

# Democracy, Dictatorship and Economic Performance in Chile

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The political and economic experience of Chile between 1932 and the present provides a natural experiment for a comparison of democracy and dictatorship with respect to their impact on economic performance. Democracy existed in Chile between 1932 and 1973, and was associated with a very wide range of efforts at economic reform, though without lasting success in any of them. This period also shows that democratic politics can provide economically perverse incentives, and can legitimately elect a president who carries out disastrous economic policies.

In the period between 1973 and 1990, Chile had a dictatorship that, with a long lagtime, successfully reformed economic institutions, and brought about constructive changes in economic performance. This regime made some mistakes that may have prolonged the recovery, but the notable thing was the fact that the economy not only recovered, but achieved a new level of prosperity. My argument is that the neoliberal economic policies were central to economic success.

Since 1990, democratic governments have maintained the institutions and policies that brought about improved economic performance under the dictatorship, and have continued to enjoy the resulting prosperity. The democratic governments have been more sensitive to equity issues, but not at the expense of economic performance. Chile's experience is not typical, but it is instructive about the relationship between political institutions and economic performance.

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In general, there is not an unconditional relationship between regime type and economic performance. Indeed, it is not nearly as easy to define and measure democracy and dictatorship as it is to do so for economic growth and inflation. Chile fits, and indeed may even define a caricature of the limitations and the economic dangers of democracy, and of the economically constructive possibilities of authoritarian government. But caricatures are simplistic. Chile's democratic experience is unique, and so was its dictatorship. Inferences must be drawn with care, but the Chilean experience can inform us of some good and bad *possibilities* of economic policymaking and performance under both democratic and authoritarian political institutions.<sup>1</sup>

Before 1973, Chile had had a long (for Latin America) though turbulent history of democratic rule, with chronic inflation and mediocre economic growth.<sup>2</sup> Democratic politics were combative and polarized along a wide spectrum from left to right. However, Chilean democratic traditions command respect in their own right, as well as in comparison to other Latin American countries. Outside the North Atlantic nations, Australia and New Zealand, Chile was the only country in the world “to have consistently selected its political leaders by competitive elections throughout the 1932-1973 period” (Remmer 1984, 210).<sup>3</sup> Until 1972, economic performance, while never outstanding, was not catastrophically bad.

The depth of this democratic tradition made the military coup of September 11, 1973 a more dramatic break with political traditions than other Latin American military coups, such as those of 1966 or 1976 in Argentina. Moreover, the military dictatorship would leave an economic and political legacy that continues to affect politics and economic policy in Chile to the present day, well over a decade after the dictatorship gave way to a democratic regime in 1990.

This dictatorship in Chile was the most economically constructive of all dictatorships in Latin America. It tells of what is possible, but not what is likely or

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<sup>1</sup> These issues are addressed in my book manuscript in progress: *Democracy, Dictatorship and Economic Performance in Latin America* (Cambridge University Press). This paper is derived from one of the chapters.

<sup>2</sup> Albert Hirschman called Chile the “locus classicus” of inflation in Latin America (1963, 161).

<sup>3</sup> Over the entire 20<sup>th</sup> century, Costa Rica has had a longer period of free elections, but this quote is correct because of a brief period after the results of the 1948 Costa Rican elections were annulled. Continuous democratic elections resumed in 1953. I am indebted to Mitchell Seligson for these points.

typical under dictatorships. But it can tell us something about policies that work and don't work, and about the time it might take for them to have their effect. Now, Chile has perhaps the healthiest economy in Latin America. Economic growth between 1980 and 2000 was the highest in Latin America by a substantial margin.<sup>4</sup> Inflation is approximately zero (*Economist*, recent issues). I contend that this economic performance is a result of the policies carried out by the government, rather than something that somehow automatically comes with an authoritarian regime.

But the regime probably had something to do with the success of the policies. The authoritarian character of the government allowed it to carry out its policies without regard to popular or legislative support. But the authoritarian character also denied the government some constructive feedback that might have led it to avoid some mistakes. Also, there was not a fixed electoral calendar that would put an outer limit on when the regime's continuation in office would be subject to popular approval.

I will argue that this economic success is substantially due to the full implementation of economic reforms and economic policies that were guided by considerable expertise derived from the University of Chicago's department of economics. These policies were then called neoconservative, and subsequently called neoliberal. They are not far from what was later defined as the "Washington Consensus" (Williamson 1990, Kuczynski and Williamson 2003).

Neoliberalism is out of fashion, and there is no consensus about the Washington Consensus. Neoliberal economic reforms in Latin America have disappointed their supporters, and their lack of success has emboldened their critics, but there is no positive, coherent alternative presented. One major reason that piecemeal neoliberal reforms have disappointed may be that no country has gone as far over as sustained a period as Chile did in implementing such reforms.

The "Chicago School" is a distinct version of modern neoclassical economics, which dominates the economics profession. The Chicago School is highly prestigious but somewhat controversial within economics. To a non-economist, the economic policy prescriptions that would come from Chicago use the same concepts and variables as those

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<sup>4</sup> Chile's annual growth averages 2.9 percent over this period, as apposed to 0.37 percent in all of Latin America (Payne et al. 2002, p. 9).

that that would come from other leading departments, such as those of Harvard, MIT or Stanford. But the recommendations from Chicago would be generally much more predisposed to market solutions and less friendly to government, among other differences.<sup>5</sup>

Economic policy in Chile between 1973 through 1990 was made by a military dictatorship implementing the recommendations of economists trained at the University of Chicago or in that intellectual tradition. These recommendations were imposed and enforced by the authoritarian government led by General Augusto Pinochet Ugarte, more or less regardless of the kinds of opposition and risk of defeat that might otherwise have come from democratic institutions. Such institutions would at a minimum include popular elections, which might replace a government with another not committed to the same program of reforms. They would also include democratically elected legislatures, which might defeat or water down government proposals.

This argument about dictatorship and democracy raises many questions, including difficult questions about tradeoffs. Of course there is no reason to assume that a dictatorial government is more likely than a democratic government to adopt a complex package of policies, constructive or otherwise, that are derived from academic economics of whatever school. But the Pinochet government did adopt such policies. In this they might be compared to the Argentine dictatorial governments that took power in coups in 1966 and in 1976, and to the democratically elected Argentine government that took power in 1989. But the Pinochet government was more successful than the three Argentine governments. Being an authoritarian government surely helped, but the Argentine experience shows that a dictatorship, with its capacity to ignore or repress opposition, is not a sufficient condition for successful implementation of economic reforms. In fact, the Argentine dictatorship that took power in 1976 was, if anything, more brutal with its perceived enemies than the Pinochet dictatorship in Chile.

The capacity of an authoritarian government to make economic plans and stick to them is related to its capacity to be insulated from the demands of groups that oppose

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<sup>5</sup> For discussions of the Chicago School in the context of Chile, see Valdéz (1995) and Barber (1995). Valdéz speaks of the Chilean Chicago Boys as having “a limitless faith in economic science as a legitimizing basis for their draconian decisions, and in the market’s ability to solve the bulk of the problems facing society.” “The Chicago Boys immediately converted a set of economic objectives into the sole determinant of all that was socially desirable” (1995, 2, 7)

them or their policies for whatever reason. If it were in general the case that successful implementation of economic reforms depended on authoritarian government, we would need to ask at least two kinds of questions about tradeoffs. The first is whether the results are worth the general lack of democratic political freedoms of dissent and opposition during the dictatorship. Specifically, are the results worth the loss of the political freedoms to choose another government, or to be represented in a legislature by representatives in a position to oppose, modify or block policies? For many, the answers to these questions have to be negative.<sup>6</sup>

But it is conceivable that an authoritarian government would deny the public the kind of control over the personnel and policies of government that elections and representative legislatures provide without denying freedom of thought, speech and expression. It is also conceivable that an authoritarian government would not persecute opponents of the regime or its policies, even though it denied them the right to organize and implement their views. Such a government would not be democratic by any meaningful standard, but it could avoid some major violations of human rights that often occur under authoritarian governments.

The Chilean dictatorship of 1973-1990 did not stop short of persecuting and murdering its perceived enemies. It would take a very strong value on the results of the economic reforms to assert that they were and are worth the costs in human rights. But we can still ask whether or to what extent the terror, murder and other violations of human rights were necessary for the results.

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For much of its modern history, Chile's growth experience has not been far out of line with that of other Latin American countries, but it has recently improved. Between 1952 and 1970, Chile's real GDP grew at an annual rate of 3.9 percent, which was lower than the rate in this period for Brazil (7.0), Mexico (6.5), Venezuela (6.2), Peru (5.7), Colombia (5.2) and Argentina (4.1) (Edwards and Edwards 1991, p. 24, note 6). Gallego and Loayza show that Chile lagged behind the median for Latin American countries between 1961 and 1985, but that from 1986 to 1999, real per capita GDP growth was multiples of both Latin American and world rates (2002, 420-2).

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<sup>6</sup> See for example Sen (1999).

Chronic inflation became a problem in Chile earlier than in Argentina. Indeed, Chile's experience of chronic inflation had begun in the nineteenth century. Albert Hirschman discusses the relevance of an 1860 banking law, the abandonment of the metallic standard in 1878, and its brief resumption from 1895 to 1898. Hirschman criticizes several standard explanations of inflation in this era, but does contend that the political structure in the parliamentary republic led to drift and the avoidance of decisions that might have held inflation in check (1963, 163-75).

Harberger agrees that inflation began in the nineteenth century, but says that it was contained within "moderate" limits until the 1930s, when the price level more than doubled, and the 1940s when inflation accelerated (1963, 219). Although this book will argue that democracy does not unconditionally cause inflation, I will link some increases in inflation during the long democratic period from 1932-1973 to democratic institutions.

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This paper will address the following questions. To what extent were the political experiences between 1932 and 1973, and since 1990 democratic? To what extent can the uneven economic performance of the earlier period be attributed to democracy? What are the mechanisms?<sup>7</sup> To what extent can the economic improvements be attributed to the policies of the military dictatorship? To what extent can the implementation of the economic reforms of the dictatorship be attributed to the formal autonomy of authoritarian government, and to what extent did it depend on the terror? More generally, what are the lessons of the Chilean experience of democracy and dictatorship for economic policymaking?

This chapter will argue that democratic institutions in Chile do not in general cause poor economic performance. The democratic governments between 1932 and 1973 inherited poor performance. However, some of them made it worse. But the democratic governments since 1990 inherited good economic performance, and have, if anything improved it. Democratic institutions may provide incentives and mechanisms for poor

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<sup>7</sup> Among the economically perverse possibilities of democratic politics are the following. Elections might put in power radical reformers with economically unsound or unsustainable plans. Democratic institutions might also enhance the prospect of the defeat of constructive programs. Democratic governments can be replaced in midstream before their policies can be fully implemented. And the incentive to win elections can lead to time-inconsistent policies, i.e. those in which doing the best thing at the moment is different from doing the best thing for all times..

economic performance, but they do not systematically cause it. Under some conditions democracy is associated with good economic performance.

