



5-2009

The Chilean Economy: A look at the relevance of the "Chilean Model"

Adam D. Eggenberger
University of Tennessee - Knoxville

Follow this and additional works at: http://trace.tennessee.edu/utk_chanhonoproj

Recommended Citation

Eggenberger, Adam D., "The Chilean Economy: A look at the relevance of the "Chilean Model"" (2009). *University of Tennessee Honors Thesis Projects*.
http://trace.tennessee.edu/utk_chanhonoproj/1268

This is brought to you for free and open access by the University of Tennessee Honors Program at Trace: Tennessee Research and Creative Exchange. It has been accepted for inclusion in University of Tennessee Honors Thesis Projects by an authorized administrator of Trace: Tennessee Research and Creative Exchange. For more information, please contact trace@utk.edu.

The Chilean Economy: A look at the relevance of the “Chilean Model.”

Spring 2009

**By
Adam Eggenberger**

**Senior Honors Project Advisor
Dr. Anne Mayhew**

Acknowledgements

I would like to take a few lines to thank certain people who have allowed for this paper to become a reality after a year of hard work, research, and writing. First, I would like to thank my parents Jay and Lisa Eggenberger, who have been supportive of my decision to come to UT from the very beginning. They understood the great opportunity I had by joining the Chancellors Honors Program here and have supported my decisions throughout my four years of school. Also, without their backing my semester abroad in Viña del Mar, Chile would not have been possible and I would not have had the inspiration for this project. Next, I would like to thank all the professors who supported this effort and gave me the training and knowledge to tackle this endeavor. I would also like to thank everybody in the Honors office including but not limited to Dr. Steve Dandaneau, Dr. Kathryn Salzer, Mary Ann Bright, Lori Johnson, and Rebekah Page, who make the Chancellors Honors Program run smoothly and make the office comfortable to visit on a daily basis. Lastly, and most importantly, I would like to extend my thanks to my Senior Project Advisor Dr. Anne Mayhew. Dr. Mayhew has sat through countless meetings, explained to me details of economics, and edited my paper for the last year. She has also been a phenomenal teacher in the classroom during our globalization seminar and during our weekly current event discussions. Without Dr. Mayhew this project would not have been completed and my time at the University would not have been nearly as well-rounded or complete.

Table of Contents

Introduction	3
Overview of Chile: The Land and the People	7
From Frei to Pinochet: Chile 1964-1990	15
A New Democracy: A Period of Unprecedented Growth	30
Conclusion	47
Works Cited	51

Introduction

The Chilean economy is one that has been studied by many because of its history of change through different regimes and because in recent decades has been one of the strongest economies in Latin America. In the paper, I will evaluate the Chilean economy from 1964 through the socialist period, the dictatorship of Augusto Pinochet, and up to the present. Although the Chilean economy has transformed into one of the strongest in Latin America, it is the “Chilean Model” under Pinochet which is viewed as a miracle of capitalism. The “Chilean Model” can be defined as economic development that occurs due to neo-liberal policies enacted under a dictator or strong executive. These neo-liberal policies call for the privatization of industry and a laissez-faire attitude that will allow the economy to adjust automatically and grow effectively. The “Chilean Model” has been looked at as a success story in a region where many nations’ economies have remained stagnant after the fall of a dictator. Instead, Chile has grown to be a world leader in many industries including agriculture, forestry, fishing and its most important industry, copper mining. Though the economy is strong, the model has recently been criticized and reevaluated. I plan to look at the effectiveness of the Pinochet regime in transforming the economy, while showing the true reasons for the development of the Chilean economic system.

It is important to note that while the social and economic well-being of the people is an important issue, and is one that is a key to the understanding of Chile as a nation, it is outside the realm of this paper. The goal here is to describe the factors, decisions and participants that led to the quick macroeconomic development seen in Chile. For this reason, the socioeconomic conditions of the population will only be briefly mentioned.

While reading it will be important to realize that many of the decisions made by Pinochet and his advisors had to be changed or revoked to better the system during the democratic era.

Although, the surge in economic development and growth occurs directly after his term as president, Pinochet's influence is not as strong as it seems on the exterior and the "Chilean Model" is not what it has been described to be.

Overview of Chile:
The Land and the People

Chile is a narrow, isolated country on the west coast of South America. Its length runs through many different climates and geographical systems, from deserts to icecaps and a wide variety in between. This differentiation divides the people and the country and affects their livelihoods, while at the same time making it a diverse and culturally rich nation. The daily life in the northern deserts differs greatly from that of the sheep herders in the Antarctic southern regions.

Chile is 2,880 miles long and at its widest point is only 265 miles. At over 292,000 square miles it is the 38th largest country by land mass (Columbia). The eastern border of the country is made up of the Andes Mountains whose tall snow-capped peaks separate Chile from Argentina. To the north, Chile is bordered by Peru and Bolivia with these borders often being the source of conflict between the nations. The entire western boundary of the country is Pacific Ocean shore line.

The political borders are not the only limitations caused by the geography. The mountains in the east, the desert in the north, and the fjords and extreme cold of the far south restrict the populations and their ways of life. The north of the country is home to the Atacama Desert, one of the driest in the world. Parts of the desert do not register any annual rainfall. Along with being so dry, the Atacama Desert is known for being home to many pre-Hispanic cultures.

Archaeologists have found artifacts from cultures such as the San Pedro de Atacama, cultures of the Río Loa (Loa River), Tiwanaku, the Inca, and others. These groups are responsible for creating giant monoliths in the rocks of the desert. Additionally rock art, cave paintings, and the tools of daily life have made the Atacama a haven for anthropologists and archaeologists alike (Gallardo, 225-42). The Atacama Desert, though beautiful in scenery, is a very difficult place to live and only a small portion of the nation's population lives in the northernmost regions.

Politically, Chile consists of fifteen regions. Four of these regions (I, II, III, and XV) make up what is generally considered northern Chile. However, these four regions are home to only 1.3 million people, about 12 percent of the population (City Population). The difficulties of living in the desert include the lack of water and fertile soil. The populations are forced to irrigate using the few rivers in the Atacama including the Río Loa and the Río Copiapó. Unfortunately, irrigation is an expensive process and causes many disputes. The major economic advantages for residents in the north of Chile are the mineral deposits, especially copper. Copper is the largest export as well as the largest source of wealth for the country, and the major cities in the north are often mining towns (CIA). Though the mineral deposits provide for wealth in Chile as a whole, poverty is common in the area and for this reason many people have moved to find better options.

Like the north of Chile, the south of Chile finds itself outside the reach of the capital, Santiago. It too is beautiful but struggles from many of the same problems as the north. Industry is sparse and the extreme climate makes farming difficult. Tourism, fishing, sheep herding, and agriculture are the largest sources of income in southern Chile. Like the north, population density is low and the three southern-most regions are home to a population of just of 630,000 or just under 4% of the national total. The far south of Chile is generally considered to be land and populations south of the Río Bío- Bío. This area is recognized, unlike the Atacama Desert, as one of the rainiest places on earth. Southern Chile is home to hundreds of lakes fed by rivers streaming out of the Andes into Chile. Additionally, south of Puerto Montt and the large island of Chloé, the country becomes a large string of interconnected islands forming archipelagoes south toward Cape Horn. Chile is also home to the southernmost city in the world, Punta Arenas whose population of just over 100,000 makes it the only city of substance that far south in the

southern hemisphere (City Populations). The islands of the south are collectively known as la Tierra del Fuego (land of fire). It has received its name from the large collections of volcanoes found in the region.

Seismic activity is common throughout all of Chile. Being on the Pacific Coast it is considered part of the Ring of Fire that surrounds the Pacific Ocean. During the 20th century more than 28 major earthquakes, 6.9 or higher on the Richter scale, shook Chile. Two of these were over 8.0 and were by far the greatest cause of damage (USGS). Both of these earthquakes were centered in the Central Valley of Chile. Unlike the North and South of the country, the Central valley is the most densely populated area and home to the majority of business and industry.

The Central Valley is considered the heart of Chile. It is centrally located as well as home to the largest percentage of the agriculture, industry, population, and the capital city, Santiago. In addition to Santiago, the largest urban areas are all located in the Central Valley. The Central Valley consists of regions V, VI, VII, VIII and the Metropolitan region surrounding Santiago. These five regions make up over 74% of the population with over 12.2 million people living in this relatively small area (City Population). This region also has the most habitable climate. The Central Valley receives ample rainfall for agriculture and healthy living, rather than the overabundance seen in the south.

