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Anti-statist development? Growth, economic concentration, and segmented welfare in Chile

Jorge Atria

The modern capitalist revolution in Chile – the moment when the economic liberalism project was established as a stage prior to the Reagan and Thatcher governments, generating a radical break with the previous model (Gárate 2012) – immediately provoked a strong discussion on the implicit idea of development. Whether due to the profound transformation in the coordination between the state and the market, the various reforms in social areas, or the increase in economic concentration, it introduced a set of ideas on how development should be understood and, therefore, how the economy should set the standard for thinking about a better future for Chile.

Although several reforms have been observed in the short and medium term, it has taken more time to analyze their effects. One aspect on which there is general consensus is that Chilean capitalism has gained advantages over other countries of similar income in terms of economic growth, poverty reduction, and institutional development (Repetto 2016). On the other hand, there is also a relative consensus that this model does not address inequality, so its redistributive impact is at best low, while in some areas it may be negative, benefiting the upper groups more.

The evolution of Chilean capitalism is also characterized by the emergence of an economic elite, reorganized since the dictatorship, that is composed of some traditional and other new business groups which play a crucial role in the control of key sectors of the economy but also claim responsibility for representing a modern, innovative, talented, and efficient leadership to lead the country to development.

The capacity of the members of this elite to organize and articulate (Undurraga 2013), as well as their strong ideological coherence around the importance of the free market (Fourcade and Babb 2002), influenced by the high share of power acquired by a smaller group of economists and technocrats, has configured a particular model due to its long continuity and deep impact. This influence characterizes both the institutions and the dominant ideas and values, among which an anti-statist and pro-free market perspective stand out. Anti-statism was nourished by opposition to the pre-coup state model, which focused on the expansion of social rights and land redistribution through agrarian reform, and the Chicago Boys' economic program, which was defined by radical state retrenchment under military rule (Ondetti 2021). The end of the dictatorship gave way to an elitist democracy of low intensity and limited citizen participation (Solimano 2012), which, together with the continued homogeneity and coordination of the private sector, gave continuity to anti-statism.

In recent decades, with the strengthening of democracy, the emergence of social movements, and new evidence on the outcomes of the 1970s and 1980s reforms, debates about the development model and its consequences have intensified. Several critiques relate to the difficulty of the ruling elites and the political system to push through reforms in key social services.

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In addition, there has been strong criticism of the economic elites, who are seen as receiving privileged treatment in terms of access to opportunities and benefits, as well as less severe sanctions when business abuses, tax evasion, and violations of free competition are detected. The social outburst, a massive demon-

stration of Chileans that lasted several months between October 2019 and early 2020, with some violent incidents, included a strong demand for redistribution and a more active role of the state against inequality. Nevertheless, the state is also perceived with mistrust and criticized for its inefficiency, an issue that, although not fully supported by fiscal performance indicators, makes visible the development challenges in the future.

In this short article, I analyze some elements of the Chilean model in the five decades that have passed since the military coup that interrupted the Allende government and gave rise to the dictatorship. This analysis shows the successes and failures of a strategy of “economic growth with inequality” and the consequences of a development model led by an anti-statist economic elite. It is based on two main arguments: first, several social problems remain serious due to income inequality and unequal access to social services; second, far from a competitive market economy, a concentrated and hierarchical market organization has been consolidated, benefiting mainly large companies and the wealthiest. Between these two processes, the tax system, far from being a compensatory mechanism, continues to be regressive, limiting the redistributive effect of social spending. Despite its recognized social and economic achievements, Chile today faces enormous challenges in overcoming current crises and reconciling capitalism with democracy.

Economic growth: Less poverty, but a more vulnerable middle class

The first post-dictatorship governments focused on maintaining a transition that would allow democracy to be restored, alleviate the social emergencies of a country with a 40% poverty rate, and reintegrate Chile into the international economic order. The strategy to accomplish these tasks resulted in a tutelary democracy in which the main economic principles of the dictatorship were maintained. In particular, tax revenues were increased only to the extent necessary to implement targeted social policies, and trade liberalization was encouraged through participation in international economic organizations and promotion of free trade agreements.