The authoritarian government in the intervening period did successfully implement orthodox, neoliberal reforms that over a long period improved the Chilean economy. These reforms helped make the economic conditions inherited by the new democracy of the 1990s favorable. But some policy mistakes and some bad luck led to an economic crisis and a deep recession in 1982, and to a longer recovery period than might have been necessary.

Chile illustrates that democratic institutions are compatible with economic growth and low inflation, but do not assure it. Such institutions may generate policies that are at odds with sustainably good economic performance, but do not necessarily do so. These issues will be addressed in historical sequence. But first I present an example of the differences between dictatorship and democracy for social security reform in Chile.

### **Democracy, dictatorship and the social security system**

The reform of the Chilean social security system illustrates some of the disadvantages of democracy, and the advantages of dictatorship for economic efficiency and even fairness. Over the course of the first half of the 20<sup>th</sup> century, Chile had developed a “chaotic, discriminatory, fragmented social security system that protected only the most articulate groups within the urban-centered coalition” (Borzutzky 2002, 45). An official report described it as “unfair, ... oligarchic, ... discriminatory, ... ineffective and expensive” (Ibid. p. 66).

The reformist Christian Democratic administration of President Eduardo Frei (1964-1970) tried to rationalize and streamline this system, but failed because those who were privileged by it were able to use democratic institutions to block reform. Similarly, President Salvador Allende tried to reform the system under his Unidad Popular administration, but was also blocked by the ability of the beneficiaries to use the legislature to protect their privileges. In both cases, the opposition used democratic institutions that would be considered limitations on presidential power in order to defeat the changes.

General Pinochet also tried to reform the system, but unlike the democratically elected presidents, he succeeded because the beneficiaries of the existing crazy quilt system were not able to use democratic institutions to resist reform. Pinochet's government had the power to implement the reform in spite of the opposition of the beneficiaries.

Please note that I am separating the reform of the existing system from the privatization of social security, for which Chile has become a leading but controversial example. The desirability of the former change is not controversial to anyone except perhaps the privileged former beneficiaries. The point is that this reform is one example of how democratic institutions can obstruct progress and how a concentration of power can achieve a constructive result. We will see that things were not so simple in macroeconomic policy.

#### **Four decades of democracy**

For some forty years between the early thirties and the early seventies, popular elections produced the presidents and legislatures that governed Chile. This is the period that has been the main source of Chile's unique reputation as a Latin American democracy.

From 1932 until September 1973 Chile was the only Latin American nation in which competitive party politics, uninterrupted by coups, assassinations, or revolutions, determined the occupants of the presidency, Congress and higher policymaking positions in the national bureaucracy (Loveman 2001, 196).<sup>8</sup> This section will identify several limitations on just how democratic Chile was in this period, but it will lay the groundwork for a following section on how democratic politics may have been linked to poor economic performance.

***Formal indexes of democracy.*** The administrations between 1932 and 1973 have been designated democratic by the reliable and interpretable indexes when they begin their measurement. Specifically, Chile was considered democratic by Przeworski et al. (2000) from 1951 (the first year of their measurement) until 1973 (the year the dictatorship began), while Chile was deemed democratic by Mainwaring et al. (2001) from 1945 (the first year of their measurement) until 1973. The Vanhanen index (the

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<sup>8</sup> But see footnote 3 above.



product of participation and contestation) rises almost monotonically from 3.45 for succeeding administrations from 1932 (3.45) to the early 1970s (19.78). Much of this rise is driven by the monotonic increase in the size of the electorate.<sup>9</sup>

*Access to the ballot.* Chile expanded the suffrage much more slowly and on a more piecemeal basis than Argentina, even though Chile has a much more enduring history of competitive elections. Argentina expanded access to the ballot in two main steps. It established universal male suffrage in 1912, and extended the vote to women in 1947. As Table 1 shows, Chile did not establish the principle of comparably universal suffrage until 1970, and did not implement it until the next presidential election, which was then expected to be in 1976.

Table 1 about here.

Specifically, Chile had eliminated property requirements for voting in election reforms of 1874 and 1888 (Loveman 2001, pp. 164-5). But the 1874 reform was designed to limit the power of the presidency rather than to empower those without property. In fact, because there was no secret ballot until 1958, removing property requirements did not enhance the power of many of the newly enfranchised voters. Rather it provided a large bloc of votes to landowners, who could control the votes of their workers. Thus an ostensibly egalitarian reform of the suffrage was a tactic in a political battle among elites, and it had the counterintuitive effect of enhancing conservative elite control of politics.

Women's suffrage dates to 1949. An electoral reform in 1958 introduced compulsory voting and the Australian ballot (a single official ballot instead of ballots printed by the parties). The latter change reduced the influence of landlords in Chilean politics. In particular, the Australian ballot took away their ability to oversee the votes of rural workers, whose choices could previously be identified by unique party ballots.

Universal adult suffrage was attained in principle but not in fact in 1970, with the removal of the literacy requirement and the extension of the vote to those between 18 and

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<sup>9</sup> <http://www.svt.ntnu.no/iss/data/vanhanen/> The Polity index rises monotonically from -2 to 6. For some reason, the first three years of the period that is otherwise consensually democratic is called mildly autocratic (-2). Freedom House does not begin until the early 70's.

21 years of age.<sup>10</sup> This expansion was part of a set of constitutional reforms advocated by President Frei since early in his term, and that the Congress finally approved in his final year. Even the right supported the expansion of the electorate, because it was not to go into effect until the next presidential term of office, and would not jeopardize the chances of Jorge Alessandri, whom the National Party then expected to win the 1970 election (Sigmund 1977, 87-88).

The suffrage reforms were part of a general strengthening of the presidency, which both the Christian Democrats and the National party expected to control. No one anticipated that the next democratic election for president would be twenty years later, in 1990, and that the beneficiary of expanded presidential powers would be Salvador Allende, who would assume office “with the widest latitude of executive authority of any president since 1925” (Siavelis 2000, 10).

The electorate grew steadily from 9.0 percent of the population registered to vote in 1932 (with 80 percent of that actually voting) to 37.0 percent of the population registered in 1970 (with 83 percent of that actually voting). The electorate thus more than tripled between 1946 and 1964 as a fraction of the population. In absolute terms, it rose by more than a factor of five between 1946 and 1970 (Loveman 2001, p. 199).<sup>11</sup>

Thus, for the entire “golden era” of democratic politics in Chile from 1932 to 1973, the Chilean electorate was limited by a literacy requirement that ended only in 1970 (but was not to go into effect until the next presidential election). And the elimination of property requirements in 1874 was linked to a ballot system that gave local elites control over the rural labor force. Given these facts, it is surprising that there was any working class party at all, let alone two, and a significant influence for the left, in the form of both Communist and Socialist parties.

Paul Sigmund speculates that the expansion of electoral participation that occurred in the 1950s led “political leaders to promise more to the electorate than the Chilean political and economic system could deliver” (1977, 9). It is true that the

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<sup>10</sup> Lest any North American be too shocked about the lateness of the elimination of literacy requirements in Chile, it is worth remembering that these were outlawed in the United States only by the Voting Rights Act of 1965, and then only for the n states that had very low black participation rates. There is no doubt that in the U.S. these tests were used in a discriminatory fashion to exclude blacks from the electorate. The United States extended the vote to those between 18 and 21 in 1971 with the Twenty-sixth Amendment.

<sup>11</sup> Karen Remmer shows that, through 1949, total votes cast never reached nine percent of the population (1984, p. 84).

programs of the presidents elected in 1964 and 1970 were for increasingly radical change, but this is to forget the Popular Front government elected in 1938. As the next section will show, a limited electorate did not seriously hinder a wide range of programs proposed by elected presidents, let alone the proposals made in the party system by candidates who did not win.

*The range of choice in the party system.* With such a slowly expanding electorate, we might expect that the range of partisan choice in Chile would expand slowly as well, but this is not the case. In fact, Chile was unique for having the broadest spectrum of parties in Latin America in this period (Hartlyn and Valenzuela 1994, 144-5). These parties echoed European politics more than those of any Latin American country, and replaced the previous system of factions and personalistic groupings. There was support for everything from Marxism on the left to fascism on the right (Loveman 2001, 200)

The most important parties of the left were the Communists and the Socialists. The former, one of the largest Communist parties in South America, were highly disciplined and followed a line set in Moscow. The Socialists were younger, having been founded in 1933. The Center was long dominated by the Radical party, but they were later eclipsed by the Christian Democrats, founded in 1957 and who won the presidency with 56 percent in 1964. The Liberals and Conservatives were the leading parties of the right until merging into the National Party in 1966 (Valenzuela 1977, 8-9; Borzutzky 2002, 23).

Except for the outlawing of the Communist Party in 1948 by a “Law for the Permanent Defense of Democracy,” all existing parties were eligible to run in all elections between 1932 and 1973, unlike the case for Argentina. The law that had outlawed the Communist Party was operative in the 1952 presidential election, and was repealed in 1958 as part of an electoral reform law in the last year of the Ibáñez administration.

On the face of it, a broad range of choice is a good thing, in that it offers a partisan vehicle for many different opinions and preferences. However, such broad ranges of choice are associated with instability of governments, and with a failure to act. A broad range of choice can lead to polarized politics, which is not desirable. Kenneth

Shepsle (1988) has observed that there may be a tradeoff between representation (the accurate reflection of the range of opinions) and governance (the capacity to make policy and govern effectively). Which one is more democratic is an open question, answered in different ways with different visions of government (Powell 2000).

***Choosing the president after the votes are counted.*** There were eight presidential elections (and eleven Congressional elections) during this democratic period between 1932 and 1973.<sup>12</sup> The 1925 Constitution provided that if no candidate achieved an absolute majority, the Congress would choose from the top two finishers in a joint session by secret ballot.

Four of the eight presidential elections were won by members of centrist parties: three by Radicals and one by a Christian Democrat (1938, 1942, 1946, 1964). The election of 1952 was won by ex-president Carlos Ibáñez, an independent. The elections of 1932 and 1958 were won by conservatives, Alessandri father and son, respectively. It was the election of Salvador Allende in 1970 that was to test the resilience of democratic institutions in Chile and find them wanting. Allende was a Marxist who wanted to bring socialism to Chile by democratic means.

The elections of 1932 (Alessandri), 1938 (Aguirre Cerda), 1942 (Rios) and 1964 (Frei) were won by more than fifty percent, so Congress had no role to play in these elections. But Congress had to choose from the top two in the elections of 1946, 1952, 1958 and 1970. In each of these cases it picked the candidate with the plurality, which had become a tradition. In 1958, the candidates of the left (Allende) and center (Bossay and Frei) agreed that the Congress should continue the unwritten tradition of choosing the candidate with a popular plurality, “even if it was by a single vote.” Alessandri, the candidate of the right, hesitated because he had such large backing in Congress. Ironically, Alessandri won the plurality with only 31.6 percent, the smallest of all the eight presidential elections, but was the beneficiary of the unwritten rule he had hesitated to endorse (see Sigmund 1977, 25).