The Central Valley also hosts the largest agricultural centers in the country. Major crops are avocados, apples, peaches, wheat, rice, citrus, and grapes. Grape production is very important to Chile as the wine industry has grown significantly and is based in several different areas of the Central Valley. Groups of wineries can be found in the Casablanca Valley, Maipo Valley, Aconcagua Valley, and others. Concha y Toro is the largest producer of wine in Chile

and the 8th largest wine producer in the World. Concha y Toro is headquartered in the Maipo Valley outside of Santiago.

As home of the largest portion of Chile's population the Central Valley is also the center of Chilean culture. At the heart of the Chilean culture is Catholicism. Although Catholicism is not an official religion in Chile, over 70% of the population is affiliated with the Catholic Church as of the 2002 census. Of the remaining population, 15.1% affiliate with a protestant sect of Christianity, 8.3% do not affiliate with a religious group, and the final 6.6% affiliate themselves with some other religious background (Pew Forum on Religion). Due to the large Catholic majority, many Catholic holidays are celebrated and accepted as national holidays.

The Catholic influence is a holdover from the arrival of Spanish settlers in the 1540s. Although the Spaniards have had the most noticeable effects on the development of Chile, other European settlers have had a major impact in the country as well. English, German, and French, settlers have influenced the country greatly. These western Europeans arrived in Chile in the late 18th and early 19th centuries to help develop industry in Valparaíso, Chile's largest port. These settlers founded corporations that caused Valparaíso to become a major economic center. The port connected Chile and the Pacific Coast of South America to the rest of the world. Before the Panama Canal, Valparaíso was an optimal resting place for ships preparing to cross the Cabo de Hornos and move into the Atlantic Ocean. The western European influence was seen not only in the economy but in the culture as well. The European groups formed schools, churches, hospitals, social clubs, etc. in order to continue practicing their traditions. Even today, this western European influence can be seen in the food, dress, and customs of the Chileans.

Europeans were not the only peoples to have had an influence on Chilean culture. Multiple indigenous groups have had a part in the cultural growth of the country. When the

Spanish arrived multiple indigenous groups were present in Chile. However, one group, the Mapuche, was able to defeat the Spanish and was the only group in the region not to be conquered by either the Incan Empire or the Spanish Conquistadors. Years of fighting has kept the Mapuche as a surviving native group in Chile while the others have faded to small numbers if a presence can be seen at all. Indigenous populations made up just over 4% of the population in the latest census. Of this population, more than 87% declared themselves to be of Mapuche descent. Other populations of recognizable size are the Aymaras and the Atacameños both located in the North of Chile.

The Mapuche, though proportionally small in numbers, have been fighting for equal rights since the arrival of the Spanish. Over 300 hundred years of intermittent fighting between the Spanish/Chileans and the Mapuche is generally known as the War of Arauco. This war ended with the “pacification of the Araucania” during the 1880s. Even today, the Mapuche are fighting for rights they believe to be owed to them. They have been claiming land rights, and conservation rights for the forests they claim. Often they are a persecuted group in Chile and suffer from racism. Additionally, in a similar fashion to indigenous groups elsewhere, many Mapuche suffer from poverty and other social issues such as alcoholism and poor education.

In spite of this history of tension with a persistent indigenous group, on the surface the Chilean people seem to be very homogenous. However, they are a very diverse group in part due to the geographic barriers of the country as well as its history. It could be asked why Argentina did not just move over and complete the continent? It would seem logical to think a strip of land so narrow could be conquered by a larger, stronger country with relative ease. However, many factors have played into the formation of modern day Chile.

The conquest of Latin America has much to do with how Chile was formed. After Columbus arrived in 1492 there was a race to explore the Americas. Portugal and Spain were in heated disputes and in 1494 the Treaty of Tordesillas allowed Spain the majority of the land in the new world (Zaragoza 77-8). During the 16th century the Spanish set up viceroyalties in modern day Mexico, Peru, Columbia, and Argentina. All the territory they gained was placed under the rule of one of these colonial governors. After the discovery of Chile in 1540, Pedro de Valdivia founded the city of Santiago in February of 1541. It was formed on the potential of agriculture and not on gold and silver as were the other colonies of the time. Other areas such as parts of Peru and Bolivia were providing the mother land with large sources of mineral wealth. Due to the difficulties involved with the Andes, which runs along the entire eastern border of Chile, Santiago and surrounding lands were placed under the viceroy of Peru, rather than the Viceroyalty del Río Plata (Buenos Aires).

Santiago remained part of the Viceroyalty of Peru until it declared its independence from Spain in 1810. However, throughout this period there was fighting between the indigenous people of the south and the Spanish settlers. The Mapuche in the south were a strong force that was able to prevail for over 100 years. Insurrections in 1553, 1598, and 1655 all forced the Spanish to move the southern border north. These tensions were partially resolved when the Spanish abolished slavery in 1683. At this time trade between the Mapuche and the Spanish settlers became more common, eventually leading to southern settlement by the Spanish. Though commerce increased, tensions between the Mapuche and the Europeans continued through 1881 when the Chilean government claimed control over the Strait of Magellan and victory in the War of Araucania. By gaining control of the Strait of Magellan, Chile moved its southern border to the tip of the continent.

At the same time that the War of Araucania ended, the War of the Pacific between Chile and Peru and Bolivia was occurring. The War of the Pacific began in 1879 and lasted until 1883. During this time the Chilean armed forces gained control of the sea and land and conquered territories in both Peru and Bolivia. The alliance of Peru and Bolivia was not enough to stop the better trained and supplied Chilean military. The war began as disputes between Bolivia and Chile over land containing large nitrate deposits. These deposits were of great economic value to both countries. The area under dispute, known as the Charcas, was not easily distinguished because of vague borders between the colonial viceroyalties of Peru and the Río Plata. A secret alliance formed between Peru and Bolivia and the war began on April 5, 1879. Formal fighting ended with the capture of Lima, but Peruvian guerilla resistance lasted into 1883. During this time there was a Chilean occupation and rule of Lima. On October 20, 1883 Peru and Chile signed the Treaty of Ancón in which Chile gained the Province of Tarapacá from Peru, and Bolivia ceded Antofogasta. This concession left Bolivia landlocked and has been the heart of many disputes between the two nations (Los Héroes Olvidados).

By the end of the war, Chile had moved northward as well as increased in size by nearly one third. In the end, Chile had established the borders that make up its modern day boundaries. Spanish colonization, geography, and wars have all had an influence on shaping the nation.

From Frei to Pinochet:

Chile 1964-1990

To many, the Chilean economy is a success story of sorts. Its growth and stability in the last 30 years has made it one of the premier economies in Latin America. Overcoming the geographical boundaries as well as massive political reforms have caused many to consider the “Chilean Model” one of the greatest economic examples of the 20th century. Some consider Pinochet’s leadership and neo-liberal approach as the root cause of the success. Others find a combination of factors, policies, and participants to have shaped the current economic landscape. If cause for the growth is a contentious issue, what is understood is that Chile’s current economy was shaped between the years 1964 and 1990.

Eduardo Frei took over the government as President in 1964. His regime was backed by the Christian Democrat Party which won the general election with 56 percent of the vote. Frei’s government supported many reforms to bolster a suffering Chilean economy as well as promote social justice. His goal was to reorganize the social hierarchy and give power to the working class through a series of reforms. His plans included changes in agriculture, the copper industry, and an effort to increase local grassroots efforts for political democratization. Frei also attempted to diversify Chilean exports and industry, so as to make the country stronger internationally. Frei’s plans, though mostly ineffective, had some positive outcomes for the country. Inflation rates fell from 50 percent in 1964 to 36 percent at the end of his term in 1970. The national GDP grew at an annual rate of 4 percent during his term as president. Additionally, income levels amongst the people increased significantly during his term (Ffrench-Davis 5-8).

The advances on the surface seemed promising. However, his plans for social reforms were rooted in foreign debt and rates of inflation that remained high. At the onset of his presidency, Frei was faced with challenges to better the economy as well as the livelihoods of his people. His plans were to redistribute the wealth of the nation. To accomplish this goal Frei

planned to increase wages and salaries while freezing prices of goods. Frei also planned to raise taxes, but in a manner that would redistribute the tax burden to the wealthy. By doing this Frei could allow the rural poor to see an overall increase in their wealth. Also, by increasing wages in the poorer sectors, Frei believed he could spur demand and bring the Chilean economy into full production. The risk to this plan was economic stagnation and a potential downfall in the economy (Michaels 81).

