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For our children

Max, Kate, and Zoë

Andy and Amelia

Chapter Six

Business Elites, the State, and Economic Change in Chile

Eduardo Silva

Analyses of the Chilean case have overlooked an important aspect of its neoliberal economic restructuring process, one that has broad comparative implications for Latin America and elsewhere. Most analysts conclude that a strong dictatorial state and a cohesive group of technocrats sufficed to push through successful reforms (Frieden 1991; Campero 1984; Foxley 1983). Evidence, however, shows a closer interaction between policymakers and business groups than is generally asserted. The data suggest that shifts in the structure of that interaction and changes in the composition of the business groups and policymakers involved must be included as necessary factors in the explanation of Chile's economic transformation. A comparison across three policy periods, two during the dictatorship and one in the contemporary democratic period, shows that the initial form of interaction between business and the state contributed to policies that had a relatively negative impact on investment and production during a process of neoliberal reform. Subsequent forms correlated with more beneficial effects. The form of the relationship was important because it influenced the confidence and credibility of businesspeople that their general interests were being taken into account.

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As a model for other Latin American countries, Chile offers some hypotheses about how different forms of interaction between policymakers and business groups affect investment and production in processes of economic liberalization. To begin with, the case suggests that an excessive degree of state autonomy is not necessarily conducive to good policy. Among other factors, the isolation of technocratic policymakers generated policies that, while not completely inhibiting investment, concentrated it in speculative financial activities that contributed to sharper economic decline than might have otherwise occurred in 1982. By the same token, closer connections between policymakers and more institutional forms of business representation helped to shape economic recovery measures that stimulated greater levels of investment as a percentage of gross domestic product (GDP) than in the previous period and directed more of it to production than to speculation.

Business, the State, and Neoliberal Economic Restructuring

Until recently, studies have largely ignored the impact of the business-state relationship for the outcome of neoliberal restructuring, especially in terms of investment and production. Instead, both critics and supporters of such policies have tended to focus on two things: the proper functions of the state for healthy economic development, and the design of correct policy instruments as well as the fine tuning of their sequence and timing. These traditional views, however, obscure the fact that, in both market and mixed economies, good policy design by itself does not necessarily lead to optimum results. Much depends on how businesspeople react to the signals that government officials send: whether they invest and what they invest in (Onis 1991). In some measure this hinges on the quality of the relationship between businesspeople and state officials. When it is mired in bitter antagonism, no policy design, no matter how correct, will elicit the desired response from capitalists. Similarly, if the relationship is too cozy, it may degenerate into collusion and an inefficient allocation of scarce resources through corruption (Schneider 1993b). The interaction between businesspeople and state officials is crucial for investment and production because, among other factors, it influences the private sector's confidence to commit resources. Business elite's participation in policy formulation and implementation stages of the policy process enhances the credibility of government policy and business's belief that the policies will actually work.

According to Rosemary Thorp's observations of Colombia, the longstanding involvement of top capitalists in the policy process generates trust that solutions to thorny policy issues will be reasonable (Thorp 1991). Trust is deeper and more pervasive than confidence and credibility. Chile's recent experience with closer connections between business elites and policymakers comes on the heels of deep-seated historical traumas that produced a great dial of mistrust between the business community and democratic policy processes. As a result, the higher levels of contact between the private and public sectors induced more confidence and credibility in government policy but not trust. As far as Chilean capitalists are concerned, vigilance is necessary to protect their interests. As long as they participate fully in policy formulation and implementation, they believe that they will be able to do so successfully and to their benefit.

Varying degrees of confidence, credibility, and trust, as well as their effects on economic activity, are influenced by (among other factors) the structure of the relationship between capitalists and the state, which is central to the construction of what Peter Evans calls embedded autonomy (Evans 1992). State institutions and officials require certain characteristics to avoid undue influence by particularistic influences in the policy process, beginning with the setting of development goals. Yet if they are isolated from businesspeople, they are likely to err in policy design, meaning that the desired investment may not be forthcoming. Dense networks of communication with the private sector provide important information on what policies capitalists are likely to find workable.

