s, along with establishing a reconstruction plan after the earthquake of that year, which affected the most populated part of the country, the Chilean state extended into sectors traditionally in private hands with the granting of credits, purchase of shares, and planning of the productive activity. This characterized the government of the PDC (1964-70) that triumphed with Eduardo Frei, whose program proposed implementing large-scale reforms presented as “a revolution in freedom,” a third way between left and right that questioned private property and free enterprise for the imperatives of reform. To this aim the Frei government approached the parties of the left to implement an agrarian reform and the “chilenization” of copper through the purchase of shares of the large US copper companies. In the field of industrial development, in 1967 the Office of National Planning (ODEPLAN) was established to overcome the difficulties in determining the most appropriate technologies given the size of the market, followed in 1968 by the National Commission for Scientific and Technological Research, and in 1969 by the Institute for Research in Copper and Metallurgy (Musso, 1985; Ossa 1972; Pommier, 1972; Muñoz G., 1972).

The Christian Democratic government managed to articulate a broad political bloc in Congress to promote reforms of a structural nature, questioning private property but in a way that did not attack capitalism in depth, using the available legislative instruments to confront two powerful actors: the old Chilean landowning class, and the American corporations in the middle of the Cold War. The state was empowered to redistribute the large estates property, to recognize the unionization of its labor force (with the Law of peasant unionization), and to receive income from copper mining. But it was the following government, that of Salvador Allende, to make nationalization of copper a reality with the enactment of Law n. 17450 of July 16, 1971, transferring the large copper mining industry to the state.

Frei's administration closed its mandate with surprising data on the degree of penetration of the state in the business sector. This was delivered by the Superintendence of Insurance Companies, Corporations and Stock Exchanges, which reported that as of December 1969 some 36.6% of the capital stock of Chilean corporations was state-owned, representing the peak of the so-called “Chilean business state” (Palma, 2012, p. 275). Yet, despite the reformist effort in 1968, 10% of the national income was concentrated in the hands of the richest 1% of the population, a situation further aggravated by the low growth of the per capita product, which between 1967 and 1970 increased only by 0.6% (Meller, 1990, p. 105; Martner, 1988).

## 5. Chile's way out of capitalism

From the arrival of Salvador Allende's socialist government in 1970, until 1973, the radical changes adopted to implement socialism put an end to the development model practiced since the 1930s through what Eduardo Silva has called the "ISI Coalition," an alliance of the state, trade unions, and businessmen that supported industrialization and protectionism (Silva, 1996, p. 40). The socialist project proposed something quite different from what had been practiced up to that time, which was based on expanding the state's participation in the economy without questioning private property; a broad political support was isolated to reform of landed estates and copper rents controlled by Americans, but did not extend to intervention in industry, services, or banking. The Allende government, however, moved into these areas of the economy, establishing three areas of ownership: social, mixed, and private. Social property would be in charge of nationalizing private companies to replace the "predominant capitalist structure," thus subjecting the private area and the mixed area to the social one (Palma, 2012, p. 276). This historic change of direction was made explicit in the First Presidential Message of May 21, 1971, when Allende noted that: "Chile now has a new political force in the government whose function is to support not the traditional ruling class, but the great majorities." He added that the country would not maintain the existing economic order and that the examples of Soviet Russia and Communist China would be followed: "nations with a large mass of population can, in relatively brief periods, break with the backwardness and catch up with the civilization of our time." These countries would be the benchmark to prepare the future of "the first nation on earth called to conform the second model of transition to the socialist society" (Allende, 1971, pp. V-VI). Such was the task set by a government that came to power with just over a third of the votes.

This character of experimentation and urgency of the socialist government was shaped by its aim to dismantle an economic structure that in its own diagnosis generated a deformed growth. In order "to build a new socioeconomic structure able to provide for the collective property," it would have to put into practice a new model of state, economy, and society (Allende, 1971, pp. VII, IX). The most important means of production would be expropriated to give cohesion to the new public apparatus and to achieve the ambitious goals of the government, framing them within the so-called "social property area" of the economy, which would be "a single, integrated whole, capable of generating all its potentiality in the short and medium term," accompanied by a planning system (Allende, 1971, pp. XX).