Although these risks were present, Frei's plans for the economy were in many ways sensible and sound. At the heart of his plans was a large amount of foreign aid, the majority from the United States. As part of the Alliance for Progress, Chile received over 1.5 billion dollars in aid between 1964 and 1970. Much of this aid was sent by the United States to bolster the Chilean economy in an attempt to ward off the feared communist influx found in much of Latin America. This aid was to be used by Frei's government to pay off the large national debt as well as to reinvest into the Chilean economy. Along with foreign aid, Frei was banking on the continued rise of copper prices to help spur the economy. The rises in copper revenue would allow the Chilean economy to gain a favorable balance of trade and begin to pay off the enormous debt rather than continuing to accrue it. For the first three years of Frei's term his plans appeared to be working. Public housing was set up as were grassroots programs amongst the urban poor. Additionally, revenue to the government was increased as taxes increased from 13 percent to 17 percent of the GNP, while the United States increased its aid to amounts upward of 137 million dollars in 1965 (Michaels 83).

Though the beginning of his term had been successful, the second half from 1967-1970 proved to be decisive in Frei's legacy. The once promising plans quickly fell apart as world copper prices fell and a severe drought led Chile to import large amounts of its food. Two of

Frei's key cogs in his plan had been destroyed. Not only were revenues from copper falling but the plan to export more than was imported had also been ruined. To go along with these problems, the United States began to withhold aid from Chile. Frei continued on in his leftist reforms, but a failing economy was hurting U.S. economic interests in the country. By not gaining a favorable advantage from the donation of aid, the United States did not have reason to continue giving large amounts of money to Chile and the rest of Latin America. With a lack of foreign aid and increased imports the Chilean economy was suffering and was forced to find an alternate source of revenue.

Frei looked to the struggling copper industry as a sensible supplier of funds. Copper and mining were by far the strongest of the nation's exports amounting to more than 80% of total value. However, these industries were not Chilean run; rather they were controlled by foreign firms (Aroca 12). The dominance of private foreign investment meant the only way of gaining revenue from the export of copper was through taxes. In the past taxes on copper paid for social security, schools, and other social programs. However, the fall in copper prices and a more drastic need for revenue led to a need for a change in the industry. Frei met with the heads of the largest mining corporations, Anaconda and Kennecott, and began what has come to be known as the "Chileanization" of the mining industry. By offering tax breaks to the foreign companies, the Chilean government negotiated plans to begin to buy the mining corporations. By 1970, 51 percent of the Kennecott's largest mines were state owned. However, by offering tax breaks and because of the structure of the negotiations, the company's foreign investors retained the largest amounts of revenue. Frei's plans to increase the states share of copper revenue were not successful. In fact, feeling little pressure from the government, Anaconda opened two new mines without following the agreement to allow the state one third shares of the mines. Though Chile

ended up gaining full control of these mines after reaching a new deal with Anaconda, one can see the weakness of the Chilean government. Though Frei's administration did not benefit from the nationalization of the mining industry, the privatization would prove beneficial for future governments. Salvador Allende found it much easier to continue the Chileanization of the industry after Eduardo Frei had set the ship in motion. Additionally, Pinochet would use the revenues from the copper industry to support his government with a continual flow of cash (Michaels 85-90).

The Frei administration was characterized by its sensible, yet unsuccessful, efforts at social reform. Frei's plan provided the people with higher wages, started the process toward the nationalization of the copper industry, and diversified the Chilean agricultural landscape. However, an over reliance on foreign aid and investment set the economy up for failure when foreign backing was reduced. Politically, Frei moved toward the left as his administration continued and consequently his relationship with the U.S. suffered. The soured relationship with the United States meant less aid and less private investment. This coincided with an agreement to nationalize copper that provided no immediate returns. Frei's decision to move his ideology to the left, along with bad luck in the form of weakened copper prices and a severe drought, led to an exceedingly divided Christian Democratic Party. This division opened the doors for the arrival of the socialist regime during the election of 1970.

Salvador Allende came to power after winning the election in September 1970. As a member of the "Unidad Popular" (Popular Unity) coalition, Allende defeated former president Jorge Alessandri and Christian Democrat candidate Radomiro Tomic. The early part of his term was marked by an increase in wages and economic growth. This was primarily the benefit of taking over a government that had a false sense of strength. Primarily though, Allende was set on

implementing his goals known as “La via chilena al socialismo” (The Chilean road to socialism). He did this by nationalizing many industries and changing many government organized programs. Allende felt that the transformation to socialism could occur better in Chile than other Latin neighbors if the change was from the top down rather than the bottom up. Allende’s plan to nationalize industry and gain the support of the congress toward his plans would provide a more stable and effective change toward socialism. This plan started out well, but soon came into conflict.

The “strong” economy at the start of his term allowed him to gain the support need to begin his socialist changes. He implemented reforms in schools and healthcare by nationalizing both. One of his best known reforms was giving every child a liter of milk a day. Allende’s goals often focused on allowing the poor to succeed in a Chilean society run by an oligarchy. This put him at odds with the wealthy classes when he began to socialize the countries largest industries. Allende nationalized the banks and finished the Chileanization of the copper industry begun by Frei. He also began to seize property held by landowners and redistribute the wealth (Ffrench-Davis 7-10).

By seizing land Allende was able to set into place agrarian reform not seen in Chile since colonial times. The latifundio system, which had been in place since the Spanish conquest, allowed a small number of landowners to control the nation’s agriculture. In 1965, 90 percent of the land was owned by 10% of landowners (Meller 4-10). The landowners could decide what to grow, when to grow it, and what to pay the workers of their farms. This created an oligarchy that had a non-proportional amount of power. It also prevented advances toward modern technology. The landowners were able to control their workers with cheap labor and for this reason felt little need to diversify or modernize. They were still making large amounts of money at low costs thus

limiting the incentive to move forward. It also posed a large risk to the success of socialism in Chile. For this reason, Allende felt the need to break up these large farms and divide them into small to medium size parcels of land.

The nationalization of farms, banks, and principally the copper industry in such a short period had a drastic effect on the economy. To nationalize these sectors of the economy the government was forced to purchase stocks at high prices and the returns were not sufficient to fund the expenditures. The deficit in the government budget rose to above 13 percent of GDP and by 1972 inflation had risen to over 200 percent. The economy was in a state of crisis and it had the largest effect on the middle class. The prices of goods had been frozen while wages continued to rise. This led to black markets that sold essential goods at higher prices. The upper class could afford goods provided by the newly developed black markets. Often times, prices for basic goods would be 5-10 times higher on the black market than on the official market. The nation's poor were being helped by the socialist programs that had been put into place. Although the economy as a whole was failing, the poor were finding jobs and receiving aid from the socialist government. It was the middle class that were being hit the hardest. They were forced to stand in the long lines to buy basic goods like milk and eggs. The long lines even led to a formation of a new profession, queue stander. People would hire others to wait in lines for them so they could buy small amounts of basic necessities (Meller 43-6).

Allende's government faced serious opposition by 1973. The wealthy opposed the nationalization of industry. They had lost positions and jobs as well as much of their land. Obviously the middle class was suffering because of the economic crisis. These groups began to demonstrate in the streets, strike in the factories, and caused bottlenecks in economic production. This set the stage for a military coup.

The coup took place on the morning of September 11, 1973. The military worked together to bombard the Presidential palace, La Moneda. La Moneda was destroyed and the official record states that President Salvador Allende committed suicide. The military heads, known as the Junta, began their reign. It was not until June 26, 1974 that the commander-in-chief of the military, Augusto Pinochet, was named “supreme head of the nation.” (Martínez 14-15). Pinochet and the Junta gained control of their government through force. In the days following the coup more than 5400 people were detained while nearly 550 were officially killed. High profile assassinations, such as the death of Carlos Prat, former commander-in-chief of the Army, established the power of the Junta. Additionally, between September of 1973 and February of 1974 over 7300 persons fled Chile as political refugees (Martinez 15). These numbers show that while the coup had prior support it was necessary for them to take complete control of the government to prevent another coup from occurring.

Once established as the new government, the military dissolved the National Congress, required that all political parties enter a period of “recess”, and finally they disbanded all worker unions. Leftist organizations were not to be tolerated under the military government. The military regime came to power in September of 1973 and would continue to rule until March of 1990. During this time period the economy was marked by a neo-liberal approach. The economic growth under Pinochet can be divided into two periods the first between 1973 and 1983. The second period takes place post 1983 until the end of the military rule in Chile.

The largest influence on the economic growth of the 1970s and 1980s was brought by a group known as the Chicago Boys. The Chicago Boys were a group of Chilean economists who had studied with Milton Friedman at the University of Chicago. During the 1960s and early 1970s an academic exchange program between the Catholic University in Santiago and the

University of Chicago was forged. During this decade of exchange many Chileans returned to universities in Santiago as full-time professors. They forced out older professors and together led the neo-liberal movement in Chile.

When the military government took power the economy was left in the hands of the Navy. As a group they could agree that the economy under the socialist regime was failing. They could also agree that the redistribution of wealth had been a mistake. However, outside of this, the navy was too large an organization to rule the economy efficiently. Trained as military personnel, they did not have the expertise needed to revamp the ailing economy. For this reason the head of the navy turned power of the economy to the new Minister of Economic Coordination, Jorge Cauas. Cauas and the other Chicago Boys presented a plan in April 1975 of anti-inflationary shock (Martínez 85-6).