This concept applies to both *dirigiste* and liberal states. In the case of neoliberal restructuring in Latin America, the idea of embedded autonomy suggests a need for a sharper focus on how different forms of business-state interaction encourage or inhibit increased investment in production. This requires an examination of the characteristics of business organization—at both the associational and the firm levels—as well as state institutions. Research must also investigate the interaction that occurs between them in the policy process and whether it is personalistic or institutionally based.

In terms of institutional arrangements the Chilean case suggests that a tight, hierarchical state structure and participation by encompassing business peak associations are functional for investment-inducing interaction between large-scale capital and policymakers. A well-ordered hierarchy among ministries contributes to coherence in the policy process because it controls the delegation of authority from a lead-line ministry to others. The lead-line ministry acts as a gatekeeper, and in Chile the lead lines are the Ministry of Finance and the central bank. This structure sharply reduces the porosity of state institutions to particularistic interests. It allows policymakers to dominate agenda setting and tightly circumscribe participation in policy formulation by social groups. In addition, encompassing peak associations backed by the nation's leading business concerns provide an arena for aggregating the interests of large-scale capital. They furnish a forum for the formation of business policy coalitions that participate in the formulation and implementation stages of the policy process. This is particularly the case during the period in which a nation is designing a comprehensive policy of economic restructuring to overcome a deep economic crisis. Business participation in policy formulation is also helpful when policymakers seek to alter established policy agendas—for example, when Patricio Aylwin's administration decided to raise taxes on business and revise the labor code. On both occasions it consulted with business organizations in policy formulation in order to assure smoother and more effective policy implementation by the private sector.

The interaction between business and state officials under these conditions contributes to investment in production through a dual process that builds confidence that policy will address the needs of both the economy in general and firms in the various economic sectors in particular (Thorp 1991). With access to the policy process, Chilean businesspeople since 1984 have felt confident that solutions to national economic problems would not be at the expense of their interests. Policymakers have benefited from the private sector's participation in policy formulation. They get a much better idea of how business elites will react to a policy. This occurred in Chile during the last seven years of the military government and it has helped smooth a potentially conflictual relationship during the new democratic period, where political opposition to the dictatorship—which the business sector once vilified—has governed so far.

The last section of this chapter looks at Chile in comparison to Venezuela and a stylized version of the East Asian model. A brief examination of Venezuela highlights the differences between Chile's style of embeddedness and its lack in other cases of neoliberal restructuring. The contrast with East Asian NICs (newly industrializing countries) offers some interesting suggestions about the characteristics of bureaucracy necessary for a fruitful relationship between business and the state in the construction of liberal societies and economies. A final reflection centers on the limitations of Chilean-style embeddedness and refers to extending participation on a more equal footing to other class-based social groups.

Business-State Networks in Chile, 1975–1994

The following sections compare three periods of Chilean political and economic history in relation to the forms of interaction between business and the state and how they contributed to patterns of investment and production. This internal comparison permits analysis to focus on these factors while controlling for general background variables. For example, the contrast between the radical neoliberal policy period (1975–82) and the pragmatic neoliberal phase (1983–89) bring into sharp relief the significance of shifts in business-state relations for investment and production. Both policy periods took place within the same political regime: the military government of General Augusto Pinochet. The final policy period (1990–94) highlights the importance of key elements of continuity in business-state relations in the transition from dictatorship to democracy. Those continuities clearly moderated what might have become a conflictual relationship between long-repressed political elites and a business community that, for historical reasons, was highly suspicious of its intentions.

Business-State Networks during Radical Neoliberalism, 1975–1982

After the overthrow of the socialist Salvador Allende in 1973, Chile's military government implemented a neoclassical economic restructuring program in which policymakers replaced state intervention with market incentives. These policymakers believed that markets allocated resources far more efficiently than bureaucrats did and that markets disciplined economic agents to become more productive. They also assumed that neutral, across-the-board policy instruments worked better than industrial policy and discretionary state powers (Ramos 1986; Edwards and Cox-Edwards 1987). This neoliberal economic restructuring took place over three distinct policy periods in authoritarian Chile: gradual, radical, and pragmatic (Hurtado 1988). Due to space constraints I examine only the latter two and the democratic period that followed.