The macroeconomic and social balance of the period shows some positive results of this strategy. In the first three years of democracy (1990–1993), Chile grew by 27% in real terms, inflation was reduced from 27% to 12% per year, and public spending exceeded the budget inherited from the dictatorship by almost 40% in real terms (Marcel 1997). This had an obvious

impact on the most disadvantaged groups: by the end of the decade, Chile had a poverty rate of 20%, almost half of what it had been in 1990.

In terms of distribution, however, the gains were minimal. In the period 1990–2003, growth (measured as growth in per capita household income) was fairly even across the population (differentiated by deciles), as shown by Larrañaga and Valenzuela (2011). In other words, high economic growth during this period did not imply a reduction in inequality.

Subsequently, Chile benefited from the commodity boom (2003–2013), which was key due to the high international value of copper. The recent work of Mauricio de Rosa, Ignacio Flores, and Marc Morgan (2022) shows again the problematic case of Chile for this period. In fact, growth has benefited the majority of the population in almost all Latin American countries except Chile, Colombia, Costa Rica, and Mexico. Moreover, only in Chile, Mexico, and El Salvador did the top 1% outperform the average population.¹ Thus, it was mostly growth “for the top.”

Finally, looking at the economic threshold that Chile has already reached – measured by GDP per capita – and its level of inequality – measured by the Gini coefficient – it is clear that there is no other country that has achieved such a level of development with such a high level of income inequality (Repetto 2016). This anomaly speaks to the difficulty of the Chilean model in making growth serve the goals of the general population.

Another way to examine this issue is to look at the evolution of the government’s role in financing social welfare for different groups. One way to do this is to analyze monetary subsidies, i.e., the sum of all cash transfers provided by the government through social programs to all members of a household. Table 1 shows the percentage of household income accounted for by monetary subsidies. The greatest effect is achieved in the poorest decile (decile 1): in this group, monetary subsidies go from representing just over 16% of household monetary income in 1990 to 45% in 2017, almost 30 years later. In decile 2, there is a clear effect, albeit less substantial than in decile 1: subsidies accounted for just over 6% in 1990, a figure that rises to 15% in 2017. In other words, at its maximum (2017), welfare provision in this group was barely a third of what it was in decile 1. In subsequent deciles, this contribution continues to decline. This evidence connects with the privatization of social services that has occurred in recent decades, as I will discuss later.

These data make it clear, first, that without these targeted subsidies the poverty rates would be much higher. Thus, the role of the state in alleviating social disadvantages can be clearly distinguished. Furthermore, government subsidies explain the modest re-

Table 1. Share of monetary subsidies in household monetary income by decile of household per capita autonomous income (1990–2017)

Year	1990	1992	1994	1996	1998	2000	2003	2006	2009	2011	2013	2015	2017
I	16.3	13	13.5	18.4	20.5	20	23.2	27.1	49.1	40.5	41.3	41.2	45
II	6.2	5.4	4.9	6.9	7.3	7.1	7.2	7.4	15.5	13	14.3	14	15
III	4.1	3.9	3.1	4.6	4.7	4.7	4.8	4.8	10.4	8.4	8.7	9.1	9.5
IV	3	2.7	2.2	3.3	2.7	2.9	2.9	2.9	6.7	5.3	5.9	6	6.7
V	2.2	1.9	1.4	2.1	1.9	1.9	2	2	4.7	3.6	4.1	4.4	4.4
VI	1.5	1.3	1	1.5	1.3	1.3	1.4	1.2	3.1	2.5	2.8	2.8	3.1
VII	1.1	1	0.7	1	0.7	0.8	0.9	0.8	2	1.7	1.7	2	2
VIII	0.8	0.7	0.4	0.4	0.4	0.4	0.4	0.4	1.3	1.1	1	1.1	1.3
IX	0.5	0.3	0.2	0.2	0.2	0.1	0.2	0.2	0.6	0.4	0.4	0.6	0.6
X	0.2	0.1	0	0	0	0	0	0	0.1	0.1	0.2	0.1	0.2

Source: Own elaboration based on table 4 in Ministerio de Desarrollo Social/UNDP (2020, 60). Available at: <https://www.desarrollosocialyfamilia.gob.cl/noticias/ministerio-de-desarrollo-social-y-familia-publica-primer-medicion-comparable-de-la-pobreza-entre-19>

duction of economic disparities to a greater extent than an improvement of real wages for low-income workers (Posner 2017, 42). Second, these data illustrate the orientation of social policy towards reducing poverty, not inequality. As an official report points out, priority has been given to increasing the income of the poorest households – a growth effect – rather than to achieving a proportionally greater increase in the income of poor households – a distribution effect (Ministerio de Desarrollo Social/UNDP 2020, 70).