The first period of economic change under Pinochet occurred between 1973 and 1983. These can be considered developmental years in which the economy took a hit so as to grow in the future. The second period is defined by sustained growth and a trend toward democratic rule. During the first period, three major decisions were made in regard to the economy. These decisions would effect the future growth of the economy. Firstly there was reduction in high tariff barriers which inhibited the ability to import goods into the country. Second, state controls over key markets were removed. The third decision was to promote the first set of privatizations of public entities. The Chicago Boys and the junta felt a great need to privatize certain industries that had been taken over during the previous regime. The first area to be privatized was the banking industry. All three of these decisions were in place to provide a more laissez faire attitude toward the economy (Martínez 48-55).

Eliminating high tariff barriers was important in reorganizing Chilean trade. Trade with Chile was difficult because there were multiple exchange rates, quotas on imports, and tariffs that ranged from 105-220 percent of the cost of the good. Economic reforms leveled tariffs at 10 percent, eliminated quotas and set up one easy to understand exchange rate. Unfortunately, years of borrowing and a lack of diversified exports caused little immediate return. Large quantities of imports were the new trend while exports continued to grow. This new liberalization in the trade sector did however, open the doors for growth. By 1995, or twenty years following the reforms, imports and exports were in balance at 16 billion dollars annually. Exports also accounted for over 37 percent of the annual GDP. These are compared to 2 billion dollars in exports and 20 percent of the GDP in 1974. Additionally, in 1995 over 6000 exporters were found in Chile as opposed to just over 200 in 1974. This can be attributed to the diversification of exports. Besides copper, Chileans found wealth in other natural resources such as forestry and fishing (Martínez 51-52).

The second decision created a hands off approach in regard to strategic markets. This was the Chicago Boys' major attempt to stabilize the high inflation rates the military government had inherited. This approach was marked by price liberalizations and a removal of restrictions in the banking industry. It also created a more liberal approach to the labor market. Over 3000 state-set price controls were removed in an attempt to allow markets to readjust themselves. The banking industry was substantially affected by this hands off approach. Preferential financing for small farms and entrepreneurs were eliminated. Restrictions on the amount of credit loaned were removed and required bank reserves were cut back. Finally the labor market was also affected. The real wage was lowered by more than 30 percent between 1973 and 1975. Unions had been eliminated, which resulted in a loss of bargaining power for workers. This meant fewer wage

increases, reduction in severance pay, and lower non-wage costs of labor. These tactics did not work as quickly as the economists had planned. Throughout 1974 and 1975 Chile remained in a state of recession with high inflation. The period was marked by high unemployment and deindustrialization, though the economy did begin to grow after the recession of 1975 (Meller 80-1).

The last major tactic employed in the early neo-liberal movement was the privatization of industry. As a whole over 25 banks, 500 companies and over 3000 farms were privatized by the military government; only 41 firms including CODELCO remained public companies after the end of the dictatorship. The privatization took place over many years, yet the first round was swift, happening within a year of the coup. In this time period over 260 firms were returned to their previous owners, and foreign investors who had lost their companies were paid compensation in excess of \$1.3 billion. However, it was the backlash from the privatization from 1983-85 that defines this decision.

1982 has been claimed to be the turning point in the Pinochet regime. The year has been marked by a fall in the economic development that had been occurring since the start of his rule. Years of expansion were stifled in large part due to large foreign debt. The accumulation began in 1979 when the government enacted a neo-liberal policy removing restrictions on foreign borrowing by banks. It also allowed individuals and companies to receive loans in foreign currency. By 1982 banks had collected over 1.2 billion dollars in debt and another 1.15 billion dollars was being spent annually on interest and amortization payments. CRAV one of the largest banks of the time was forced into bankruptcy due to the debt. The neo-liberal economic policy was being tested. The government was forced to shift gears on its policies and begin regulating the industry. The government reduced its monetary reserves by over 1 billion dollars

and bought the debt of the banks. The state was forced to take control over 14 of the 26 national banks and 8 of 17 financial institutions (Martínez 58-9). This period led the government to reconsider its strict neo-liberalist policies. The military junta decided it was necessary to regulate the banking industry and imposed strict policies to do so. These actions bailed the banks out of debt and stabilized the economy allowing it to promote growth during the rest of the military regime.

Following the economic crisis of 1983, Chile experienced unprecedented growth in many areas of the economy. Under state regulation, the copper industry thrived. Copper exports more than tripled in value between 1975 and 1990. In 1975 Chile had 1.246 billion dollars in copper exports. In 1990 there were more than 3.9 billion. Copper was being mined more efficiently as well has at greater profits. This was critical in that copper revenues supported the government's monetary reserves. Although the copper industry improved, its importance to the Chilean economy decreased. In 1970 copper accounted for 77.2 percent of all exports, by 1990 this number had fallen to 47.8 percent. Advances in fruit production, forestry, and the fishing industry all took part in diversifying the Chilean economy (Meller 158-9).

Along with economic growth, the period following the crisis of 1983 was marked by resentment toward the military regime and a desire for democratic initiatives. Unions began to reorganize; in 1983 the copper union led 4 days of protests against the government. Though they were unsuccessful in results, the protests marked the first time the people had demonstrated in more than 10 years of military rule. In 1984, Pinochet declared that there would be an election in 1988 to decide whether he stayed in power or if elections of a new president would be desired. On October 5, 1988 56 percent of the electorate voted against the continuation of the military government. (Martinez 37-40).

The “Chilean model” is one that has been highly respected. Following the economic collapse coinciding with the socialist experiment, Chile has relatively quickly become a strong and stable economy. It is looked at as one of the strongest economies in Latin America and the country has strong economic ties with the United States, Western Europe, and Asia. Copper has remained the key cog in the Chilean market, but foreign investment in the many other natural resources of Chile has oiled the machine. However, the question that remains is whether Augusto Pinochet deserves credit for the capitalist revolution seen in Chile? The majority of experts fail to connect his leadership to the current economic success seen in Chile. Research done by experts such as Javier Martínez and Alvaro Diaz in their work *Chile the Great Transformation* and Patricio Meller in his book *The Unidad Popular and The Pinochet Dictatorship* recognize Pinochet as merely one of many actors and participants that have effected the dramatic change in the economy.

One can first look at Pinochet’s rule. The Junta came to power in direct reaction to the political agenda promoted by Salvador Allende. Martínez and Diaz emphasize the point that Pinochet and the rest of the military regime opposed the Socialist efforts of the previous government, and that the coup took place with no plan for economic reform. It was not for any other reason than necessity that economic reforms were put in place along with the political changes. Furthermore, the economic plan they followed was not their own. The Junta enlisted the help of the group known as the “Chicago Boys” to try and restore structure to the economic system. Meller argues that the Chicago Boys and finance ministers Sergio de Castro and Hernán Büchi played a larger part in the economy than Pinochet. They used him and his post as a platform to introduce their neo-liberal approach (Meller 177).

The neo-liberal approach that the Chicago Boys instituted focuses on privatization of industry and little state regulation on markets. Many feel this privatization was the base that supported the capitalist revolution. However, Meller points out that when you look at the approach it was not as successful as it appears to have been. In the first ten years of the regime the Junta led the country through two serious recessions. The recession of 1983 was the worst the country had seen since the Great Depression in the 1930s. Additionally, Martínez and Diaz note that ironically it was one of the leftover socialist goals that bailed the military regime out of the recession. The fact that the copper industry had been nationalized and had not been returned to private control allowed the government to support the banking industry during its collapse. The revenue provided by CODELCO is what kept both the banking industry and the Chilean economy from succumbing to foreign debts (Martínez 65-6).

Meller explains that Pinochet can be viewed as “largely irrelevant” to the development of the “Chilean Model.” He compares the Chilean situation to that of other Latin countries, such as Bolivia, Argentina, and Mexico, that also faced serious economic struggles following the economic collapse in 1982 and 1983. However, they enacted similar reforms to those in Chile with similar successes. Additionally, Meller points out, that this was done more quickly than in Chile and under democratic rule without the costs of dictatorship and human rights violations (Meller 178).

Using the neo-liberal model to justify the social costs of his dictatorships he was able to paper over the fact that he did not solidify the Chilean economy during his 16 years in power. Unemployment and inflation rates remained exceptionally high. Unemployment averaged 18.1 percent of the population during his tenure. This compares to only 5.9 percent during Frei’s government, 4.7 percent during that of Allende, and 7.3 percent during Patricio Aylwin’s term,

the first following the dictatorship. Inflation also averaged an exorbitant level of 79.9 percent. This does not compare favorably with Frei at 26.3 percent or Aylwin who quickly lowered inflation to below 18 percent. It can also be seen that Pinochet did little to develop the economy as GDP grew at a meager rate of 2.9 percent annually during his rule (Ffrench-Davis).