Between 1975 and 1982, Chile experimented with radical neoliberal policies in the construction of a liberal economy and society. Those policies included draconian economic stabilization programs (shock therapy) and the rapid, thorough liberalization of capital markets, prices, and trade with little regard for their effects on industrial and agricultural sectors, which had difficulty adjusting. The introduction of a fixed exchange rate in 1979 became the centerpiece of a system of automatic economic adjustment, after which the top policymakers believed that their main role would be to act as gatekeepers against interest groups that wanted to change the rules of the game (Foxley 1983; Edwards and Cox-Edwards 1987). Market logic also informed social policy in the new labor code as well as the privatization of health insurance and pensions (Arellano 1981; Campero and Valenzuela 1984; Ruiz-Tagle 1985; Raczynski 1983).

After an expected sharp economic decline in 1975, economic activity

and investment resumed. Yet investment as a percentage of GDP failed to reach pre-1970 levels. Nor did the reforms do much to stimulate investment in productive enterprises despite the fact that between 1977 and 1981 Chile experienced an unprecedented influx of foreign savings. Between 1977 and 1981 Chile's external debt rose from $5.8 billion to $15.7 billion; the share going to private debtors increased from 22 to 64 percent (Ffrench-Davis 1989). Yet during the best year, 1981, investment only rose to 19.5 percent of GDP, not quite the 20 percent average of the 1960s.[1] Meanwhile, industry's share of GDP declined from 24.6 percent in 1970 to 21 percent in 1981. An index of industrial production (1980 = 100) showed that at 94.4 in 1979 it had barely surpassed the 1970 level of 90.5. During the same years, the share of agriculture dropped from 8.2 percent to 7.5 percent, while those of the commercial and service sector, especially financial services, expanded (Teitelboim 1987). By the same token, imports rose sharply, especially in finished and intermediate industrial goods (Ffrench-Davis 1989). Most telling, nonmineral export performance was not stellar, further reflecting a relative lack of investment. Between 1975 and 1979, a period of high dollar inflation, the export of sea and agricultural products expanded by $30 to 50 million a year in current values. With the fixed exchange rate, that expansion slowed to $25 and then $10 million between 1980 and 1982 (Ffrench-Davis 1981).[2]

After 1979, in a period of high international liquidity, the fixed exchange rate (which made the dollar very cheap) along with rules that stimulated dollar indebtedness, encouraged financial speculation, commercial exchange, and real estate over productive investment. Although for a brief period Chile's economy boomed, in 1982 its unregulated and immature markets broke down. A deep economic depression engulfed the nation as GDP shrank by 14 percent in 1982, the financial system collapsed in 1983, the largest conglomerates were broken up as their holding companies went under, and unemployment climbed to 25 percent of the work force and eventually to more than 30 percent (Whitehead 1987). Investment as a share of GDP plunged to 12.9 percent in 1983 even as the public share of total investment climbed from 26 percent in 1981 to 37 percent in 1983. The industrial production index plummeted from 100 in 1980 and 1981 to 85 in 1982 (Teitelboim 1987).[3]

[1] The composition between public and private shares of total investment changed significantly. The public share averaged 52 percent between 1960 and 1970 and 36 percent between 1975 and 1982. Nevertheless, increased private investment could not make up for the fall in the public share.

[2] Also see Banco Central de Chile, *Boletín mensual,* selected issues.

[3] Also see Cieplan data base on investment indicators, obtained in 1992, courtesy of Cieplan.

A substantial literature covers the economic reasons for this debacle, focusing heavily on mistakes in the use of specific policy instruments (Brock 1992; Edwards and Cox-Edwards 1987). But the structure of the interaction between government policymakers and top capitalists also affected the outcome. Evidence suggests that in processes of neoliberal economic restructuring damaging policies may result when a highly autonomous state overinsulates ideologically rigid technocrats with organic links to a narrow range of business interests operating outside the confines of business peak associations. These characteristics can lead to harmful policies too skewed for healthy economic growth and that, in Chile at least, ended in economic disaster. It is constructive to examine the contrast in investment and growth patterns during the following policy period, which took place within the same military government but with a different system of collaboration between policymakers and business represented by peak associations within an encompassing organization; productive investment as a percentage of GDP increased steadily.