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<sup>12</sup> Presidential terms were six years, but elections took place after four years in 1942 and 1946, because of the deaths of President Aguirre Cerda (elected in 1938) and of President Rios (elected in 1942). Congressional elections took place every four years, leaving eleven between 1932 and 1973 inclusive. See Nohlen 1993 for details.

Before 1970, these plurality winners were at the same time probably the most centrist or the least extreme. In 1946, Radical (centrist) Gonzalez Videla ran ahead of the Conservative candidate by 40.2 to 29.8 percent. In 1952, independent former president Ibáñez ran ahead of a Liberal (right wing) candidate by 46.8 to 27.8. In 1958, Jorge Alessandri (son of Arturo) ran as an Independent against Socialist Allende. In these cases, it is likely that the plurality winner would have won a popular runoff in the electorate, as well as in Congress.<sup>13</sup>

The reasoning follows the logic of the median voter theorem. The idea here is that when parties and voters are arrayed on a single dimension, the candidate who is closest to the median voter will win. In a party system that goes from left to right, as Chile's did, the candidate closest to the center is likely to win the popular vote in a two candidate contest. (The median voter theorem assumes that there are only two candidates.) In 1946, 1952, and 1958, the Chilean Congress simultaneously chose the candidate who was most likely to win a two-candidate public election and the plurality winner.

However, in 1970 the narrow plurality winner was Salvador Allende, a Marxist who had been running for President since 1952. Former president Jorge Alessandri ran a close second. This time it is not at all likely that Allende would have defeated Alessandri in a popular runoff. Still, in two senses the fact that Marxist Allende was awarded the presidency in 1970 with little over a third of the vote was a testimony to the strength of democratic traditions in Chile.

First, within the left, Allende's election was a victory for forces supporting a peaceful and democratic transition to socialism, as opposed to a violent overthrow of the government and a dictatorship of the proletariat. The Chilean left included forces who doubted that socialism could be achieved through democratic means, and subsequent experience may have proven them correct. But the election of Allende was a win for the democratically oriented Marxists over those who advocated violence.

The election of Allende was a fulfillment of specifically Chilean democratic traditions as well. Specifically, not only the formal constitutional rules, but also the

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<sup>13</sup> I am not claiming that they were Condorcet winners, i.e. able to defeat *every* other candidate in a pairwise comparison.

informal and unwritten rules were also followed in this election. Beginning in 1946, Congress had chosen four presidents in succession, each time overwhelmingly choosing the candidate who ran first “although there is no doubt that legally it could have chosen the runner-up in the popular vote”<sup>14</sup>

Allende’s plurality in 1970 was 36.3 percent, with Jorge Alessandri coming in second at 34.9. (Tomic, the Christian Democratic heir to the Frei administration won 27.8 percent). As an avowed Marxist, Allende was far from the political center in Chile. He was probably the second or lower choice of nearly 64 percent of the voting electorate, and presumably would have lost to either of the other two major alternative candidates in a popular runoff. Nonetheless, the Congress validated his election, in continuity with democratic traditions there. If it had not done so, it would have appeared to some that the electoral processes did not deal neutrally with all political views, but were rigged against the left. This validation of his election demonstrated that elections were not so rigged. The result also shows that, in Chile at least, democratic elections can produce a minority president of the left as well as of the right.

However, I believe that this is a case in which national democratic traditions were at odds with more general democratic principles in which the preferences of the median voter should dominate the preferences for an extreme candidate even if supported by a plurality winner. It is unlikely that Allende was the candidate “most preferred” by the Chilean electorate, though he won the election quite legally and legitimately. And his performance in office would show clearly that the difference between Chilean political tradition and more general democratic principles was not trivial or inconsequential.

Table 2 about here.

***Use of emergency powers and regimes of exception.*** Many if not all of the democratically elected governments between 1932 and 1973 resorted to emergency powers, including Arturo Alessandri, Aguirre Cerda, Frei and Allende (Loveman 2001, 254). This was a limit on the quality of democracy in Chile in this era.

***The representativeness of the legislature.*** Congress had the formal power to pass or block legislation, and was another avenue for the expression of interests. However,

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<sup>14</sup> Gil (1966, pp. 223-8) notes that in the 1964 election, Frei said that he would not accept the presidency if he were to run second to Allende, yet be awarded the presidency legally by Congress.

the Congress did not fairly represent the whole country as well as presidential elections did. First, the Constitution of 1925 established a numerical basis of representation in the Chamber of Deputies, with the provision that there be a reapportionment after each census. In spite of the fact that more recent population figures were available, the 1930 census would continue to be used through 1973 for the apportionment of an unchanging number of legislative seats. This was in spite of considerable growth and geographic redistribution of the population (Scully, 1992, 151). Thus with the urbanization of the population, rural areas were increasingly over-represented and urban areas were increasingly under-represented in Congress over time. When combined with the control of landowners over the votes of their workers until the move to a secret ballot in 1958, the Congress was itself not a body that fairly represented the population.

***Strengths and limitations of democracy between 1932 and 1973.*** Chilean democracy seems very strong when measured by the number of electoral periods ended by another election, and when measured by the range of partisan alternatives. However, its fulfillment of democratic standards is limited by the slow extension of the suffrage in a way that would resist manipulation by elites, by the outlawing of the Communist Party from 1948 to 1958, by the use of “regimes of exception,” and by the undemocratic control of Congress.

How does this all add up? Presidential elections were probably the most accurate reflections of popular preferences, especially after 1958, even though illiterates could not vote. The only presidential election in which the Communists were not allowed to run was in 1952. And ironically, the use of regimes of exception and the lack of representativeness of the Congress may have worked against each other, though they surely did not cancel each other out. The regimes of exception enhanced the power of the president, the most representative figure in the political system, and reduced the power of the Congress, a less representative aspect. However, the result was that there was not a second, *representative* branch of the government that could and would stand in the way of presidential excesses or even tyranny.

### **Democracy, policy and performance: 1932-1973.**

What is the relationship between democracy in Chile in this period and economic policy and performance? We should first reiterate and reemphasize that economic

problems preceded this period of sustained democracy. Writing in the early 1960s, Albert Hirschman observed that Chile had been the locus classicus of inflation in Latin America because of an experience of inflation that even then had lasted over eighty years (1963, 161). And of course Chile was a victim of the world depression that followed the American stock market crash of 1929.

The particular democratic system in Chile under the Constitution of 1925 did not lend itself to policy programs that took a long time to implement. The president was limited to a single six-year term, though he could run again after an intervening president. This feature took away the possibility of rewarding a president for good performance, and also of giving him another term to complete a program that might take more than six years.

In practice, with the exception of three successive elections won by coalitions led by a candidate of the Radical Party (1938, 1942, 1946), no administration was ever succeeded by a coalition of the same general direction, let alone a candidate from the incumbent party. Indeed, Barbara Stallings shows a cyclical pattern for the three administrations between 1958 and 1973 in which performance was good in the beginning of the term, but deteriorated towards the end (1978, chapter 8). These cycles were in effect the reverse of the vote-maximizing electoral cycles discussed by Nordhaus (1975) and Tufte (1978), and led to the replacement of each by election or coup. This experience suggests that elections were often simultaneously retrospective rejections of incumbents and prospective choices of an alternative that was different from the incumbent.

Furthermore, congressional elections were scheduled every four years for the entire Chamber of Deputies, and about half of the Senate. This meant, for example, that from 1946 to 1973, every other president lived for about three years with a legislature that had been elected before he was. For example, Frei, elected in 1964, had Congresses elected in 1965 and 1969, whereas Allende, elected in 1970, had to live until 1973 with the last Congress elected under Frei. These institutional facts contributed to a stop-go pattern of frequent large shifts in the direction of public policy.

Inflation and stagnant growth were not a problem unique to democracy as represented by this forty-year period. So even if the Chilean regime between 1932 and 1973 met fairly high standards of democracy for Latin America, these democratic



institutions did not initially cause poor economic performance. They inherited it. On the other hand, these institutions failed to correct these economic problems, and they did exacerbate them from time to time. This section will relate politics to policy and performance in this era.

We will first briefly consider the conservative Arturo Alessandri administration from 1932-1938, dealing with the depression, which had driven President Ibáñez out in 1931, as well as nine other chief executives in the intervening year. Then we will look at the three administrations led by Radical presidents from 1938-1952. The nonpartisan government of former president Carlos Ibáñez from 1952 to 1958 is one of a kind. Then we will treat the governments of Jorge Alessandri, Eduardo Frei Montalva, and Salvador Allende, that ran from 1958 to 1973.

Chile thus experienced elections that offered real alternatives and that brought about real turnover in executive power. These four decades were not only democratic by the standards of the day, they were surely unique in the degree to which they produced political leaders committed to reforming the society and achieving social justice. This fact is even more remarkable because of the limited electorate and the slowness with which Chile achieved universal adult suffrage.<sup>15</sup>

Several of these administrations had used elections to gain the power and authority to actively achieve broad economic and social goals, rather than passively representing the wishes and preferences of the electorate (insofar as these could be ascertained), or just doing what was necessary to maintain themselves in power. These governments represent the promise and possibility of achieving radical change through elections, although their experience in achieving their goals in office was mixed at best, and may also demonstrate some of the limitations of achieving change through the electoral process.

The question remains to what extent was the uneven economic performance in this era due to democratic institutions and the incentives associated with them? But the apparent stability of democratic politics in which many different ideologies coexisted may have come at a self-denying price:

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<sup>15</sup> Gil makes the case that (as of 1966) Chile had had three presidential elections in the past half century that had proven to be turning points in its history: those of 1920, 1938 and 1964 (1966, p. 298). Had the book been written later, surely the 1970 election would have been included as a fourth.

The “stability” of Chilean formal democracy, therefore, depended on considerable political bargaining, the use of political patronage, and shifting governing coalitions undergirded by the continuing dominance of the landowners over the votes and the political activity of their farm work force. This dominance, in turn, depended upon the maintenance of the hacienda system through the prevention of rural unionization and the exclusion of outside influences (Loveman 2001, 197).

In other words, there may have been a façade of a range of choices, so long as no one tried to do anything that undermined the interests of existing elites, such as the rural landowners. Even the existence of a “popular front” government that included Communists and Socialists did not threaten these interests because their initiatives were so easy to block. Only in the fifties (the Australian ballot), sixties (Frei’s “Revolution in Liberty,” and seventies (Allende’s “Unidad Popular”) did changes emerge that threatened the dominant interests. With these threats, the apparent democratic stability yielded to a military coup. I am raising the possibility that it was not just Allende that broke the fragile equilibrium, and I am also suggesting that what we think of as democracies may continue to exist in ways that depend on them not trying to do too much. Needless to say, such suggestions undermine idealistic understandings of what democracy means.