Though the numbers speak for themselves, the fact remains that Pinochet has been viewed as a champion of capitalism and one who has had a direct effect on the current success of the country's economy. If during his rule the economy continued to face the challenges of foreign debt, inflation, and unemployment then why is Pinochet viewed in such a positive light in the economic arena? It is more a matter of a façade having been built than any real successes by Pinochet. During his term he used his power gained with the strength of the military to strike fear into his constituents. Few dared to question his policies whether they were positive or negative. With little verbal disapproval from the people, Pinochet could rule as he pleased. Additionally, one positive from the military dictatorship was the increase in exports. Exports grew at a rapid rate of 10.6 percent annually during his rule (Meller 169). More so, it was not just copper being exported. The diversification into new industries and an increase in exports permitted the world to view Chile as a story different than that which was actually being written.

**A New Democracy:
A Period of Unprecedented Growth**

The end of the Pinochet regime coincided with the beginning of a period of growth and development that lasted throughout the late 1980s and early 1990s in Chile. It has already been established that Pinochet, though head of the country for the better part of two decades, did little to effect the economic turnaround. Instead, one must look to other arenas for the unprecedented growth seen in Chile during this time. It can be argued that the Constitution of 1980, as well as the Central Bank which it created, laid the foundation for the growth of the country.

The Constitution of 1980 provided the basis for the government and economic structure of Chile after the fall of the military dictatorship. Constructed during the period of the military junta the constitution focuses power on the executive branch. The constitution allowed for Pinochet to remain in control of the country until 1988 at which time elections for president and congress would take place. The original plan was to provide one candidate for the presidency, who, of course, would be Pinochet. In the end, Pinochet decided in 1984 to allow for a vote in favor of his continuation as the nation's leader for another 6 year term. This proposition failed allowing for free elections in 1988. The constitution also allowed for the opening of congress in 1989, with elections in 1988 for the first time in 16 years.

Pinochet, however, feared the power of the legislative branch and for this reason had the constitution provide for limitations on congress' powers. In order to prevent one party from gaining too much power in the Congress, the Constitution allows for two senators and two members of the Chamber of Deputies from each electoral district. One party, however, can only win both seats if they receive more than double the votes from the other ticket. This has led to a split in representation from both sides of the political spectrum in Congress. This system of electoral representation has led the different political parties to form tight pacts and alliances that form the coalition governments in Chile (Siavelis 321-23). Although there are four or five

dominant political parties in Chile at any one time they largely fall into one of the two coalitions, the more liberal *Concertación* or the more conservative Alliance for Chile. Since 1990 there has been a nearly equal representation in both chambers of congress from both parties. However, Pinochet's constitution allowed for 9 life-time senators appointed by Pinochet. This allowance kept Pinochet's opposition, the *Concertación*, from gaining a majority in the Senate. However, these 9 life-time appointments were removed in 2005 when a constitutional amendment was passed and signed by President Ricardo Lagos so that the political dynamics are likely to change in the near future.

Pinochet succeeded in limiting Congressional power. The split in power within the Congress allows for the executive branch to remain the strongest of the branches of the government, and the area in which the president retains the most power is the adoption of the annual budget. The budget process in Chile was designed in the 1980 Constitution, and is written so as to allow smooth and quick passage of the President's proposal. Every year the president must submit their proposal three months prior to its effective start date. Since the Chilean fiscal calendar runs congruent with the calendar year the proposal must be submitted by October 1. Over the next sixty days an equal number of representatives from both chambers of congress meet in a joint budget committee to amend the proposal and agree upon a budget. The two chambers must approve the same version of the budget. Additionally, the revisions made by Congress can only reduce spending. Congress does not have the authority to appropriate additional funds in the budget or reassign funding to other areas. Instead, changes made in the budget can only reduce the amount of money a program can receive. The final caveat to the budget process is that if the revised budget is not approved by both chambers within sixty days, or December 1st, the president's proposal will take effect on January 1st of the next year (Baldez

29-40). Through the power gained in the budget process the executive office and the President can push their agenda with few obstacles.

One of the obstacles the executive branch does face is the power of the Central Bank. The Central bank, like the current government, was created and designed in the Constitution of 1980. The Central Bank played a key role in the Pinochet government during the 1980s as Chile faced its worst recession in years and had to confront the problems hindering the banking industry. It was the decisions of the neo-liberals in charge of the bank that solved the economic recession and prevented the Chilean economy from completely collapsing. The bailout of the Chilean banking system halted the recession, yet other economic problems surrounded the nation's ability to grow as an international economy. High inflation and unemployment rates as well as the volatile changes in prices of copper and other natural resources were problems that limited the growth and success of the Chilean economy in the 1980s. The Central Bank, however, had little control over these issues because their power was limited in scope. It was not until the end of the Junta that the Central Bank received complete autonomy.

The end of the regime led to a series of reforms and amendments to the constitution of 1980. One of these reforms was the "Basic Constitutional Act of the Central Bank of Chile" (known as The Basic Act). The Basic Act removed a prohibition on the Central Bank enacting policies affecting state institutions. Instead it gave it complete independence subject only to certain requirements. The Central bank consists of 5 members nominated by the president and confirmed by the senate who serve 10 year terms with one member rotating out every 2 years. The president of the central bank is a board member who serves a five-year term and is selected by the President. Additionally, the Central Bank must remain an open organization in that all of

its decisions must be relayed to the senate and the president. Additionally, the Central Bank must testify twice a year in front of congress (Eliot 11-12).

The autonomy of the Central Bank corresponded with the beginning of a new plan of fiscal discipline by Chile. Starting in 1990, the ratio of debt to GDP began an annual decline that lasted through the beginning of the 21st century. This fiscal discipline strengthened the economy as a whole and allowed national and international growth. To manage the economy the Central Bank began its efforts toward price stabilization that focused on reducing the inflation rate and stabilizing the exchange rate.

In 1990 the Central Bank started a policy known as “inflation-targeting-framework” (Kalter 13-14). This policy was not officially mandated in The Basic Act, yet it became a traditional part of the Central Bank’s annual presentation to Congress, and later became law in 2001. Within this policy of inflation targeting, the Central Bank announces either its planned rate of inflation or a band with an upper and lower boundary within which the inflation rate will land. The banded target has been the more popular and pragmatic approach. This approach, rather than setting a defined inflation rate allows for slight changes during periods of shock. It also allowed the Central Bank of Chile the freedom to alter other goals without the fear of missing the exact percentage point.

This manner of targeting the inflation rate worked as planned during the 1990s. The Central Bank set a long term target goal of a 20 percentage point reduction in inflation in 1990, and by 1999 they had reached their goal. Between 1990 and 1999 the annual inflation rate fell from 24 percent to a stable annual band of between two and four percent (Central Bank of Chile 6-8). The annual target centered around three percent has been the accepted target since 2001, and the Central Bank plans to keep this target band unless something major occurs that forces a

change. If this were to occur, the Central Bank would have to notify congress and the president in their annual report explaining the change and their goals for managing the exceptional circumstances (Kalter 21-22).

An additional step toward price stabilization occurred with the transition from a fixed exchange rate to a policy of a free-floating exchange rate. This policy change did not occur as rapidly as the change toward inflation-targeting. The fixed exchange rate was a policy enacted in the 1970s to avoid devaluation of the peso. The exchange rate was pegged to that of a basket of five currencies (dollar, yen, mark, pound, and franc) with the U.S. dollar being the principle link. Chile utilized the stability and the strength of these currencies to ensure the same for the Chilean Peso. This policy appeared to work for the Pinochet regime until a sharp devaluation of the U.S. dollar occurred in 1982. At this time the value of the peso fell drastically and a new plan was needed. After several failed attempts at achieving an exchange rate policy that could stabilize the value of the peso, a managed float was implemented (Meller 110-14).

The managed float was utilized through the end of the military regime and well into the beginning of the new democratic government. As inflation rates fell, the Central Bank continued to manage the exchange rate, but not in a manner to help the reduction in inflation. Rather, as exports became a larger part of the economy the Central Bank attempted to depreciate the exchange rate to boost foreign sales and investment. The Central Bank feared an accelerated appreciation of the exchange rate would obstruct foreign investment and demand for Chilean products. By slowing the rise in value of the peso the Central Bank could efficiently promote internationally induced economic growth.