What were the characteristics of the system of interaction between the public and private sectors between 1975 and 1982 and how did they contribute to economic problems? To begin with, a highly autonomous state—Pinochet's system of one-man rule—insulated key policymakers from virtually all pressure groups (Valenzuela 1991). By giving his ministers unconditional backing in the context of a highly repressive authoritarian regime, he shielded them from reaction to their unpopular economic policies. The military government also concentrated economic decision making in government financial institutions, principally the Ministry of Finance and the central bank, thus further reducing points of access for business interest groups. In addition, it diminished the capacity of other ministries to contest the decisions of key policymakers and made it virtually impossible for ministers to use their locus of authority as a springboard to create clientelistic followings.

The characteristics of the economic policymakers themselves were also significant. They were not elite career bureaucrats in a meritocratic system, as they tend to be in more successful dirigiste or developmental states. Instead, they were a cohesive team of highly ideological technocrats from civil society schooled in neoclassical economics—often called "Chicago boys" because many had studied at the University of Chicago in the 1960s (P. Silva 1991; Gabriel Valdés 1989). Given their training, they possessed a distinctive and rigid vision of policy goals and instruments. In the context of a highly autonomous state, this inflexible, ideological approach led to economic restructuring policies that showed no mercy for threatened economic sectors and emphasized financial intermediation and real estate over investment in production (Foxley 1983; Hurtado 1988).

Many of the key Chicago boys, however, had links to a narrow range of internationalist conglomerates that tended to concentrate their holdings in financial intermediation, companies that were internationally competitive, and trade (E. Silva 1996).[4] Key economic ministries and institutions, such as Finance (top of the hierarchy), Economy, the central bank, and the budget office, were headed by men who had close ties to the Cruzat-Larraín, BHC, and Edwards conglomerates. These links gave the top directors of these international conglomerates—especially Cruzat-Larraín—privileged access to policymakers.[5] That access allowed them to discuss policy reforms with the policymakers; and according to one government official of the period, "the directors of privileged conglomerates participated with increasing frequency in key policy meetings, and that clique eventually froze out all opposition to their views."[6]

At first, meetings included technocrats linked to the Christian Democratic Party in contact with select representatives of more traditional business groups and their associations. In the end, however, only the more radical Chicago boys and the directors of a narrow range of conglomerates formulated key policies related to the privatization and deregulation of the financial system, privatization in general, and the rate of decline in levels of protection for industry. The radical Chicago boys included these directors in policy formulation because they were friends who shared similar training and views. Because they were real businessmen with real managerial experience, they also supplied the Chicago boys with valuable information about how new sectors of the economy—which they controlled or could quickly gain domination over—would react to the proposed policies. Policy discussions were free-flowing in terms of the exchange of ideas about policy design and its effects between the technocrats and the conglomerate directors.[7] Other government officials and

[4] For another study that distinguishes the importance of private-public sector networks for policy-making, see Schneider 1993a.

[5] They had been either executives, advisors, or members of the professional staff of those conglomerates before taking office, and most returned to those positions after they left government service (Dahse 1979; E. Silva 1996). Significantly, these were the same conglomerates that had organized business resistance against Allende in the Monday Club and collaborated with the military in the conspiracy to overthrow Salvador Allende (O'Brien 1983).

[6] Author interview with the Christian Democrat Juan Villarzú, budget director from 1974 to 1975, Santiago de Chile, December 1988. This view was corroborated by Andrés Sanfuentes, an early Christian Democratic civilian economic advisor to the military government (author interview, Santiago de Chile, April 1989).

[7] Author interview with Juan Villarzú, former budget director, Santiago de Chile, December 12, 1988.

businesspeople were simply not informed about these meetings. When summoned to "official" policy discussions, they only learned out about decisions already taken to which there was no appeal.[8]

In short, the directors of those internationally oriented conglomerates participated extensively in policy formulation. This gave them insider information regarding key economic policy decisions with initial results that seemed very positive. With access to international credit in a country starved for capital, this knowledge allowed them to set up financial intermediation firms before other, more traditional economic groups. Thus, they were able to buy public assets that were being privatized before them. In other words, the privileged access of conglomerate executives in the policy formulation stage helped them to play a vital role in policy implementation as well. Their aggressive strategy of corporate expansion at the expense of more traditional business groups promoted high GDP growth, spectacular expansion of the financial sector, and some growth of economic sectors in which Chile had comparative advantages. Because the policies seemed to be working, policymakers believed that rapid growth and drastic market economic restructuring based on an almost exclusively technocratic approach could go hand in hand. The "right breed" of new entrepreneurs was responding aggressively to the new policies. As soon as the rest followed their example, all would be well.