This approach resulted in the nationalization of companies that reached a total of 596 firms; by 1972 the state controlled all medium and small sized banks, and in industrial production the state participation went from 3% in 1970 to 30% in 1973 (Meller, 1990, p. 73; Allende 1973, p. XII). In order to replace the market, CORFO supported the development of a cybernetic system that combined innovative software with a communications network designed to collect economic data throughout the country in real time, transmit them to the government, and thus lead the transition of the Chilean economy to socialism. Such was the so-called Synco project (information and control system) which, as Eden Medina (2011) points out, made Chile a remarkable experiment in the middle of the Cold War, when it tried to differentiate itself from Soviet and Cuban totalitarianism by offering a balance between centralized and decentralized control (Medina, 2011). This last project was the local application of international research developments in operations and cybernetics carried out by the British consultant Stafford Beer, but also of the political and ideological notions already

exposed in 1958 by contributors to the FRAP program, who had indicated the need for a scientific means to put an end to the irrationality of the market. Among these writers was José Cademártori, who in 1972 as Allende's minister affirmed that the allocation of goods and services would not be done through the market but by following "objective laws common to all contemporary revolutions." Not doing so amounted to "renouncing the direction of society," replacing science with voluntarism (Cademártori, 1972-73, p. 106).

This clash of rationalities would come to an end in 1973, when all civilian proposals faced off and undid country as was known.

## 6. The businessmen's *brain trust* to remove the obstacles to capitalist development

By 1973, within the framework of Cold War ideological polarization, the business sectors and the right saw democratic reforms as the brake that blocked economic expansion due to excessive protectionism; this protectionism reduced private initiative because, for social purposes, the state displaced the market in the allocation of resources (Moulián and Vergara, 1981, p. 847). A spiral of expropriations, hyperinflation, and increased political violence eventually resulted in the military coup of September 11, 1973, which implemented what Vergara (1982) and Gárate (2012) called a capitalist revolution – even though according to the economist Carlos Cáceres at first "a restoration of the market economy" and capitalist normality founded "on the knowledge of economic theory and the realistic diagnosis of the conditions of the country and its inhabitants" (Cáceres, 1982, pp. 2-11) was sought.

After the coup, the civil advisers of the military government junta sought to reduce the participation of the state in business activity within an authoritarian framework of restriction of civic freedoms. But this was not an improvised process. While the Chicago economists came to prominence from 1975, some of the proposals already outlined in 1958 in the Alessandri program were applied. These ideas were presented to Jorge Alessandri, in the wake of his candidacy to the 1970 presidential election, by PUC economists trained in Chicago. They proposed a set of measures such as the opening of the economy, the elimination of monopolistic practices, the liberation of prices, the modification of the tax system by a more neutral one, the formation of a capital market, a new pension system, questioning the agrarian reform that had been promoted by the Frei government, and protection of property rights. They only remained proposals, because these measures were not well received by Alessandri, who was inclined towards greater graduality (Castro, 1992, p. 8). However, these ideas formed the basis for the preparation of a structured document as an alternative government program by a business conspiracy that would scale up to international ramifications with the aim to overthrow Allende.

From September 1971, the program was coordinated by the Sociedad de Fomento Fabril (SOFOPA) and the engineer Orlando Sáenz, president of the Association of metallurgical industries (ASIMET). SOFOFA was an aspect of the business-academic alliance that converged with the military and the international interests of the Cold War to conjure the military coup of 1973, an event more known for the covert actions of the US government. In practice, Sáenz established a "brain trust" to attack the economic management of the government and explicitly prepare a government program alternative to socialism, whose goal would be to achieve accelerated economic development (Sáenz, 2016, pp. 122-123).

This use of a professional team as part of a conspiracy that would culminate in a right-wing military coup during the Cold War has some correspondence with what Hernán Ramírez (2007) studied about the Institute of Social Studies and Studies (IPÊS) in Brazil, created in 1961 with business support against president João Goulart, who was overthrown by a military coup in 1964. The IPÊS managed to develop as a true think tank that lasted until 1973, whereas the Chilean case was an anonymous, technocratic and non-intellectual task force created to fulfill an operative goal: to elaborate a tactical manual in the economic field from which *El Ladrillo* (“the brick”) emerged. The plan systematized the general principles of the Alessandri draft but with concrete measures, following the style adopted with success in the so-called “action plans” prepared by civil engineers and businessmen since 1939 for application by CORFO, to address reconstruction after the earthquake damage of that year. The plan gave the state greater power in the following years and resulted in long-term changes. But *El Ladrillo* was written to close the statist cycle, since the socialist government was considered the culmination of erroneous economic policies that had been applied since the 1930s (Center for Public Studies, 1992, p. 19).

On the same day of the coup, the staff of the publisher Editorial Lord Cochrane prepared copies of the plan so that on September 12 they could be on the desks of the generals who assumed direction of the authoritarian government, and its editors became part of the cabinet (Fontaine, 1988, p. 20).