As the economy strengthened and the inflation rate stabilized, the Central Bank felt it could begin to implement a free-floating exchange rate that would allow the peso to set its own

value on the open-market. This policy went into practice in September of 1999. The Central Bank did, however, allow itself authority to intervene in the exchange rate during defined times of economic trouble. These times are defined as times that “could result in sharp transitory shifts in the value of the peso, a steep reduction of the dollar value of peso dominated Chilean assets leading to a loss of confidence, exchange expectations of further depreciation of the exchange rate.” (Kalter 23) In such clearly marked times of economic difficulty the Central Bank deems it necessary to intervene to prevent a sudden rise in inflation rates, interest rates, and a loss of control over monetary policy of the country. The free float has worked in that the Chilean Peso has remained one of the strongest currencies in Latin America with the only times for intervention being during the fall of the Argentine peso in 2001 and the Brazilian economic crisis in 2002. Much of the reason for the success of the Chilean Peso on an international market is the copper industry. The world’s reliance on copper has allowed Chile to maintain an upper hand in foreign trade.

Though the Chilean economy has diversified, copper remains the number one export and produces a substantial portion of the GDP. Additionally, the largest copper company in the nation, CODELCO, is state owned, and the government receives a large portion of its revenues from its success. Unfortunately, basing a large percentage of revenues on natural resources makes the state susceptible to change in the price of the commodity. This inconsistency can be both a positive and a negative for a nation. For this reason, the Central Bank started the Copper Stabilization Fund, CSF, with which to protect the economic policies of the nation.

The CSF acts as a hedging instrument or a self-insurance plan for the Central Bank. When the price of copper is high, and revenues are therefore abundant, CODELCO deposits a portion of its revenues into the CSF. It is then used in times of economic hardship to stabilize

losses from a reduction in copper price. The CSF has never had a withdrawal that amounted to more than two percent of CODELCO's annual revenues (Caballero 33-36). Hedging the market for copper with the CSF has been seen worldwide as a positive and smart decision. During the first decade following the military junta Chile did not suffer any major economic setbacks even though it was in a process of development and growth. The shocks suffered in the industry in 1994 and again with the economic crises in South America in 2001 and 2002 had little effect because the CSF could be used as protection during downturns in consumer confidence in the region. Other nations such as Mexico have set up insurance policies similar to the CSF. Mexico uses a similar hedging system to protect against falling prices in the oil industry. Likewise, many other developing nations have looked into forming these systems.

The strength of the policies implemented during the early part of the democratic government shaped the economic development of Chile during the 1990s. By laying the foundation for a central bank, the Pinochet government started to push the financial system in a positive direction, however, it was not until The Basic Act granted full autonomy to the bank that Chile could grow more sustainably. By targeting inflation and revamping the exchange rate policies, new industries could grow and begin to compete in a growing international marketplace. Copper maintained its status as the leader of foreign exports, but as we will see advances in agriculture along with increased production in the fishing and forestry turned the Chilean economy into what it has become.

One of the main holdovers by the democratic government from the Pinochet regime was the nation's increase in exports. After the 1982 financial crisis, the Pinochet government saw a need to increase exports as a way to pay back the foreign debt that had accumulated. Chile's plan to gain a favorable balance of trade occurred through a series of trade reforms that increased the

desirability of Chilean goods. The creation of the Chile Foundation provided one organization that promoted Chilean exports. This publicly funded organization was used to research and develop areas of growth that had not previously been profitable. The organization would create subsidies in various areas, make the company profitable, and then sell the subsidized company to another organization. This program was established during the military dictatorship and for this reason seems out of place. This national program goes against many of the principles of neo-liberalism and against their plans for the economy. However, the Chile Foundation was created toward the end by the efforts of many people in opposition to the Pinochet Dictatorship. The best example of success by the Chile Foundation was in the farming of salmon. By developing an efficient method to harvest salmon the foundation created a new, and very profitable, industry for the country (Ffrench-Davis 166). Though the salmon industry is the biggest success story, the Chile Foundation has impacted fruit and wine production, forestry, and many other industries that have helped diversify the Chilean economy.

The success of the trade reforms can be seen in the statistics. While copper has remained the primary export of Chile and the most important individual resource in the country, diversification into other areas has allowed for less focus to be placed on the ebbs and flows of the worldwide copper price. As such, the entirety of the export sector, beginning in the late 1980s, has grown. First off, the variety of exports produced in Chile has grown immensely since the beginning of the dictatorship and through the early parts of the democratic era. In 1970 the diversity of Chilean products sold abroad was limited to 200 different items, and copper accounted for 80 percent of exports. By 1990 the number had grown to 2800 and continued to grow to nearly 4000 by the end of the decade when copper only accounted for approximately 40 percent of the nations exports (Ffrench-Davis 144). With the large increase in products available

to sell, Chile experienced a boom period between 1985 and 1996. During this period the average annual GNP per capita grew 6.1 percent compared with only 0.3 percent in the rest of Latin America and 0.8 percent throughout the world. Likewise, exports grew at 15.8% annually while the rest of Latin America saw export growth at 11.2% and the rest of the world was at 12.3 percent (Aroca 96). By outperforming its neighbors, Chile established itself as a leader in the region, and a player in the international arena.

Foreign investment and trade has had a large positive impact on Chile, and the investment comes from multiple parts of the world. Chilean trading partners are spread throughout the world; rather than relying solely on a small grouping of nations, approximately one-third of trade is with other countries in the Americas, one-third with Europe and one-third with Asian nations. During the 1990s Chile signed trade agreements with many different nations and organizations. The country became a member of MERCOSUR in 1996 and also signed free trade agreements with NAFTA, EU, and APEC. By joining in these trade organizations and signing trade agreements, Chile continued its goal of opening itself as a free market and enticing other nations to invest in Chilean products and resources. Additionally, the favorable balance of trade and investment has provided Chile with international reserves in the range of 15 billion dollars U.S. as compared with only 1.5 billion dollars U.S. at the end of the dictatorship (Taylor 118). This amount is large enough to finance Chilean imports for 18 months. The foreign investment in Chile has affected all aspects of the economy from manufacturing to agriculture, but mining is still the largest profit maker for foreign investors.

The copper industry is by far the most successful and important in Chile as it is the world's largest supplier of copper. Copper makes up over 6 percent of the annual GDP by itself and sustains itself at 40 percent of annual exports. The copper industry is divided into two parts

as copper can be sold as unrefined cathode copper which is copper as is found in the ground or also as a refined ore. The two most important refined ores are molybdenum and rhenium which are refined from low grade copper to become profitable. The industry is one of the few in which the government has retained a large influence.

Many state owned enterprises were privatized during the Pinochet regime, however, the largest remains in the hands of the government. CODELCO or Corporación Nacional del Cobre de Chile is the largest copper company in the world and the largest state-owned enterprise in Chile. It was founded in 1976 five years after Salvador Allende nationalized the entire copper industry. At the time, all copper mines in the nation were run by CODELCO. Also, the dictatorship passed a law that states that 10 percent of all profits of CODELCO will be directly invested into the armed forces of Chile. Even today, the largest portion of the military budget is funded directly from the state-owned corporation.

During the dictatorship, however, much of the industry was privatized by offering benefits to foreign investors. As the investment dollars started entering Chile, CODELCO's market share of the industry fell and as of 2007 CODELCO only controls about 40 percent of the Chilean copper industry. This compares to the company's 100 percent share in 1976 and 58 percent in 1990 (Winn 241-43). As a corporation it owns 118 million tons of ore reserves or 11 percent of the world's copper supply. At the current world consumption the current reserves are enough to allow for 70 years of profitable operation. The corporation operates 5 mines with the largest being CODELCO NORTE and El Teniente. Between the mines in the northern part of the country and the corporation's headquarters in Santiago nearly 18,000 people are employed by the company. Since it is state owned, the corporation is led by the Chilean Minister of Mining who is appointed by the President. Additionally, the board of directors is also appointed by the

President. Keeping the company state owned has allowed the country to benefit from the production and profits of the nations most valuable resource. In the year 2006, CODELCO reported that its payments to the government were enough to “supply the treasury with nearly 1 million dollars per hour 24 hours a day 365 days a year.” (CODELCO).

CODELCO may own the largest individual share with over 40 percent of the copper industry, however, it is private companies, mostly foreign, that control the rest of the mines and production. The privatization of the copper industry started during the dictatorship when the Pinochet government favored incentives to entice foreign investment in the country. Rather than return the mines to their former North American owners, the government offered incentives for companies to reinvest in the industry and therefore once again bring their money to Chile. These concessions by the government included a fixed tax rate of 49.5 percent. This was in comparison to previous tax rates that could be as high as 70 percent. Also, the Chilean government allowed for a system of accelerated depreciation on equipment and machinery, and set a policy of no restrictions on the repatriation of profits.