Poverty reduction has consistently gone hand in hand with the expansion of the middle class, whose precarious conditions suggest processes of social mobility and consumption with high levels of debt and vulnerability (Gonzalez 2015). One way of exploring this is to look at the upward and downward trajectories of social mobility: when compared with other OECD countries, Chile has the lowest rate of persistence in the poorest quintile over a four-year period. At the same time, however, Chile has the highest rate of return from middle to lower positions (OECD 2018).

This social policy design has also been underpinned by a set of ideas about progress and individual success. On the one hand, explanations of poverty increasingly emphasize individual factors: the attribution of poverty to reasons such as laziness and lack of effort increased in Chilean society from 18.4% in 1996 to 40% in 2015 (Frei et al. 2020). On the other, several studies show that meritocracy is highly valued. In the middle and lower classes, merit is perceived as a social mobility strategy based on individual effort, which is not always validated in everyday life but reflects a demand for recognition by society that efforts are being made to improve (Araujo and Martuccelli 2012). In

the economic elite, meanwhile, explanations of access to top positions emphasize talent over effort – based mainly on leadership ability and business success – which is verified in elites' ascending careers in private companies to the detriment of changes in the social structure (Atria et al. 2020).

Enrichment and economic concentration

Current literature places Chile as one of the countries with the highest concentration of income and wealth in a comparative perspective (De Rosa et al. 2022), highlighting a pattern of accumulation in the top 1% that has fluctuated in recent decades, reaching its highest points during the 1980s (Flores et al. 2020). Historical work shows this to be a feature that has been present throughout Chile's history, as in other Latin American countries, although it intensified during the dictatorship.

The debate on economic concentration also gained momentum during this period. In 1979, six years after the coup d'état and the beginning of Augusto Pinochet's dictatorship (1973–1989), the sociologist Fernando Dahse published a controversial book called *Map of Extreme Wealth*. In it, Dahse tested the hypothesis that the dictatorship had increased the concentration of ownership and management of private companies, on the assumption that the conflicts faced by the government of Salvador Allende (1970–1973, interrupted by the coup d'état) had been exacerbated. This, he suggests, was the result of a “development model of concentration and exclusion,” in which the state had played a role in favor of this concentration,

imposing a greater sacrifice on the workers (Dahse 1979, 13).

An antecedent of Dahse's thesis is the work of Ricardo Lagos (1962), later President of the Republic (2000–2006). Lagos documented the acute concentration of economic power and found four effects: (i) worsening of income distribution, (ii) concentration of the media, (iii) influence in the appointment of the executive and legislative branches, and (iv) acquisition or growing influence in public enterprises. Later, Maurice Zeitlin challenged the “astonishing consensus” among scholars regarding the presumed separation of control and ownership in large corporations on the social structure and political economy of capitalist countries (Zeitlin 1974, 1073). His research reemphasized the importance of studying the processes of differentiation and internal integration of the capitalist class by looking at the family ties and social organizations in which the upper class is found. Zeitlin showed that Chile was a case of high economic concentration and cohesiveness of the capitalist class characterized by a strong unity of interests and a common class situation among owners and managers of large corporations (Zeitlin and Ratcliff 1988), demonstrating that in contemporary societies there are still multiple institutional configurations and class structures within which entrepreneurial activity takes place.

One year after Dahse's book, in 1980, Joaquín Lavín published *El enriquecimiento de las personas en Chile: Cuando ha beneficiado y cuando ha perjudicado al país* (The enrichment of the people in Chile: When has it benefited and when has it harmed the country). Lavín, who would later run as a right-wing candidate in the 1999 presidential election – in which Ricardo Lagos would be elected – defended the economic recipe of the dictatorship. The biggest mistake of previous governments, he said, had been to use public resources to benefit a minority of people and productive sectors to the detriment of the majority. For Lavín, the solution to the opportunistic use of the state implied (i) the elimination of cash subsidies to certain groups, (ii) the elimination of tax exemptions for certain productive sectors, (iii) the promotion of free competition through the elimination of public monopolies and protectionist barriers, and (iv) the elimination of price-fixing, such as had been established in passenger transport.