Ultimately, however, the activities of the new conglomerates were damaging. They based their expansion on highly leveraged buyouts and clearly emphasized profiting from financial intermediation and real estate over investment in production. The conglomerates were organized around financial institutions that captured domestic and international savings, as did their flagship industrial companies. The importance of this is reflected in the myriad investment companies that they set up to channel their funds. A substantial amount of those funds were used to acquire more firms, as evidenced by the rapid buildup of these economic groups. The two largest by far—Cruzat-Larraín and BHC—grew from eleven and eighteen companies in 1974 to eighty-five and sixty-two respectively by 1977. By 1978 they were in control of more than 37 percent of the assets of the 250 largest Chilean firms. By contrast, the next two largest (Matte and Luksic) controlled just 12 percent. Significantly, most of the expansion was based on the acquisition of exiting firms rather than

[8] Author interview with Juan Ignacio Varas, private-sector representative to the Tariff Review Board at the beginning of the military government, Santiago de Chile, November 2, 1988. Orlando Saénz, president of the Sociedad de Fomento Fabril (SFF) during the Allende years and the first years of the military government, said that radical Chicago boys would receive organized business but never listened to their position. Organized business was reduced to sending letters to ministers, which were ignored (author interview, Santiago de Chile, September 14, 1988).

investment in new companies. Moreover, by the end of 1977 Cruzat-Larraín and BHC alone controlled 40 percent of private-sector banking assets and almost 30 percent of credit from *financieras* (nonbank lending institutions) (Dahse 1979). A substantial amount of the savings they captured went to loans for their companies (de la Cuadra and Valdés 1992). In addition to self-lending, these conglomerates, and smaller ones like them that mushroomed overnight, made substantial profits in the spread between low international interest rates at which they borrowed from abroad and the high internal rates at which unrelated firms and consumers borrowed.

These tactics worked as long as there were no major shrinkages in international liquidity and international interest rates remained reasonably low (de la Cuadra and Valdés 1992). When those conditions changed after 1980, economic disaster struck. Studies have shown that overindebtedness was the major reason for the wave of bankruptcies that swept Chile in the early 1980s. Firms went into debt to expand (mainly to acquire other companies) to obtain working capital to stay in business if they were in internationally uncompetitive sectors and to pay back existing debts (Mizala 1985).

The increase in international interest rates and the fall of loanable funds to Latin America hit the new aggressive financial conglomerates hard. Because they had built their expansion on debt, they had to capture an even higher proportion of available credit to keep from going under in the early 1980s. As a result, they began to drive up interest rates even more in an effort to crowd out competing borrowers and made it impossible for policymakers to control those rates. Meanwhile, in the rest of the economy, firms began to go under as interest rates climbed beyond what they could afford. Smaller, more precarious financial groups went belly up as their customers in real estate, commerce, industry, and agriculture went bankrupt. The financial institutions of the larger conglomerates were no longer solvent either, but they kept borrowing from themselves to stay afloat as they crowded others out of the credit markets that they controlled. The government finally put them into receivership in early 1983 (de la Cuadra and Valdés 1992). In one fell swoop the military regime unwittingly found itself in control of a large portion of Chile's largest and most heavily debt-ridden companies as the nation's financial sector collapsed.

In addition to these well-documented international and domestic factors, the form of interaction between ideological technocrats and a small group of capitalists produced a policy rigidity that contributed to the economic debacle of 1982–83. By 1979, the web of connections between top economic policymakers and the largest financial conglomerates had expanded, largely through a revolving-door system. Policymakers resisted devaluation as pressure on the peso mounted far beyond what was prudent, in part because of its effect on financial-speculative–driven investment in a dollarized economy where the top conglomerates stood at the apex. When economic storm clouds gathered in 1981, new ministers of finance and economy continued to be associated with those conglomerates. Presumably they knew their structure and could devise the best economic adjustment strategy—one that least affected those conglomerates because everybody knew that, if they went, so would the financial system they dominated.