The enticements of the Pinochet government were able to draw the attention of many North American, European and Asian companies. This policy allowed for worldwide investment, rather than that solely of the United States. Moreover, over 60 percent of the nations FDI is in the mining industry. As most of the companies were already in the oil industry they had the resources to promote exploration and exploitation of the copper industry. Some of the notable companies investing in the industry included Disputada de Las Condes, owned by Exxon and La Escondida a subsidiary of Mitsubishi (Winn 242). The presence and resources of the foreign companies allowed for a revitalization in the industry. Through exploration of the northern regions of Chile the companies found reserves of copper previously unclaimed by CODELCO.

A loophole in the tax law also made it more profitable for these foreign investors to mine unrefined ore and sell it abroad to be refined elsewhere. In 1970, less than 3 percent of copper exports were unrefined ores; by 1998 unrefined ores represented 33 percent of copper exports (Aroca 100).

As copper exports have remained strong and important to Chile, other areas of the economy have been developed to provide Chile with the diversification necessary to be a well-rounded economy. The agricultural sector is one of the bright spots during the economic growth after the dictatorship. For the purpose of this paper, the agricultural sector will include normal crop production, the wine industry, as well as the forestry industry which has become one of Chile's most important. Crop production saw significant increases during the second half of the 1980s and the 1990s. Much of this can be attributed to the redistribution of land. During the socialist government of Allende, land was taken from large land holders in an attempt to dismantle the latifundio system. It was then redistributed to the people who worked the land in small plots. This system, however, was inefficient and the farms often failed in the hands of the new owners. During the banking crisis of 1982-83 many farms were seized through foreclosure and were resold to new owners. This allowed for an increase in efficiency in farm production. Since the beginning of the dictatorship farms of over 1000 hectares have made up about 1 percent of the farms but controlled about 68 percent of the land. The real change came in the decrease in percentage of farms that were less than 5 hectares and were combined to form farms between 5 and 100 hectares. These medium sized farms have increased from 40 percent of farms in 1976 to 50 percent in 1997. These farms are large enough to be run as businesses and allow for more efficient controls that the very small farms cannot. By the mid-1990s, the agricultural sector of the economy provided for nearly 25 percent of Chilean exports. (Aroca 144-45).

Changes in the agricultural industry have also occurred in what is produced. During the 1980s and 1990s Chile saw a decrease, by percentage, in land use for what had been traditional crops: wheat, sugar beets, and rice. Land use for these traditional crops fell at an annual rate of 3 percent from over 1.26 million ha in 1976 to only 844 thousand ha in 1997. In contrast, land use for fresh fruit production grew at an annual rate of over 8 percent. The change in production can be accredited to the desire to increase exports. The Chilean farmers realized they had an advantage in fruit production during their summer while the northern hemisphere was in winter. Thus, by 2003 Chile held a market share of 11 percent in fresh fruit production. It also became the world's largest producer by value of fresh grapes at 1.143 billion in exports in 2003. Other products important to the fresh fruit industry are apples, peaches, and avocados. As of 2003, the United States has become Chile's largest buyer of fresh fruit followed by the EU and Mexico (Kipe 8-12).

In addition to selling fresh fruit, Chile has become one of the world's leaders in wine production. Wine exports account for over 2 percent of all Chilean exports, and with over 5 percent of the global market share, Chile has become the 5th largest exporter of wine in the world. In 2005, Chile produced over 8 million hl while producing over 900 million dollars in exports (USDA). Chilean wine is primarily exported to the U.S., Canada, and EU, and exports continue to increase. During the 1990s and early 2000s growth in the industry was seen at 15 percent annually. The Central Valley is home to a variety of wineries that produce a wide variety of wines. Chile is most famous for its production of red wines and the Cabernet Sauvignon and more recently the Carmanere are the two most popular grape varieties in Chile. Recently, the movement in Chile has been toward organic production. Many of the smaller wineries are utilizing these production techniques to improve yields and quality of the grapes they produce.

This organic practice has clearly paid off as world market share and export levels continue to rise.

As land use was redistributed for the production of fresh fruit and wine, land used for the forestry industry also increased. Chile has transformed into the second largest exporter of forestry products in South America behind Brazil. Between 1976 and 1997 Chile increased its land use for forestry 5 percent per year and increased total land use from 627,500 ha to 1.1 million ha. The rise in land use was a reaction to the decision to promote plantation farming. Southern Chile provides ample water for the evergreen pines and eucalyptus plants that are common in plantation farming. Comparatively fast growth for pines has allowed Chile to develop its industry for both pulp and paper as well as hardwoods for industry. The forestry industry accounts for over 14 percent of annual exports and employs over 100,000 people (The World Forestry Center).

While the land has been reutilized to enhance higher yields, the waters of Chile have also become an area of wealth for the nation. Fishing and fish products such as fishmeal and prepared fish have become a large and important industry. In 1996, the fishing industry accounted for 11 percent of all exports in Chile (Aroca 100). The largest market for the fishing industry comes from farmed salmon in the south of Chile. The Lake District provides plentiful lakes for both foreign and domestic companies to raise salmon. The program started in the late 1980s by the Chile Foundation has boomed after two decades of development. The growth is unprecedented as only 28,810 tons of fish was produced in 1990 compared to 664,661 tons in 2006 (Barrionuevo). As of 2007, Chile had become the world's second largest salmon farming nation behind Norway employing over 45,000 workers in the region (WWF). Additionally, Chile provides the United States with more farm-raised salmon than any other nation. There has, however, been a negative

impact of the salmon industry. Over two decades of farming has harmed the environments and the Patagonian lakes. Many environmental organizations fear the damage, if not controlled, could completely destroy some of Chile's most beautiful and productive lakes. After a large outbreak between 2007 and 2008 of Infectious Salmon Anemia, I.S.A., Chile put in place a set of reforms regarding farming practices and the use of antibiotics. The reforms were set in place to prevent a further growth in the virus that occurs in just 2 percent of Chile's salmon farms. The fear of the virus, did however, slow exports to many of the United States largest consumers such as Safeway and Costco grocers. The reforms not only will benefit the environment, but additionally will provide security to an American industry that has been scared by the dangers of farm raised fish (Barrionuevo).

The growth in Chilean industry can be seen through the increases in exports in GDP during the 1990s and beginning of the 21st century. By producing over 69 billion dollars in exports in 2008, makes Chile the 46th largest exporter in the world and the 4th largest in Latin America behind larger countries Mexico, Brazil, and Argentina (CIA). The significant growth and place on the world economic stage has not, however, been without its negatives. Chile remains a country with one of the highest levels of disparity in income. Poverty levels also remain high. It can be argued that during the period of international growth Chile has left its own people behind.

While it is outside the realm of this paper, the economic inequality is worth briefly mentioning. Within Chile over 16 percent of the population live below the poverty line and a large percentage more live just above it. The Gini index for the country, which measures income inequality, is 54.9 which rank amongst the highest in the world and second only to Brazil in Latin America. According to the World Bank the top 20 percent of the population controls over

60 percent of the wealth, while the bottom 10 percent controls less than 1.5 percent (World Bank). This sort of inequality is rare for a country that had developed as Chile has. In a poll from 1998 53 percent of the population agreed that democratic rule had helped the economy, yet 83 percent stated their personal lives had not improved (Winn x-xi). The question to be asked then, is how does this happen. How does an economy thrive without an improvement in the lives of its people? Arguments have been made that Chile developed too fast and in a sense did not think about the citizens of the country. More emphasis has been put on international investment than has building infrastructure for the people. While 96 percent of the country is literate and enrollment in primary education is nearly 100 percent Chile provides very little opportunity for vertical class movement.

Conclusion

Throughout this paper we have explored the economic structure of Chile and how it has progressed since the Frei presidency in 1964. In the half-century since, the nation saw a socialist revolution ending with a coup which led to a seventeen year dictatorship. Despite the harsh conditions of the military regime, the country moved past it and completely restructured the economy. Chile has diversified its industries and is less reliant on the success of copper than it once was. The rapid growth in industry has been termed the “Chilean Model,” and is looked at by many as an example for how change should occur. This paper disputed that point, arguing instead that neither Pinochet nor the neo-liberal policies he enacted were the reasons for the new found success of the economy.

When Frei took over the presidency he built his platform on reforms that would better the social standing of the working class. His reforms were realistic and reachable, however, an over-reliance on U.S. money and support prevented Frei from securing any significant change. By the end of Frei’s term in 1970, Chileans were beginning to see greater social unrest and inequality. This led to the socialist regime of Salvador Allende that was cut short by the coup in 1973. The Allende plan was based on a slow and steady change toward socialism. Unfortunately for Allende, the people began to take control of the socialist revolution and sped up the transformation by demanding more from the government and seizing farms and factories. This social unrest led to the coup directed by Augusto Pinochet on September 11, 1973.