The other major development during this long democratic period is economic. With the drying up of external markets after the world depression began, Chile had little choice but to pursue a strategy that was called import substitution industrialization, or ISI. The rationale was that, in the absence of export earnings, countries like Chile and Argentina that had exported primary products and imported industrial products, did not have the foreign exchange to continue to import. The response was to foster domestic industry to substitute for the imports. In principle and in some degree, this was a reasonable response to the external shock of the loss of markets abroad. However, in practice, the state supported industries tended to be monopolistic and inefficient, to the detriment of both the consumer, who purchased inferior products, and the taxpayer, who had to foot the bill for unprofitable industries.

**1932-1938.** The first president in the forty-year period of sustained democracy was Arturo Alessandri, elected in 1932 with a less fiery appeal than his campaign of

1920. His goals of “national unity, order, economic recovery and constitutional rule gradually pushed (him) into an ever more explicit alliance with the Right – the forces that had the most to gain from ‘law and order’” (Loveman 2001, 202). Alessandri and his finance minister Gustavo Ross faced the economic consequences of the depression, which had hit Chile harder than other Latin American countries.

Their response to the depression would be considered orthodox, at least for fiscal policy. The administration did raise government expenditures substantially, but they also raised taxes and balanced the budget within two years. There was a “sudden monetary expansion (that) created a large amount of excess liquidity which served as the monetary basis for economic recovery” (Hirschman 1963, 98).

Chile was among the “rapid recovery countries” in Latin America, according to Bulmer-Thomas (1994, 91). Monetary policy was set by the central bank, which had been founded in 1925. It is not clear how autonomous it was, or how independent from the administration. The bank apparently followed a version of the real bills doctrine that the United States Federal Reserve had used, emitting credit for the “needs of business.” Inflation averaged in single digits during this Alessandri administration, even though the rate was 26 percent in 1932, much of which should probably not be attributed to the newly elected government (Hirschman 1963, 180-3, 160). There is not much in this administration that would be considered poor policy that could be connected to perverse incentives of democratic electoral politics. Indeed, the administration followed policies that for the time anticipated neoliberalism and the Washington Consensus.

**1938-1952: presidents from the Radical Party.** The elections of 1938, 1942 and 1946 were won by presidents from the Radical Party, a middle class party that ran in the first of these elections with the Communists and Socialists in a “popular front.” Though it won with an absolute majority in 1938 and 1942, the election of the popular front candidate in **1938** owed a lot to luck. First, it was fortunate in its opponent, Gustavo Ross Santa Maria, Alessandri’s finance minister, who Hirschman has said was “absolutely devoid of any interest in social progress or justice,” and who had been nominated by the parties of the right on the strength of his reputation as a financial wizard and “his assurance that he would know how to buy the required number of votes” (1963, 182, 183). Ross was quoted as having said the following in response to appeals

for legislation to the benefit of the middle class: “for me there are but two classes: upper and lower. To the first belong those who have gotten ahead in life; to the latter, those who, for whatever reason, have been failures” (quoted in Loveman 2001, 208).

Hirschman calls these Radical years “the beginning of the modern phase of Chile’s inflation.” It is possible to link inflation in this period to the incentives of electoral politics. Inflation averaged 18 percent per year in this period, which he traces to various combinations of the following factors:

Fiscal deficits, monetization of balance of payments surpluses, massive wage and salary increases in excess not only of productivity gains but often of price increases as well, bank credit expansion, war-induced international price booms, Central Bank credit to state-sponsored development agencies – at any one time at least one and usually a combination of several among these forces were in operation. Perhaps the only common thread running through all the successive stages was the extreme weakness of anything that we would today call meaningful anti-inflationary action (1963, 183).

Several of the factors named (with the exception of war-induced international price booms) could be traced the incentives of electoral politics. For example, fiscal deficits result when popular public expenditures are not matched by unpopular taxes. Legislated wage and salary increases are popular, and once the precedent is established, they may be difficult to avoid.

This period also saw the beginning of efforts to dampen the effects of inflation by making it bearable. Specifically, annual adjustments in the state-mandated minimum salary were designed to compensate for inflation, but sometimes went beyond. These adjustments, of course, fed inflationary expectations, and therefore helped keep it going (Hirschman 1963, 185-7).

***1952-1958: a dictator returns as a populist independent.*** Former president Carlos Ibáñez, now retired from the army, was elected for the 1952-1958 period as anti-party, populist, redistributionist reformer. One of his advantages was that he had no party affiliations and could credibly present himself as being “above politics.” This played into a (not unreasonable) perception that inflation was due to “politics,” and a perception that a strong authoritarian leader would defeat inflation. In this sense, his dictatorship in

1927-1931 may have worked in his favor. However, these hopes would be dashed. The Ibáñez coalition was very heterogeneous and did not provide a stable basis for governing. There were seven separate and distinct cabinets (Collier and Collier 2002, 528-20)

There were two phases to the Ibáñez presidency: a first phase in which clumsy efforts to deal with inflation with “shared sacrifices” failed, and a second phase in which another “money doctor” was invited to come in from abroad and give advice. In the first phase, inflation took off into uncharted territory, with rates of 56, 71 and 84 percent in 1953, 1954 and 1955. Some of this was due to the last automatic adjustment mechanism that had been passed in 1952, the last year of the Gonzales Videla administration. Some of Ibáñez’ difficulties may, ironically, have been related to his newfound respect for the Constitution, which he had virtually ignored in his previous presidency. He refused to assume dictatorial powers, which left him at the mercy of a Congress dominated by his opponents.

Yet Ibáñez was given special powers by Congress in the first part of his administration, and some of the proposals of his series of finance made some sense, but were not implemented successfully. One basic problem was that a large public sector deficit was financed with monetary emission. And Congress refused to pass a tax reform (Behrman, 1977, 22-42).

In July of 1955, the president engaged the U.S. firm of Klein and Saks to give advice. The orthodox advice the Klein-Saks mission gave was similar to proposals that had been made earlier in the administration by finance ministers and the Central Bank. However, the external source gave them a kind of legitimacy and force that they had lacked when introduced by Chileans who had political associations and baggage. Congress cooperated, for example, by repealing the law for automatic wage adjustments, and making current adjustments much more modest (Behrman 1977, 34-6, Hirschman 1963). Inflation came down as a result of reducing inflationary expectations. Like the Alessandri program, the Klein-Saks recommendations anticipated the neoliberal reforms of the Pinochet regime.

By the end of the Ibáñez administration, Chile had the broadest spectrum of parties in Latin America, and substantial polarization. Especially after the Cuban revolution in 1958-59, it became even more deeply polarized among left, center and right

(Hartlyn and Valenzuela 1994, p. 144). Although Chilean democratic traditions had been strong, Chilean politics was combative and polarized by class. One of the final acts of the Ibáñez administration was to re-legalize the Communist party and to institute the Australian ballot, which took away the power of the landowners to control the votes of their workers.

*From 1958 to 1973: movement from right to center to left.* The 1958 election was fought between the three men who would be the next three presidents of Chile, and who represented three increasingly coalesced class-based coalitions. Salvador Allende, a Socialist, was running for the second of his four tries for the highest office. Eduardo Frei was the candidate of the recently formed centrist Christian Democratic Party. And Jorge Alessandri, the son of the previous president, ran as an “independent,” but with the support of the Liberal and Conservative parties of the right. The victors in the three presidential elections moved from right to center to left, each having tried without success to reform the Chilean economy.

Alessandri was elected in 1958 with 31.6 percent of the vote. This was the smallest plurality of the forty year period from 1932 to 1973. Allende ran second with 28.9 percent, while Frei came in third with 20.7 percent. Stallings (1978) and others suggest that if a fifth candidate had not run, Allende might have won the plurality in 1958. Antonio Zamorano, a member of the Chamber of Deputies from FRAP, the same coalition that Allende led, received 41,000 votes, while Alessandri’s margin over Allende was only 33,500 (1978, 79-80).

The Alessandri administration focused on inflation stabilization, with the assumption that when prices are stable, growth and distribution issues will take care of themselves (Larrain and Meller 1991, p. 176). This program had a lot in common with the neo-liberal and Washington Consensus programs that would be formulated later, but it did not succeed, mostly because of a balance of payments crisis. Specifically, it centered around four policies: wage increases in line with productivity gains, eliminating the government budget deficit, a single fixed exchange rate and a freeing of government controls on foreign and domestic capital (Stallings 1978, 82).

Inflation did drop into single digits in the first three years of this government, but labor opposition to bearing the main costs of the anti-inflation program led to a rise in

strikes, and a very successful general strike. Both the strikes and Congressional politics led the government to back down on its effort to break inflationary expectations by ending the automatic readjustment mechanisms. I consider both the strikes and the congressional opposition to be manifestations of perfectly legitimate democratic politics. In the short run, they may well have been to the advantage of the workers and other beneficiaries of the cost of living adjustments. But in the longer run, I consider them examples of ways in which democratic institutions obstruct constructive policies that would have been to the benefit of all classes, including workers.

These events were not the only ones to make the Alessandri administration a failure. The other major problem was a balance of payments crisis. Alessandri had lifted import restrictions in order to make Chilean industry more competitive. Not surprisingly, this led to a substantial increase in imports, and a reversal of a positive trade balance. Because international reserves were depleted, there was a devaluation in 1962, which fueled further inflation. French-Davis contends that the Alessandri administration's policy failure "stemmed from a lack of understanding of short-term stabilization mechanisms and their medium term repercussions (2002, 5).

The right had had its chance with the Alessandri administration, which was not considered a success by its own supporters. Also, there was enough fear on the right of an Allende victory in the **1964** election, that the right supported the centrist candidacy of Eduardo Frei Montalva, a Christian Democrat who won the essentially two candidate election with an absolute majority of 56.1 percent.

Frei, with his "Revolution in Liberty," offered a reformist and communitarian third way, rejecting both Marxism and liberalism, both communism and unfettered capitalism. In this way it represented an explicit recognition of, and response to the political polarization that was occurring in Chile. Rejecting class conflict, the party sought to achieve social justice through a vision of a harmonious society modeled on the family (Collier and Collier 2002, 533).

This vision manifested itself in programs for industrial development and agrarian reform, and a fifty percent government participation in the copper industry, which was theretofore privately owned by American firms.

Although inflation had come down from the forty percent range inherited from the Alessandri administration, economic output had come down too. More importantly, labor and capital did not cooperate in being part of a communitarian political solution. By the last three years of the Frei administration, the government had aligned itself with the right. But the Chilean right felt betrayed for having supported Frei against Allende in 1964, and ran their own candidate, former president Jorge Alessandri, in the 1970 election.