In the new model, Lavín concluded, wealth “corresponds to the efficiency of each person within a competitive system. This means that the greatest wealth of a person or group corresponds to its effective contribution to the economic growth of the country. The wealth thus obtained not only does not come at the expense of others, but also represents a benefit for the rest of the citizens” (Lavín 1980, 123).

Regressive taxation

Taxes play an important role in institutional design because they reflect a vision of distributive justice (Murphy and Nagel 2001). Not only do they determine the contribution of different groups to the financing of the state, but the debate over the resulting tax burden is full of justifications about the functioning of the economic system, the capacities that the state should have, and the degree of tolerance for inequalities.

The Chilean tax system complements the social policy in three ways: first, it has a regressive tax structure by design, giving priority to VAT, then to income tax, and establishing very low contributions from wealth taxes, thus worsening the market income distribution.

Second, the tax system is even more regressive in practice, offering a series of exemptions and special mechanisms that can be better exploited by the richest, who in fact use them and benefit from them more than the rest of the population. This particularly affects the collection of progressive – income and wealth – taxes and multiplies the possibilities for aggressive tax planning, further weakening the possibility of reducing economic concentration in the top percentiles (Atria 2022).

Third, there is a lower capacity to monitor and control tax compliance in the top groups. This is reflected in the fact that estimates of income tax evasion – a tax paid only by the top 25%, as the rest of the population is exempt – suggest much higher rates than for VAT evasion. Similarly, the last decade has seen numerous cases of tax non-compliance characterized by problems of influence peddling, conflicts of interest, and corruption between tax administration officials and individuals from companies and business groups. Moreover, these problems have occurred in a context where it has been difficult for government agencies to audit large companies and for the judicial system to effectively punish those who have committed illegal acts.

As a result, the tax burden, which is low compared to OECD and Latin American countries (Ondetti 2021), is low for its level of development, reaching around 20% of GDP, but it is also homogeneously distributed across the population, so that the effective rates of the poorest deciles are very similar to those of the top decile and percentile (Fairfield and Jorratt 2016).

The values and ideas about taxes in Chile show, above all, the belief in a country with a legalistic tax culture, where tax evasion is condemned and a more compliant behavior is perceived than in the rest of Latin America. Likewise, the role given to the private

sector in the country's modernization limits the function of taxes to raising resources to finance basic social services, rejecting the use of taxes to increase redistribution and advocating the promotion of investment and business savings to encourage entrepreneurship and wealth creation. This leads to the perception of growth as the main public policy of the state (Undurraga 2013), which in turn leads to the promotion of tax efficiency and neutrality so as not to distort the actions of agents.

For these reasons, taxation was one of the issues that were largely absent in the first decades after the dictatorship, and it reappeared mainly as a result of the mobilizations of the last decade, as part of the instruments for reducing inequality and financing social rights. However, the organized action of the business associations, which are particularly cohesive when it comes to taxes, has prevented the approval of progressive tax reforms, based mainly on the call not to slow down the reactivation impulse of companies and on a not always justified criticism of fiscal inefficiency.

Markets: Definitions, criteria, and consequences

The Chilean development model gives markets a central place in the organization of the economy. In "El Ladrillo" (1992), the fundamental text in which the dictatorship's economic program is presented, the function attributed to the markets also allows us to understand the notion of the state defined by its indirect action, consecrating a decentralized social order as the social ideal:

State action tends to be indirect The recognition of the advantages of the market leads to a decentralized planning model that aims to avoid distortions or imperfections that occur in the economic system, where it is essential that the price system is used as an indicator of the relative scarcity of different goods and resources. (El Ladrillo 1992, 63)

The market system implies clear, automatic and impersonal mechanisms of rewards and punishments, while providing sufficient incentives that correspond to a central characteristic of the human being: his ability and will to obtain a better destiny for himself and his family. (El Ladrillo 1992, 68)