The coup ended with the military taking control of the government and the beginning of the 17 year dictatorship of Augusto Pinochet. Many critics argue that real economic change began to happen during this tenure from 1973-1989. The economy was led by a group of American trained economists known as the Chicago Boys. These economists were of the neo-liberal school supported by Milton Friedman at the University of Chicago. Pinochet in working

with the Chicago Boys supported the efforts to re-privatize farms and industry. However, the copper industry remained in the control of the state. The copper industry became a crutch for the government to bailout banks and the economy in general after a series of poor policies led to Chile's worst recession since the Great Depression in 1982 and 1983. The Chilean economy saw gains in exports and foreign investment during the Pinochet regime, but two major recessions along with high inflation rates limited the success of the dictatorship. It was not until the last few years of the dictatorship when a push for democratic rule was being made that the economy began to grow. This growth continued until the beginning of the current democratic era; when a series of decisions allowed the economy to reach a boom period unlike any growth seen during the dictatorship.

This growth can be attributed to the Central Bank which was given complete autonomy at the beginning of the Aylwin presidency. The Central Bank set policies that allowed for a target band for inflation of between 2 and 4 percent. This goal was reached after 10 years under the democracy and a 20 percentage point drop in the inflation rate. Along with stabilizing the inflation rate, the exchange rate was changed as well. The new exchange rate was controlled by the Central Bank to help promote foreign investment and development.

These policies clearly worked as GDP and exports grew throughout the 1990s and into the first decade of the new century. The stability of the economy allowed Chile to diversify its industries and limit the risk of a single good economy, which had been the case for decades. While copper maintained its standing as the most profitable and most important export and industry, new developments in agriculture, forestry, and fishing transformed the economy. Two programs have been developed by Chile to help with the growth of the different industries. The first of these programs is the Copper Stabilization Fund developed by the Central Bank. This

program uses revenues from the state owned CODELCO to support the economy in times of low copper prices. This allows the nation to avoid the shock created during a downturn in the price of their most important good. The other program developed at the end of the dictatorship is the Chile Foundation. This organization has been a key to the development of the salmon farming industry as well as the revitalization and growth of the forestry industry. By providing money for research and development, the Chilean government has promoted the diversification and growth of these new industries.

The rapid growth seen after the dictatorship provides evidence that Pinochet's government and the neo-liberal policies he enacted did little for the improvement of the nation's economy. The neo-liberalists led a move toward laissez-faire policies. While some growth was seen in GDP and foreign investment during the dictatorship it does not compare to that of the democratic era. In fact, it was just the opposite as the largest growth occurred because of policies and programs that went against the neo-liberal policies of the time. The government's stake in CODELCO provided it with the capital it needed to back the banks; while the autonomy given to the Central Bank was feared by the Chicago Boys. Additionally, the human rights violations that came along with the dictatorship were an intangible cost greater than the economic gains made during the military government.

Although Chile has clearly grown and developed, the idea of the "Chilean Miracle" is not completely true. The economy did not grow without many setbacks first. It was neither the change toward a capitalist system nor the neo-liberal policies that brought about the development. Instead, it was the democratic era and the autonomy of a once micro-managed Central Bank that set sound policy to upstart the unprecedented growth seen in Chile.

Works Cited

- Allende, Salvador. "Medical and Social Reality in Chile." International Journal of Epidemiology .34 (2005): 732-736.
- Aroca, Patricio A. and Geoffrey J.D. Hewings eds. Structure and Structural Change in the Chilean Economy. London: Palgrave Macmillan, 2006.
- Baldez, Lisa, and Carey M. John. "Presidential Agenda Control and Spending Policy: Lessons from General Pinochet's Constitution." American Journal of Political Science 43.1 (1999): 29-55.
- Barrionuevo, Alexei. "Facing Deadly Fish Virus, Chile Introduces Reforms." New York Times on the Web 3 Sep. 2008. 1 Mar. 2009 <http://www.nytimes.com/2008/09/04/world/americas/04chile.html>.
- Caballero, Ricardo J. "The Future of the IMF." The American Economic Review 93.2 (2003): 31-38.
- Central Bank of Chile. Working Papers: Inflation Targets and Stabalization In Chile. Dec. 1999. By Landerretche, Oscar, Morandé, Felipe, Schmidt-Hebbel, Klaus.
- Central Intelligence Agency. CIA World Factbook: Chile. 13 Dec. 2007. 18 Jan. 2008 <<http://https://www.cia.gov/library/publications/the-world-factbook/geos/ci.html>>.
- CODELCO. "Annual Report CODELCO 2007" 28 Feb. 2009 http://www.codelco.cl/english/la_corporacion/memorias/memoria2007/pdf/CodelcoInstitucional07english.pdf.
- The Columbia Gazetteer of the World Online. Chile. 2005. 13 Jan. 2008 <<http://www.columbiagazetteer.org>>.
- Ffrench-Davis, Ricardo. Economic Reforms in Chile from Dictatorship to Democracy. Ann Arbor: The University of Michican Press, 2005.
- Gallardo, Francisco, Victoria Castro, and Pablo Miranda. "Riders on the Storm: Rock Art in the Atacama Desert (Northern Chile)." World Archaeology 31 (1999): 225-242.
- Instituto Nacional de Estadística. Chile: Censo De Población Y Vivienda 2002. 2002. 22 Jan. 2008 <<http://http://espino.ine.cl>>.
- Instituto Nacional de Estadística. City Population. 30 Sep. 2007. 4 Feb. 2008 <<http://www.citypopulation.de/Chile.html>>.

- Kalter Eliot, Phillips Steven, and Espinosa-Vega A. Marco. Chile: Institutions and Policies Underpinning Stability and Growth. Washington D.C.: International Monetary Fund, 2004.
- Kipe, Sandra. "World Fresh Fruit Market 08/04." 2004. 28 Feb. 2009
<[http://www.fas.usda.gov/htp/Presentations/2004/World%20Fresh%20Fruit%20Market%20\(08-04\).pdf](http://www.fas.usda.gov/htp/Presentations/2004/World%20Fresh%20Fruit%20Market%20(08-04).pdf)>.
- Los Héroes Olvidados: Los que no volverán. La Guerra Del Pacifico. Feb. 2008. 19 Feb. 2008
<<http://www.laguerradelpacifico.cl>>.
- Martínez, Javier, and Alvaro Díaz. Chile: The Great Transformation. Geneva: UNRISD, 1996.
- Meller, Patricio. The Unidad Popular and the Pinochet Dictatorship. New York: St. Martins Press, LLC, 2000.
- Michaels, Albert L. "The Alliance for Progress and Chile's 'Revolution in Liberty,' 1964-1970." Journal of Interamerican Studies and World Affairs 18 (1976): 74-99.
- Pew Forum on Religion. Religious Demographic Profile: Chile. 2008. 22 Jan. 2008
<<http://pewforum.org/world-affairs/countries/?CountryID=41>>.
- Siavelis, Peter. "Executive-legislative Relations in Post-Pinochet Chile: A Preliminary Assessment." Presidentialism and Democracy in Latin America. Eds. Mainwaring Scott and Shugart S. Matthew. Cambridge, New York: Cambridge University Press, 2000. 321-343.
- Taylor, Lance. After Neo-liberalism: What next for Latin America? Ann Arbor: The University of Michigan Press, 1999.
- United States Census Bureau. International Database Country Summary: Chile. 16 July 2007. 22 Jan. 2008 <<http://www.census.gov/ipc/www/idb/country/ciportal.html>>.
- United States Geological Services. Chile Earthquake Information. 15 Jan. 2008. 1 Feb. 2008
<<http://earthquake.usgs.gov/regional/world/?region=Chile>>.
- USDA Foreign Agricultural Service. World Wine Situation and Outlook 2006. Aug. 2006. 31 Mar. 2009 <<http://www.fas.usda.gov/agx/ISMG/Global%20Wine%20Report%20Final%20Aug2006.pdf>>.
- Winn, Peter. Victims of the Chilean Miracle: Workers and Neo-liberalism in the Pinochet Era 1973-2002. Durham, NC: Duke University Press, 2004.
- World Bank. The World Bank. 30 Mar. 2009. 30 Mar. 2009 <<http://www.worldbank.org>>.
- The World Forestry Center. World Forest Institute: South America. 2003. 1 Mar. 2009
<<http://wfi.worldforestry.org/trade-4.htm>>.

World Wildlife Federation. Report: Salmon Farming Threatens Chile's Patagonian Lakes. 19 June 2007. 1 Mar. 2009 <<http://www.worldwildlife.org/who/media/press/2007/WWFPresitem970.html>>.

Zaragoza, Gonzalo. América Latina: Epoca Colonial. Madrid: Grupo Anaya, 2005.