***Term length and timing.*** Each of the six-year governments from 1952 through 1970 had had two phases. The Ibáñez administration came in without much of a plan, frittered away initial opportunities, and became dependent on foreign advice for an orthodox stabilization plan that reduced inflation at the cost of a recession. The Alessandri and Frei administrations had the reverse kind of experience. They came in with coherent plans that were implemented with success initially, but subsequently yielded to drift after adverse consequences of the initial successes became apparent, and after the legislative and public opposition interfered with their programs.

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The next two administrations would move away from the democratic tradition in Chile. This is true not only in the sense that the Allende regime created conditions that led to a successful coup and a transition to Chile's most sustained and radical dictatorship. Both the Allende and Pinochet governments disdained the democracy that had existed since 1932, and had some related criticisms. Allende and his supporters saw the democratic state as the instrument of bourgeois monopoly capitalism, and Pinochet and his supporters saw similar monopolistic control. Of course the former group wanted to replace monopoly capitalism by state ownership, whereas the latter group wanted to replace it with unfettered markets. We may presume that neither of them would have approved of the "mediatory state" in which the government played an increasing role in the economy, promoting industrialization and business, but also regulating business activity in such a way that the state had much to do with the distribution of resources (Valdéz 1995, 6-11).



**Macroeconomic populism: *Unidad Popular*.** Salvador Allende Gossens won the Chilean presidency on his fourth try, with a tiny plurality (36.6 to 35.3) and a program that projected much more extreme changes than those of the Popular Front government of Aguirre Cerda in 1938 or of Frei's 1964 "revolution in liberty." Both of those previous presidents had been elected by absolute majorities (50.5 and 56.1 percent respectively). The 1970 election was the first in which the president was a member of a working class party, a party of the left, in this case the Socialists.<sup>16</sup> Allende's plurality was hardly a mandate, since a majority of the voters had supported other candidates and presumably policies that were much less radical.

Yet, as I have argued above, Allende's victory was legitimate. His plurality of 36.6 percent was not the smallest to produce a president. Jorge Alessandri had won the presidency in 1958 with 31.6 percent, but Allende's plurality vote fraction was the second smallest of the eight presidential elections since 1932. By the standards used in Chilean elections, as we have seen, it was usual and legitimate for the Congress to choose the plurality winner, as it had done each of the other three times since 1932.

Even though his own victory for the presidency was legitimate, Allende inherited a recently elected Congress that was controlled by his opponents, and he faced an entrenched and unfriendly bureaucracy. With the checks and balances of the political system working against him, the new president was dependent on the powers of that office. Ironically, presidential powers had been expanded and congressional powers limited by reforms passed in 1970 with the support of the Christian Democrats and the National parties, each of which expected to be the beneficiaries by winning the 1970 presidential election (Siavelis 2000, 9-11).

But the opposition of other power centers did not make Allende cautious. His Popular Unity coalition was not going to be content with administering the government. Their goals were nothing less than changing the means of production in Chile. Their economic program began as follows:

The central objective of the united popular forces is to replace the current economic structure, ending the power of national and foreign monopoly

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<sup>16</sup> In the 1938 electoral victory of the Popular Front, President Aguirre Cerda was a member of the centrist Radical party, supported by the Socialist and Communist parties.

capitalists and large landowners, in order to initiate the construction of socialism (quoted in Stallings 1978, 126).

The effort to carry out these plans through new legislation was, not surprisingly, blocked in the Congress, but the government used existing laws, such as a decree law that dated from the short-lived (twelve day) Socialist Republic in 1932.<sup>17</sup>

*Structural reforms.* The least controversial of the structural reforms was the nationalization of the copper industry. This had been begun in the preceding Frei administration, which had purchased 51 percent of the largest mines in 1967 and 1969. The Allende administration decided to pursue full nationalization through a constitutional amendment, rather than ordinary legislation. This much was not controversial in Chile, and there was broad legislative support, as is indicated by the fact that the constitutional amendment passed the opposition-controlled Congress unanimously in July of 1971 (Larraín and Meller 1991, 184-5).

The largest copper mines were owned by Anaconda and Kennecott, both US firms. The companies were to be compensated, but the president was authorized to deduct “excess profits” taken over the preceding fifteen years. Under what became known as the “Allende Doctrine,” these excess profits were judged to exceed the value of the firms, so Anaconda and Kennecott were paid nothing (Stallings 1978, 132; Larraín and Meller 1991, 184-5).<sup>18</sup>

Agrarian reform had also been initiated in the 1960s. An Agrarian Reform Law had been passed in 1962 under the Alessandri administration, and was modified by the Frei administration. The Allende government would have liked to modify it further, for example to reach to farms below 80 hectares, but could not, due to its lack of support in the legislature. But the new government acted vigorously in implementing the existing law. By the end of this government, about 60 percent of the agricultural land in Chile had been expropriated. Two thirds of this had been done under the three year UP

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<sup>17</sup> The twelve day Socialist Republic in 1932 was part of a period of political turmoil that ended in that year with the election of Arturo Alessandri, which marked the beginning of the long period of continuous elections from 1932 to 1973.

<sup>18</sup> A member of the Allende government suggests that that government gained little, and lost considerable international good will because of this decision. “Our own conclusion is that the decision to deny compensation, even though juridically unobjectionable, robbed the Allende government of flexibility at a crucial moment” (Bitar 1986, 72). Teitel calls the cancellation of indemnification “probably the most egregious mistake made by the Allende government” (1991, 217).

government, twice as much as had been done in the six year Frei administration (Larraín and Meller 1991, 186-7).

In addition to these continuations of reforms begin in previous administrations, the Popular Unity government gained control of almost all of the banking industry. Unlike the situations for copper mines and agrarian reform, the government lacked legal power, and recognized that Congress was highly unlikely to give it. Therefore it simultaneously offered good prices for bank stocks, while investigating banks for financial wrongdoing and labor problems. The result was that

(F)aced with the option of selling shares at good prices or eventually ending with stocks of dubious value in troubled banks, stockholders in large numbers decided to sell (Larraín and Meller 1991, 187).

The industrial sector proved to be far more resistant to nationalization than mining, agriculture and banking. The legal basis for action was thin, and industrial owners were more reluctant to sell than bank shareholders. Over 150 industries were put under state control by the end of 1971, including twelve of the largest twenty industrial firms in the country (Stallings 1978, 130-132; Larraín and Meller 1991, 188-9).

These structural reform policies moved diametrically away from the reliance on free markets and private ownership that is part of the neoliberal perspective that would guide the Pinochet administration that would follow. From the neoliberal point of view, they would have adverse effects on economic growth, even though rapid economic growth was an explicit goal of the government.

One of the most important channels for adverse effects on growth was through the uncertainty generated about property rights, and the disincentive this provided for even maintaining existing investments, let alone making additions and improvements to the capital stock. The Popular Unity program had outlined a series of nationalizations of basic resources, *as a first step* (emphasis added). But it never made clear its criteria, nor did it punish its sympathizers who stimulated interventions in factories otherwise not at risk of nationalization, or who occupied farms below the 80 hectare limit (Larraín and Meller 1991, 192-3).

Thus a major part of the Allende government's program was based on their Marxist ideology. In my understanding, this ideology appealed to a minority of the

Chilean electorate. It prevailed in the 1970 election because of the formal and informal institutions of the Chilean political system, as a kind of political accident. The victory of the “Popular Unity” candidate *was not the result of a dominant electoral strategy*. It should be attributed to democracy because it was a legitimate result of democratic institutions as they were known in Chile, but not because it was in any way a typical or predictable result of popular elections.

*Macroeconomic policy.* The ideologically based structural reforms discussed above would have adverse effects on growth in the medium and long terms. In contrast, the short-term macroeconomic policies of the Allende government were more loosely related to the ideological goals of the administration, and more closely linked to ordinary electoral expediency. I would attribute these policies to misguided efforts to build popular support through what is considered *macroeconomic populism* (Dornbusch and Edwards 1991). This kind of populism is usually motivated by a desire to increase popular support and to win votes, and this seems to have been the case in Chile. The Allende regime wanted to build popular support to carry out more radical structural reforms.

However, since this kind of populism does not recognize macroeconomic constraints, it is likely to bring short-term benefits at the expense of future well-being. There are few better examples of this than the Allende regime, for which the benefits lasted only about a year. The ensuing economic catastrophe came in the second and third years and contributed to the end of not only the current government, but also of forty years of democratic experience.

These policies were not only short-term, they were short-sighted and self-defeating over even the truncated three year administration of Popular Unity. With an eye on increasing its popularity, the government induced a massive increase in aggregate demand. It did this by increasing wages and salaries, by increasing government expenditures, and by expanding the money supply.

Table 3 makes it clear that each of four main macroeconomic indicators of policy outcomes improved in 1971, the first full year of the Allende Popular Unity government. The growth rate of gross domestic product more than doubled to eight percent. Inflation

actually dropped by more than a third to 22.1 percent. Unemployment fell to 3.8 percent, and the annual increase in real wages rose to 22.3 percent.

Table 3 about here.

These were remarkable improvements, but there were danger signs in policy indicators during 1971. Public deficits were rising dramatically, and the money supply was expanding very rapidly. The trade balance turned from positive to negative, and investment was falling as a share of GDP. Profits were declining and shortages were emerging (Larraín and Meller 1991, 198). The government had achieved such initial success (and planted the seeds for the ensuing catastrophe) with a massive expansion of aggregate demand. The channels were massive increases in wages and in government expenditures, and an accommodative money supply, with price controls.

With respect to wages and salaries, workers were given major increases without regard to increases in labor productivity, and salaried workers were kept up to the previous year's inflation rate. For example, a new policy for 1971 established "a 66.7 percent increase in the minimum industrial wage ... and a 34.9 percent increase in the minimum salary," matching a 34.9 percent rate of inflation in 1970. For 1972, the minimum industrial wage was increased by fifty percent, and all other increases would be equal to the 1971 inflation rate, which had come down to 22 from 35 (Stallings 1978, 128-9). Government expenditures increased by more than a third in real terms, raising the government share of GDP from 21 percent in 1970 to 27 percent in 1971 (Larraín and Meller 1991, 197). These increases, of course, did nothing to break inflationary expectations. Aggregate demand was further stimulated by large increases in government expenditures and in the money supply.

The good macroeconomic results in the first year were reversed very soon. In 1972 and 1973, inflation rose to hyperinflationary rates of 260 and 605 per year. GDP growth became negative in 1972 and 1973, falling to -0.1 and then to -4.3 percent. Real wages dropped 11 percent in 1972 and 38 percent in 1973.

Was the Allende administration conscious of irresponsible macroeconomic policy? President Allende was a medical doctor and not an economist, and he delegated policies to his economists. The economic program of the Allende government was based on a "structuralist" theory, which saw economic inequality as related to a monopolistic

system of production that was oriented to the preferences of the wealthy rather than to basic goods. Inflation was seen as created by bottlenecks. Correction of this system demanded a major change in ownership patterns. It is likely that they thought that nationalizing industries would address the problems of inflation and growth.