Real markets do not work the same everywhere, nor do they interact with the state in the same way. In some Latin American countries, the special role of the market in coordination with the state has given rise to what some authors call Hierarchical Market Economies (HME). Unlike other varieties of capitalism, this model is based on four core features, namely diversi-

fied business groups, multinational corporations (MNCs), low-skilled labor, and atomistic labor relations in a general context of reliance on hierarchy in the organization of capital and technology (Schneider 2009, 553). In addition, regressive social security systems, higher levels of informality, low levels of trade union participation, and education and job training that limit individual opportunities predominate in HMEs (Schneider and Soskice 2009). The resilience of business groups is also notorious, contradicting theories of corporate governance in developed countries and expectations of institutional change in response to globalization (Schneider 2008). Chile is an example of this type of institutional arrangement in the sense that although it has a legal and financial system with standards similar to those of high-income countries, large business groups continue to retain great influence and the ability to control the economy (Schneider 2008).

The market orientation retained its importance in the first post-dictatorship democratic governments, and its influence on social outcomes can be verified in key areas such as pensions, education, and housing.² In the first case, while the pension system was reformed in the early 1980s to move toward a model of individual capitalization, the demand subsidy in the entire education system maintained the segmentation, especially in primary and secondary education, between those who could access private schools, those who could access subsidized private schools, and those who had to access public schools. Finally, the liberalization of the land market has had the effect of displacing the poor to the periphery, raising the cost of well-located land, and locating much of the social housing in places where the geography of opportunity is detrimental to people's labor insertion.

The pension system is currently one of the most controversial issues because it is an example of an institutional design defended for its ability to improve the results of the previously dominant pay-as-you-go system. In other words, it reflects what market coordination could achieve in place of government planning. According to the Superintendency of Pensions, initial estimates for a worker who contributed to this new system for at least 30 years, with a relatively stable salary and no pension gaps, suggested a replacement rate of 70% of the average income of the last 10 years of contributions. Such was the confidence in the system that, in 2000, a projection by the AFP Association (Administradoras de Fondos de Pensiones, that is, profit-maximizing companies) estimated that Chileans could retire in 2020 with 100% or more of their salary. The estimate was based on an average annual return on funds of between 6% and 7% over 20 years for people who had no pension gaps (El Mostrador 2016).

However, the accumulated evidence shows the problems associated with this institutional design. After almost 40 years of operation, the system reports “low pensions for civilians, large differences in benefits across pillars, large gender biases in pension levels, systemic redistribution of pension savings from wage earners to large economic conglomerates, export of nearly half of the pool pension savings, very high return rates for the AFPs and overall informational complexities for the affiliates” (Solimano 2021, 97). In addition, the scheme created new inequalities: despite the fact that since 1982 all dependent workers were included in the system and required to register in an AFP, the Armed Forces and the Carabineros remained exceptions and to this day maintain a system similar to the one that existed before 1980, at a high cost to the state (Quiroga 2008; Benavides and Jones 2012).

Finally, free competition is a key issue related to the functioning of markets in a system of relations in which the greatest economic stimulus is expected from business and a strong regulatory capacity from the state. Although this point was included in the dictatorship’s economic program from its inception, the performance of markets has been questioned in recent decades. This is due to the revelation of numerous cases of concentration in the hands of a few large players and problems of collusion and abuse of dominant position. These cases have long been visible in the public debate because they involved basic consumer goods such as tissue paper, chicken, or medicines. Similarly, the sanctions resulting from such cases have not always been clear, effective, and proportionate to the benefits obtained.

A recent OECD report (2022) addresses the competitive situation of the Chilean market on a comparative basis and shows that it is rather weak. In an analysis of 52 countries, Chile comes fourth for the lowest market dispersion in several companies. In other words, the Chilean case represents a scenario in which markets are dominated by a few groups of companies, surpassed only by Paraguay, Hungary, and Peru. This comparison also shows that it is not only the size of the country that is important for increasing market competition. Among the countries with the highest level of markets spread among many firms, Switzerland, Japan, Italy, and Denmark stand out in the first four places. Chile is also below the Latin American average.