## 7. Concentration of dictatorial power and market decentralization

The immediate application of the above measures after the military coup changed not only the size and scope of the state in the following years, but the balance of power within the business class too, even of the unions, such as the metallurgical union that was based on the protection to import substitution. The measures favored instead large economic groups that were not oriented to the domestic market, and since 1975 a coalition of business and political forces coalesced that supported the concentration of power under Pinochet, accompanied by deregulation of the financial sector and rapid privatization (Silva, 1996, pp. 80, 90, 98). A consensus was reached to end the questioning of private property that had culminated with the socialist experiment. The first thing carried out by the new authorities was the military occupation of productive firms, the appointment of delegated authorities, and the return to their original owners of 325 firms under the state control, whose property had not been transferred legally. Requirement for the restitution was that the former owners would not bring legal actions against the government (Stallings, 2001, p. 35; Hachette, 2000, p. 117).

Another major measure was taken on October 26, 1973, when the military government junta declared the reorganization of the entire public administration, including state enterprises, and it created and abolished agencies and associated employment through a number of decree-laws.

Finally, an underlying ideological positioning took place on March 11, 1974, when, in the Declaration of principles of the junta, it defined the principle of subsidiarity and the end of the “statist society” (Palma, 2012, p. 278).

Despite the initial and programmatic radicalism, the process of de-statization was uneven during the authoritarian period. A large number of companies remained under the control of the state and in 1976 one of the largest public firms, the National Copper Corporation of Chile,

was created to exploit the deposits nationalized in 1971. The main reason was to earn fresh resources for military spending at a time of economic crisis, using the “Copper law” of 1958, which provided a financial contribution to the armed forces through the taxation of large copper mining companies (Fortín, 1980; Varas and Fuentes, 1994, p. 95).

The first wave of privatization lasted until 1981 and included the sale of some 200 companies from the industrial, financial, and commercial sectors. Many firms were acquired with loans subsidized by government institutions, using the firms’ own assets as collateral; this favored the formation of conglomerates and increased the concentration of property. During the economic crisis of 1981-82, authorities were able to negotiate better conditions for external debt payments to international creditors by using public enterprises as collateral and a means of payment. (Stallings, 2001, p. 36).

Still, by the mid-1980s the public sector, including the decentralized agencies and publicly owned companies, was still very large in relation to GDP. Although the public sector was smaller than it was in 1973, it was still larger than in 1965, and it was dominant in mining, industry, gas, water and telecommunications; three public companies alone met nearly half of the Chilean state’s foreign currency needs. The Banco del Estado was a key provider of agricultural credit, while CORFO and its services covered loans to small and medium-sized entrepreneurs (Larroulet, 1987, pp. 157-160).

Limits to state action in the economy were established in the 1980 constitution, which replaced the 1925 constitution and established that the state would develop business activities or participate in them only through an authorization law approved by a qualified majority, and that these activities would have to comply with the same legislation applicable to private companies (Bertelsen, 1987, pp. 115, 119, 121-122). Since 1990, democratic governments have had to face an institutional environment that limits state intervention in the economy and business power present in almost all sectors. The option was to extend the withdrawal of state control and to reduce the notion of public service in order to implement private management through concessions. In 1991, a law was approved that authorized the state to offer concessions on practically any public work, accompanied by a legal and cultural historical change when the government, to guarantee private investment, enforced the concept of “the one who uses, pays” for a concession road (Engel et al., 2000, p. 219).

## 8. Conclusions

Since the beginning of the Cold War, the debates, proposals, and economic and social models aimed at solving structural problems in Chile were in line with the international ideological debates. This reached its point of confrontation in 1970, with the socialist experiment of a radical transformation of the country through a massive reassignment of economic factors; the civic-military coup ended that path in 1973 but it did not do away with the goal of carrying out a radical, structural transformation.

Thus, the arrival of neoliberalism as a capitalist revolution should be understood as the opposition to the turn taken by the local protectionist and industrial model during the socialist government, which questioned private property and capitalism as a whole. For decades, there was a gradual expansion of the tasks of the state in the economy without questioning the capitalist system, including a broad political negotiation for agrarian reform and the nationalization of a natural resource, copper. However, Allende’s attempt to emulate the anti-

capitalist revolutions ignored the pre-existing questions, already expressed since 1958, as well as the organizational power and professional capital of the Chilean elite, which took action when it was threatened at its foundation with the expropriation of private property, generating a radical and definitive reaction to end what it considered a misguided model. That model, which from 1930 gradually questioned private property in certain activities, was not destined to end in socialism.

The socialist project began in 1970, elected by little more than a third of the votes. It was an exception in Latin American and internationally, but also in Chilean history. This project triggered the implementation of previous proposals that opened the way to another exceptional experiment, the Chilean neoliberal capitalist revolution.

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