The government's fiscal deficit had gone from under three to over ten percent and then to nearly a quarter of GDP. Real wages dropped to 70 percent of what they had been when Allende took office. The policies of stimulating aggregate demand with government expenditures and money creation had early short-term benefits, but they were not sustainable.

The economic performance of the final two years of the three-year Allende administration was thus catastrophic, and makes the previous decades of Chilean democracy look good by comparison. Inflation had been considered an endemic problem in Chile even before democracy, but it had never gone beyond fifty percent except in three years in the mid-1950s under Ibáñez, before the Klein-Saks mission came in to correct it. These are the consequences of macroeconomic populism.

Of course, Chile did not face a favorable foreign environment. One market force that worked against them was the drop in copper prices. And the U.S. copper companies Anaconda and Kennecott, whose property had been expropriated without compensation, tried to obstruct the sale of Chilean copper on the world market (Oppenheim 1999, 78).

And of course the United States government had worked to undermine the prospects of Allende's election, and to undermine his success once in office. Oppenheim identifies two "tracks" of activity. The first was to exploit "constitutional" ways of keeping Allende from office by interfering in the Congressional decision to validate the plurality victory.<sup>19</sup> A second track was a covert effort to facilitate a coup. Finally, Chile was denied access to loans and credits from the US and the international financial institutions (Oppenheim 1999, 49-50, 79, 99-103).<sup>20</sup>

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<sup>19</sup> Henry Kissinger reportedly said, "I don't see why we need to stand by and watch a country go communist due to the irresponsibility of its own people" (Oppenheim 1999, 100, and footnote 20).

<sup>20</sup> For example, U.S. aid dropped from \$260 million in 1967 to 3.8 million in 1973, while military aid increased (Oppenheim 1999, 102).

To what extent can we consider the election of a macroeconomic populist leader a consequence of democracy? The first point is, to repeat, that Allende was a legitimate winner of the presidential election under existing democratic rules in Chile. Insofar as Chile was democratic in its presidential election system (and this was probably the most democratic feature of the Chilean political system), Allende should be attributed to democracy. We have seen that there were real limitations on how democratic Chile was, but most of these should not be held against the presidential election.

Among democracies, there can be institutional correctives to the prospects of electing someone whose views are as extreme as those of Allende. His election was a reflection of the risks of plurality election in a divided and polarized electorate. As is well known, plurality election in multi-candidate elections is the system least likely to select Condorcet winners and other candidates who have a claim on breadth of support (Merrill, 1988). It was the combination of a tradition of selecting plurality winners and an increasingly polarized multi-party system that produced Salvador Allende as president. A popular runoff election between the top two finishers or some similar mechanism would have made Chilean presidential elections even more democratic than they were.

In office, Allende carried out economic reforms that should not have been very surprising, given his campaign. In office he did indulge in macroeconomic populism in ways that were designed to increase popular support. These self-defeating and unsustainable policies should perhaps also be attributed to democracy, because he was trying to win elections. (It should be noted that there was some electoral success. The UP coalition received almost half the vote in the municipal elections in 1971, and in the congressional elections of 1973, they increased their support from 36.6 percent in the presidential election to 45.5 percent. The opposition also gained in this polarizing election, and both sides claimed victory. The opposition claimed victory because they had received more than half of the votes. The government side claimed victory because they had gained votes, and also because they had blocked the two thirds majority necessary to impeach the president (Oppenheim, 1999, 75).

The Allende government was a tragic experience, in that it did represent the hopes and aspirations of many of the poor and of the political left for a better life for those on

the lower levels of the society and economy. There was popular support for his program, but it was not widespread or a majority. Allende's program was driven more by ideology and beliefs that were shared by a minority than by widespread popular demands and conventional political opportunism.

As the first Marxist to be elected as chief executive in a democracy, his program was to define "a Chilean road to socialism." The experience of his three-year administration represents for many the limitations of democratic institutions for achieving redistribution and social justice. For others, it represents the risks of populism. I believe that both views are correct. There are substantial adverse consequences of macroeconomic populism, and there are real limitations on how much redistribution can be achieved under democratic institutions. For some, this may be a disadvantage of democracy, and for others one of its strengths.

In another sense, however, these elections were bad news for constitutional government. The center and right were so unhappy with the Allende government that they had hoped to impeach the president. When the parties supporting the government earned more than a third of the votes, they constituted a blocking coalition against an impeachment. Some of the opponents of the government were willing to countenance a coup instead.

It has become well known that the Nixon administration undermined the Allende administration and aided the coup. In the context of trying to secure Chile's support for a second U.N. Security Council resolution against Iraq in 2003, Secretary of State Powell said that encouraging the coup "was not a part of American history that we are proud of." The Chilean government said it was glad that the US "now considers that it was an error" (New York Times web edition, February 25, 2003).

### **The Pinochet Dictatorship**

Chile's long experience with democratic institutions was broken on September 11, 1973 by a military coup. The resulting military dictatorship, which governed the country for seventeen years from 1973 through 1990, was Chile's most sustained military dictatorship by far since independence in 1810. However, though this coup was a major break in a uniquely democratic history for Latin America, there are some continuities with Chilean traditions. For instance, Brian Loveman contends that Chile's



tradition of regimes of exception and extraordinary powers provided General Augusto Pinochet Ugarte with an institutional and historical tradition to justify his *golpe*.

In its 1980 Constitution the dictatorship “greatly expanded the types of regimes of exception and the constitutional role of the armed forces.” However, according to Loveman, the dictatorship “added little to, and borrowed much from, Chile’s juridical foundations for constitutional dictatorship” (1993, 352-3).

A dictatorship that governs for seventeen years is enough to make this government unique for Chile. But the Pinochet regime’s sustained neoliberal economic policies make it unique among both democracies and dictatorships in Latin America if not elsewhere. My argument is that the Pinochet government did reform the Chilean economy and make possible the prosperity with stable prices of post-authoritarian period. However, it took a very long time to do so, enormous adjustment costs, and one or two significant changes of course.

The amount of time it took may be due in part to bad luck, such as the oil shocks and global recession of 1973 and 1974, and the Latin American debt crisis of 1982-1983. But the authoritarian regime also made some serious policy mistakes. The most important of these may have been the maintenance of a fixed nominal exchange rate from 1979 through 1982, with the backwards indexing of wages and salaries. Although both took place during the early “doctrinaire” and “less pragmatic” part of the Chicago Boys influence, neither of these are mistakes that one would associate with orthodox or neoliberal policies.<sup>21</sup>

Of course, there are those who believe that the neoliberal policies themselves were a giant package of policy mistakes, or at best somewhat misguided. There is widespread disenchantment with neoliberalism in Latin America and elsewhere. This is not my view. In my view, neoliberalism in Latin America is like Cary Brown’s view of Keynesianism in the New Deal. It did not fail; other than in Chile it has not been tried (Brown 1956).

But if we consider the economic performance of the regime after 1985 a success that has been continued by the democratic regime that has followed the dictatorship, we

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<sup>21</sup> See Edwards and Cox Edwards (1987, 1991, 48-49) for a fuller explanation.

should also consider the costs, of which there might be two basic kinds. The first kind of cost is economic, such as the adjustment costs of a deep recession that may follow disinflation. This kind would include the many consequences of negative growth, including declining real wages, high unemployment and other economic dislocations.

The second kind of cost may be one of interference with political freedoms, or worse yet, with human rights, including the right to life and to due process of law. Along with the economic reforms that make the authoritarian Pinochet regime of interest to this book, the massive repression and the extensive violation of human rights unleashed immediately after September 11 are hallmarks of this regime. I will argue below that some of the economic costs were inevitable, but that the terror and violation of human rights may not have been necessary or even instrumental to the successful implementation of the economic policies.

***Institutions of the Pinochet Regime.*** Although the dictatorship of 1973-1990 is widely identified with one man, General Augusto Pinochet, it was really ruled by a junta composed of the heads of the army, air force, navy and carabineros (the national police). This junta operated by unanimity rule, and assigned General Pinochet (the head of the army) executive responsibilities, while the remaining three members acted as a legislative branch (Barros 2002, chapter 2, especially 68-83). Still, there is no doubt that this regime was a dictatorship, and its capacity to impose its will on policy was central to its economic performance.

There was attention to legality in the dictatorship, and the junta agreed to promulgate a new constitution. This Constitution, which was approved in a plebiscite on September 11, 1980, contained two parts, one permanent and one transitory. The permanent part established a republican government with an elected bicameral legislature and an elected president. Unlike previous constitutions, this one outlawed Marxist parties, provided some unelected members of the Senate and elevated the military to being “guarantors of the institutional order” (Barros 2002, 169).

This permanent part was to be inoperative during the dictatorship, which was governed by rules laid out in 29 “transitory dispositions” to be operative during a first presidential term. These transitory dispositions essentially duplicated the institutionalizations of military rule that had been established in the first years of the

regime. General Pinochet would be president for eight years from a date six months after the passage of the Constitutional plebiscite, or from March 11, 1981 through March 11, 1989. The Constitution set up another plebiscite whereby the people would say whether they wanted General Pinochet to continue as president after his first term ended in 1989. Further steps were laid out for elections and a move to the permanent constitution in the event that the General lost the plebiscite.

*Economic policies of the Pinochet regime.* The new regime immediately set about undoing the economic reforms of the Allende government and reversing the hyperinflation that had resulted. Although its policies were to be strongly influenced by the “Chicago Boys,” a monetarist-oriented group of scholars in the economics department of Catholic University of Chile, in some respects, its policies were comparable to those of the Klein-Saks mission that had advised the Ibáñez government in 1955 to 1958, and in general to the policies of the Jorge Alessandri government that succeeded that one. A major difference was that, because the regime was authoritarian and did not depend on elections for its office and on Congress for legislation, it could continue the policies after more democratic regimes might have been forced to abandon them or water them down. This independence of democratic constraints would be instrumental in carrying out a complete set of reforms, but it did have its downsides. A more open system might have made the government more aware of some of the mistakes that may have cost it years in achieving complete recovery.

The military regime that succeeded Allende was remarkable in the coherence and consistency of its economic policies, as well as in the character of its institutions noted above. Although the dictatorship has become deeply identified with neo-liberal, monetarist economics, it came to office without a clear long-run economic plan (Edwards and Edwards 1991, pp. 9-11; Valdez 1995, chapter 1). But the government’s Declaration of Principles, issued in March 1974, stated that “the state should only assume direct responsibility for those function which (the people) ... are unable to deal with adequately” (Edwards and Cox Edwards 1991, 93). This principle would reverse at least 35 years of Chilean political and economic history, in which the government played an increasingly intrusive role in the economy. Indeed, even before Allende, the economic

role of the state in Chile was said to be greater than that in any Latin American country other than Cuba (Oxhorn 1995, 41).