More specific evidence from the Chilean economy allows us to understand the problem of lack of competition in certain areas. For example, there are 10 markets with “extreme concentration,” where two players have an average share of 81%, which rises to 97% if the third largest player is included. Here, it is possible to find industries such as pharmacies, lique-

fied gas, oils, dairy, or mobile telephony (Bravo et al. 2017). On the other hand, the same work shows at least 12 markets with “high concentration,” where the aggregate share of the three main players is between 60% and 90%. This is the market situation in such important sectors as electricity distribution, supermarkets, AFPs, and Isapres (insurance providers, part of the private health system).

One way to relate the problems of economic concentration and oligopolistic markets to inequality is through capital accumulation. According to Piketty (2014), a central problem of capitalism in modern societies is that the profitability of capital is greater than the growth rate of the economy. Recent estimates suggest that the profitability of productive capital for the period 1990–2016 could even have exceeded 21%, about 17 percentage points higher than the growth of the economy (Accorsi 2021). This should be considered as just one effect of market concentration among many, which other research agendas have developed in depth around issues such as the indebtedness of the population, the low survival of firms that cannot compete in oligopolistic structures, or the disincentives to innovation and R&D activities.

Discussion

In 2019, a study conducted by the consulting firm Unholster, which looked at changes in the life expectancy of Chileans between 1990 and 2017, showed that in Vitacura, a high-income commune in Santiago, the life expectancy of women was 88 years, while in La Pintana, a poor commune in the same city, it was 77 years. This 11-year difference in life expectancy, according to the study, is mainly due to socioeconomic factors, in addition to differences in the services provided by public utilities. Moreover, the study showed that between 1990 and 2017, the median age of death increased in almost all municipalities, but the increase was not homogeneous. The richest municipalities had the highest increase, while the poorest had the lowest or no increase.

The development model that Chile has followed over the last half century has been considered successful mainly for its ability to grow the economy and reduce poverty, minimizing the importance of economic concentration and the segmented provision of welfare that have driven this market model. The model has not only failed to provide decent pensions for the majority but has also created educational and work trajectories, as well as geographies of opportunity and socialization settings, that vary widely within the same country and can even affect people’s life expectancy. This is consistent with the idea that neoliberalism has

produced winners and losers among domestic actors, and also with the expectations of conflict that it involves among different sectors of society (Madariaga 2020), something that contributes to understanding the numerous social mobilizations of the last decade.

The institutional arrangements of Chilean development follow a pattern whose historical formation can be traced back a long way. However, recent decades have witnessed the implementation of new ideas about development, as well as tensions with long-standing ones. On the one hand, the capitalist revolution installed by the dictatorship allowed for profound changes in the institutional design and ideas that underpinned a neoliberal conception of development. On the other, an exhaustive analysis of this model cannot ignore the position of Chile and Latin America in the global order, its insertion as an exporter of raw materials, and its exposure to international shocks. In this sense, the recession of the early 1980s or the Asian crisis in each period constrained the authorities and led to policy changes, as occurred in countries of other regions. However, this reaction does not fully explain the continuity of neoliberal policies (Madariaga 2020), nor does it replace the anti-statist orientation of economic elites in negotiating and blocking redistributive reforms.

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The new scenarios, marked by a citizenry that is more informed and critical of its living conditions, as well as the constitutional discussion cycle of the last four years, challenge the current economic and political elite and push for changes in a context characterized by high levels of institutional distrust. At the same time, the penetration of market criteria into social life has given primacy to an individualistic model and is linked to a consumer logic that increases the difficulty of making sacrifices and seeking agreements in pursuit of common goals. It remains to be seen how this will affect the Chilean development model of recent decades.

Endnotes

- 1 These results refer to growth incidence curves of pre-tax national income for the period of the commodity boom. Growth is understood as growth rates of real income by percentile.
- 2 One should also mention the model of water privatization as a symbol of the processes of market liberalization that occurred during the dictatorship. Indeed, according to one recent study, Chile is identified as the only country with explicit private ownership of water rights. See <https://www.ing.uc.cl/noticias/estudio-a-92-constituciones-identifica-a-chile-como-el-unico-pais-con-expresa-propiedad-privada-de-derechos-de-agua/>

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