Ironically, the Allende regime had precipitated a convergence of economic ideas to its right. Before Allende, the free market orientation of the Chicago school economists at Catholic University was at odds with dominant themes of economic thinking. Theirs was largely an academic orientation that had little credibility in public affairs, where economic thinking was dominated by statist theories that emphasized how economics for countries like Chile were different from economics for the developed world. When Allende was in power, the differences between the Chicago school neo-liberalism and the Christian Democratic conception of a free market with a state intervening to provide social justice seemed smaller, since both faced what they saw as the imminent collectivization of the economy (Valdéz 1995, 246).

The Universidad Católica de Chile had made a formal agreement with the University of Chicago in the years 1955 and 1956 to establish a cooperative program in graduate training in economics. This agreement had been brokered by the International Cooperation Administration (later the Agency for International Development), and, with extensions, lasted about eight years. During this period, 26 Chilean economists were trained at the University of Chicago. Many became full professors at the Catholic University of Chile, and, with the guidance of Chicago economics faculty, completely transformed the Faculty of Economics at Católica. The influence of Chicago school economics in this department then took on a life of its own (Valdez 1995, ch. 5-6, esp. pp. 126-7).

Immediately after the coup, all the main ministries were headed by military figures, but by late 1974, civilians had taken over the main economic ministries. By late 1976, when the Finance ministry was taken over by Economics minister Sergio de Castro, the so-called Chicago Boys were in charge of almost every major economic policy-making agency (Edwards and Edwards 1991, 94). De Castro had been a student at Catholic University, who was selected for a year at Chicago, and later became dean of the economics faculty at Catholic. De Castro would be one of Arnold Harberger's "handful of heroes" whose efforts were central to successful economic policies (1993).

The Pinochet regime did not meet with unambiguous or immediate success. There were two main phases to the dictatorship that lasted from 1973 to 1990. The first one lasted through 1983, and the other through the remainder. The first one is known as more doctrinaire, and the second as more pragmatic. Actually one of the things that led to the demise of the first phase was a policy that was not especially free market: fixed exchange rates. Inflation came down very slowly, having declined to the thirties only by 1979.

***Initial conditions.*** The Pinochet government inherited an economy in very bad shape from the Allende administration. Inflation was over 500 percent per year, and GDP was shrinking at a rate greater than five percent a year. The fiscal deficit was nearly 25 percent of GDP. As argued above, these indicators were the only the most obvious consequences of the misguided economic policies of the Allende government.

This dictatorial reform experience suggests that the time it takes for serious reforms to take hold may be very long indeed, and far longer than known electoral terms that would provide an opportunity to reject incumbent officials. “Chile, which has made the turn to sustained high growth, took fifteen years to get there” (Dornbusch 1995, 237). An authoritative book that was first published in 1987, fourteen years after the coup, considered the experiment a failure, and took on the task of explaining “what went wrong?” (Edwards and Edwards 1991, pp. 2-3).

***The transition to democracy.*** The Constitution of 1980 had provided for a referendum in 1988 on whether President Pinochet should continue in office. Plebiscites in dictatorships are notorious for being sham elections, the results of which do not really provide an opportunity for a genuine expression of opinion. This plebiscite did not really give the opposition the same opportunities that it gave the government (Oppenheim 1999, 180-182), and the idea of a dictator losing such a referendum was unheard of before that of 1988 in Chile.

But Pinochet had begun in the mid-eighties to allow more press freedom and more party activity. By 1988 there was a genuine opposition, called the Concertación por el No, which mobilized the no votes into a 55 to 43 percent victory on October 5, 1988 (Drake 1998, pp. 86-91). As is well known, Pinochet accepted the results of that

referendum and made plans to leave office peacefully. Among these plans were some changes that were designed to tie the hands of the government that would follow.

There were two national votes in 1989. The first was a referendum on July 30 on a package of some 54 constitutional reforms that had been negotiated between the government and the opposition, and a presidential election on December 14. The reforms included the elimination of the infamous Article 8, which had proscribed the “propagation of doctrines that attack the family, support violence, or a concept of the state which is totalitarian or based on class struggle” Oppenheim 1999, 128). They also modified the structure of the Senate, raising the number of elected (as opposed to appointed) Senators to 38 of 50, rather than a bare majority of 26, and made it somewhat easier to change the constitution (Oppenheim 1999, 183).

***State terror and repression.*** More than 2,279 persons were killed between September 11, 1973 and March 11, 1990. More than half of these (1,261) were killed in less than four months, and more than two thirds were killed in 1973 and 1974. Well over half were between the ages of 16 and 30.<sup>22</sup> There was so much evidence of torture that the Commission included a special section on that in its report, even though torture had not been part of its charge (Oppenheim 1999, 210).

Like President Patricio Aylwin, who appointed the Commission on Truth and Reconciliation, I believe that there can be no justification under any circumstances for the kinds of terror carried out by the Pinochet regime, but this government did not even have the excuses that are often used. For example, unlike Argentina and Uruguay prior to their military coups of the 1970s, there was no substantial guerrilla activity, nor was there amidst the social and economic chaos of the late Allende period anything like an internal state of war. Furthermore,

by the standards of Chilean law, there was no material justification for ... military operations of anywhere near the magnitude and fury that ensued. ... (T)he postcoup repression was driven more by perceptions of what was necessary to successfully overthrow the Allende government and disorganize potential loci of opposition to de facto military power than by any demonstrable need for military

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<sup>22</sup> The *Report of the Chilean National Commission on Truth and Reconciliation* counts 2,115 victims of human rights violations, and 164 victims of political violence, for a total of 2,279 (1991, 899, 902-3).

action against organized, illicit armed associations engaging in acts against internal state security (Barros 2002, 120).

On the other hand, Remmer says that

Continuing repression was necessary to achieve a fundamental restructuring of society, and in the Chilean context repression had to be severe to achieve its objectives (1989, 118).

Also, Steve Stern of the University of Wisconsin has asserted that the violation of human rights was “necessary for economic reform.” There was “political genocide” against three left parties. The goal was to induce fear and fragmentation among potential opponents of the dismantling of social and economic programs of the previous regime.<sup>23</sup>

Stern may be right. However, the fact that so many of the killings were early in the regime, before serious structural reforms got underway suggests to me that they were not directed against the opponents of specific reforms such as privatization, or trade liberalization. They surely were intended to intimidate and suppress opposition to the military regime in general, and the supporters of the Allende regime in particular.

Oppenheim says that “widespread and systematic use of torture and persecution against perceived leftist subversives (were) an effort to ‘cleanse’ their nation (1999, 113). A third of the victims were Communists or Socialists, the parties of the Popular Unity government, and another 17 percent were from the Movement of the Revolutionary Left (MIR), a Marxist group that believed in armed struggle was the way to achieve socialism. This is consistent with a rationale of internal war against the enemies of the regime, but these groups together are just over half the victims, and 46 percent were not known to be politically active (Report 1993, p. 902).

One example of torture may be instructive. Hugh O’Shaughnessy describes a case of torture in which a British surgeon, Dr. Sheila Cassidy, was asked by a priest to operate on a man with a bullet in his leg. The man turned out to be Nelson Gutiérrez, a leader of the MIR. Dr. Cassidy was subsequently tortured by the DINA, which wanted to locate Gutiérrez. The details of the torture are related in O’Shaughnessy (2000, 98-103). This appears to be a case of the regime pursuing its perceived enemies that is independent of its economic policy goals.

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<sup>23</sup> Steve Stern, talk at FLACSO, Santiago, June 12, 1997.

Accordingly, I do not feel that the case has been made that human rights violations, political violence, and terror were necessary for implementing the economic reforms of the Pinochet government. The fact that the government was authoritarian and could not be opposed in elections by an opposing candidate, or by a freely elected legislature did surely have much to do with the fact that the programs were ultimately successful. The terror did instill a climate of fear that undoubtedly inhibited general opposition to the regime, and perhaps also to specific policies (see Oppenheim 1995, 185, note 1). Also, when opposition became more active in the mid 1980s, the number killed went up (Report 1993, p. 903).

As I see it, there is a tradeoff between democracy and the successful implementation of a package of monetarist reforms in Chile. Specifically, more democracy might well have been at the expense of the reforms. But there is not a clear tradeoff between the lives and human rights of thousands of people and the (long delayed) success of these reforms. In a similar vein, Martínez and Díaz argue that it was not so much the regime's use of force, but rather its autonomy from the immediate interests of the social groups that had brought it to power, that enabled the Pinochet government to carry out a complete restructuring of Chilean capitalism (1996, 3)

### **Contemporary Chilean Democracy**

The constitution that Chile now uses is the “permanent” part of the constitution that was passed in the 1980 referendum in the seventh year of the dictatorship. This constitution was designed by the military, which was interested in avoiding the polarization and conflict of the period before the military coup, and in preserving its economic reforms of the dictatorship.

Just how democratic is this constitution? Mainwaring et al. call this Chilean regime democratic, as they did the 1945-1973 period. Recall that their standard is that there are elections for legislature and executive, the franchise is inclusive, and civil liberties are respected.<sup>24</sup> Vanhanen, who multiplies participation by contestation, gives this regime high marks for democracy. But Siavelis calls it “limited democracy” and “controlled democracy” (2000, 1, 35).

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<sup>24</sup> Their index begins in 1945. The index of Przeworski et al. ends in 1990.



The things that make the contemporary Chilean constitution less than fully democratic for Siavelis and others are as follows. The balance of presidential to legislative power leans heavily to the president. And there are several constitutional centers of power that are not completely, if at all, under the control of elected officials. These include a National Security Council and a Constitutional Tribunal. Nine Senators are appointed, and the thresholds for modifying the Constitution are high (Siavelis, 2000, chapter 1). These are indeed limitations on the power of elected officials.

The 1980 Constitution has been amended slightly in (1989 and 1991), but has the same basic features defined by the military regime. For example, the original 1980 constitution provided for eight year presidential terms, with the first one being a half term. The revision shortened the term to six years. Accordingly, there have been three presidential administrations since 1989, one for four years and succeeding ones for six. These are the presidencies of Patricio Aylwin (1990-1994), Eduardo Frei Ruiz-Tagle (son of former president Eduardo Frei Montalva) (1994-2000), and Ricardo Lagos (2000-2006). Each has been a representative of the “Concertación,” the coalition of democratically oriented parties that combined their efforts to defeat General Pinochet in the referendum of 1988

These administrations have continued the basic economic policies of the dictatorship into the 1990s. They have given rise to “a period of the greatest prosperity in Chilean economic history” (Ffrench-Davis 2002, 16). Inflation has been low, and the budget kept basically near balance. They have given more attention to income distribution and the needs of the poor than the military regime, but without reducing the overall performance of the economy as measured by inflation and growth.

### **Conclusions**

Chile offers a clear setting for a natural experiment in which to investigate the effects of democracy and dictatorship on economic policy and performance. The period between 1932 and 1973 was certainly democratic in the fundamental sense that top executive and legislative offices were filled by popular elections over a forty year period. There were limitations on how democratic Chile was, in that the suffrage was quite limited for most of the period, in that emergency laws were repeatedly used to enhance

executive authority, and in that the Congress was selected in a way that made it very unrepresentative.

But these limitations did not keep Chile from twice having the most leftist governments in the hemisphere: from 1938-1942 and from 1970-1973. It is widely assumed that broad or universal suffrage is important to the capacity of the left to take power, but the Popular Front was elected in 1938 with a (barely) absolute majority of nine percent of the total population participating. And an avowedly Marxist Socialist candidate was elected in 1970 with a plurality of an electorate that was restricted by a literacy test.

How then did democracy affect economic policy and performance in the long mid-century democratic period? Democracy as it was known in Chile between 1932 and 1973 certainly did not hinder the possibility that radical changes would not only be proposed in electoral campaigns, but also be carried out by elected presidents. In particular, the governments elected in 1938, 1964 and 1970 each made major efforts for very substantial changes in policy.

This paper has shown that the very variety of programs of elected leaders was a problem. First, to be effective, reforms may take more than one or two electoral periods to take hold and have the constructive impact that is hoped for. Only the governments led by the Radicals between 1938 and 1952 had such continuity. Second, the different programs of succeeding administrations can create a stop-go phenomenon that allows no package of policies to have a lasting effect. Jere Behrman, in reviewing three major Chilean stabilization attempts in the 1950s and 1960s, says that

efforts at gradual change are liable to fail because political momentum probably will not last long enough for the benefits to be perceived. The 'stop-and-go' history of stabilization policies in the last two decades has created a real cynicism about the maintenance of any economic program (1977, 14)

Some of the problem may have to do with the fact that democratic elections produced such a wide variety of proposals, and directions. Another part of the problem is that elected governments were forced to compromise their programs because democratic institutions protected the rights to oppose them. The use of "states of exception" and emergency powers limited this only slightly.

The elected administration that did the most economic damage was the Allende regime. This atypical performance must be attributed to democracy. Allende was legitimately elected according to Chilean democratic traditions of the time. Of course, as argued above, a presidential election system that had a runoff would have been *more* democratic, and would have spared Chile the economic experience of the last two years of the Popular Unity government. The short-sighted and misguided policies designed to build popular support for this government must also be attributed to democracy, because they were designed to help elect a legislature that was more favorable to the government. But the Allende government was not typical of democracy in Chile, let alone anywhere else. It was an aberration that may identify a tail of a distribution of possible outcomes of democratic elections.

The Pinochet authoritarian government did not have the problem of needing to build popular support for a more favorable legislature. It could impose its policies, and could ignore or suppress opposition. But it is telling that more than ten years after the neo-liberal experiment of the Pinochet military dictatorship, a careful analysis called the experiment a failure (Edwards and Cox-Edwards 1987, 1991). When reforms take a very long time, democratic institutions are probably not well suited to implement them. In fact, not all authoritarian governments are well suited to follow through, as the Argentine experience shows.

Chile's economic performance during the first ten or twelve years of the Pinochet dictatorship was decidedly mixed, and its outstanding growth performance is a post 1985 phenomenon, and has been attributed in part to "policy complementarities" of several of the sustained changes imposed on the Chilean economy.

The experience under democratically elected governments since the dictatorship shows that democratic institutions can *maintain* policies that bring prosperity with low inflation. If anything, macroeconomic performance in the post dictatorship democratic era has been better than that of the dictatorship. But the economic performance of the present democracy is good because it builds on the structural reforms of the economy under the dictatorship.

When economic conditions were not initially favorable, Chilean democratic institutions did not create the positive conditions for growth and low inflation. There was

no lack of proposals and plans, some misguided and others not. But democratic institutions were available for opponents to block the passage or implementation of programs, whether they were constructive or not. And the electoral calendar provided a time limit on plans that took a long time to come to fruition.

This contrast between two periods of democracy in Chile, before and after the dictatorship, shows that democracy may be better at maintaining than creating a favorable economic situation. Democracy cannot be counted on to carry out structural reforms. An authoritarian government may be necessary for sustained and complementary structural reforms, but the Argentine experience makes it clear that brutal military dictatorship is not sufficient to create the conditions for prosperity.

Table1

Election law developments in Chile

1833	Secret ballot
1874	End of property requirements <sup>25</sup>
1948	Communist party outlawed
1949	Woman suffrage <sup>26</sup>
1958	Australian ballot <sup>27</sup>
	Re-legalization of Communist Party
1970 <sup>28</sup>	End of literacy requirements
	Vote extended to 18 year olds

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<sup>25</sup> Loveman 2001, pp. 164-5. (1988, pp. 261-2?) Valenzuela 1977, pp. 189-90).

<sup>26</sup> Hartlyn and Valenzuela 1994, p. 132.

<sup>27</sup> See Borzutzky 2002, p. 22

<sup>28</sup> These changes were part of a constitutional reform at the end of the Frei administration, and were not to go into effect until after the next presidential term of office.

Table 2

## Presidential elections in Chile, 1932-1973

<u>Year</u>	<u>Winner</u>	<u>Party or tendency</u>	<u>Vote percentage</u>
1932	Arturo <i>Alessandri</i> Palma	Doctrinaire Liberal	55.1
1938	Pedro <i>Aguirre Cerda</i>	Radical	50.5
1942	Juan Antonio <i>Rios</i> Morales	Radical	56.0
1946	Gabriel <i>Gonzalez Videla</i>	Radical	40.2
1952	Carlos <i>Ibáñez</i> del Campo	Independent	46.4
1958	Jorge <i>Alessandri</i> Rodriguez	Conservative	31.6
1964	Eduardo <i>Frei</i> Montalva	Christian Democrat	56.1
1970	Salvador <i>Allende</i> Gossens	Popular Unity	36.6

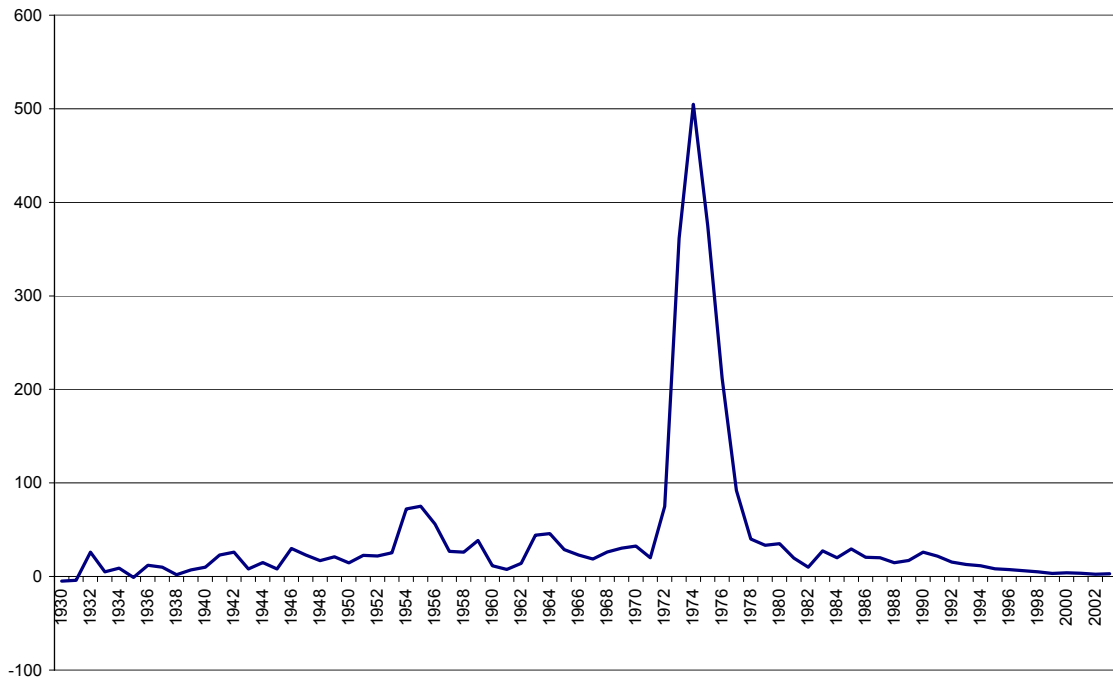
Table 3

Macroeconomic performance 1970-1973

	1970	1971	1972	1973
Growth of GDP	3.6	8.0	-0.1	-4.3
Inflation	36.1	22.1	260.5	605.1
Unemployment	5.7	3.8	3.1	4.8
Increase of real wage	8.5	22.3	-11.3	-38.6

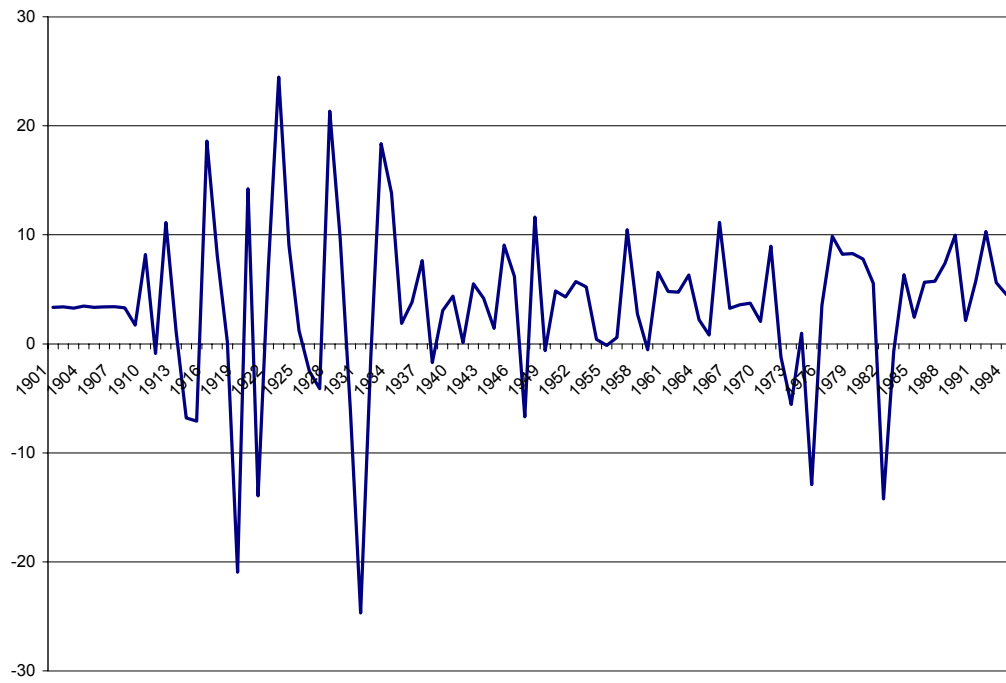
Source: Larraín and Meller 1991, 200, who list Central Bank, CIEPLAN and ODEPLAN as their own sources.

inflation rate 1930-2003 (%)





**gdp growth rate 1901-1994 (%)**



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