In sum, as others have argued, bad policy design and errors in the timing and sequencing of the reforms, coupled with the impact of external shocks, clearly affected the collapse of the Chilean economy in 1982. My argument here is that during policy formulation the highly insulated relationship of radical free-market technocrats and a narrow group of businessmen who shared their views helped to shape policies that emphasized investment in short-term financial gain over investment in production, which, as so many other studies have shown, contributed to the severity of the economic crisis that followed. The policymakers believed that markets governed by neutral policy instruments were the solution to renewed investment. The privileged conglomerate heads believed that they could gain the upper hand in the intracapitalist struggles over assets that would follow a strategy of shock therapy. The policy focus on the financial sector suited their purposes splendidly. Conversely, a broader range of principled business participation in policy formulation in an agenda of economic liberalization might have introduced policy instruments capable of stimulating more investment in production and less in financial speculation during the process of economic adjustment. Policymakers would have had the benefit of a much broader range of information regarding the medium-term consequences of their policies for investment and growth; and 1982 may have had a softer landing, as it did in Colombia.

In addition to contributing to policy design, the system of interaction between business and the state during this policy period affected investment patterns because of differentials in the level of confidence about the business climate among business groups. It infused some groups with confidence in the future and left others confused and disoriented. Businesspeople connected to the conglomerates with access to the policy-making process had insider knowledge and thus confidence—although not certainty—that they could gain a competitive edge over more established rival business groups. In short, they probably did not design initial liberalization policies for their own benefit. But knowing what the design was, and as a new breed of entrepreneur, they believed that they could spearhead the capitalist modernization of Chile. Hence, they invested in

areas that would allow them to grow rapidly.[9] With hindsight, much of their reckless expansion can be attributed to a fierce competitive drive to force the old guard into relative economic insignificance. Thus, the new entrepreneurs could block opposition to rapid market transformations by destroying the economic base of the potential opposition.

The autonomy conferred upon the Chicago boys and their narrow circle of business allies was probably rooted in two factors: Pinochet's maneuvering to consolidate one-man rule and the desire to break organized labor. In the policy period immediately after the coup (gradual adjustment in 1973–74), business organizations and members of the Christian Democratic Party participated more in the policy-making process. They ensured that neoliberal restructuring took a gradual rather than a rapid and drastic course. Moreover, organized business and the Christian Democrats saw the military junta, of which Pinochet was the head, as an interim government, one that would remain long enough to purge Marxists, reestablish order, and then return to a democratic form of government. Pinochet, however, regarded the petty wrangling and policy obstructionism of organized business as one of the conditions that had led to Salvador Allende's election, and he viewed their support for a quick return to a protected democracy with suspicion. As Pinochet consolidated his dominance within the junta, with the aim of remaining in power indefinitely in order to discipline society and extirpate Marxism, he needed an independent power base in society. Consequently, he increasingly elevated and insulated the ambitious Chicago boys because they were not connected to organized business but were intimately linked to the potential economic power of new, modern entrepreneurs, thus possessing the potential for capitalizing on rapid and drastic neoliberal economic reform. In short, they could provide the initial investment to implement radical economic change (E. Silva 1996). Moreover, thorough economic transformation would not only change the structure of business; deindustrialization would also help to break organized labor more effectively.

By early 1975, organized business was effectively shut out of the policy formulation stage of the policy-making process and was relegated to polite, after-the-fact meetings with ministers and undersecretaries in fruitless attempts to influence policy implementation. Often, all organized business could do was to send protest memos, which were similarly ignored. Policy changes were applied in a very draconian manner, and there was no compensation for the losers. Under the circumstances, they sought to adjust as best as possible. Nevertheless, because many of the

[9] These entrepreneurs constantly lionized themselves in the press (which they controlled) as the harbingers of modernity (see *Qué Pasa* [weekly] and *El Mercurio* [daily], passim).

leaders of the industrial sector were linked to multisectoral conglomerates, albeit with a concentration in production for domestic markets, the industrial association did not protest too openly. But the landowners' association, dominated by traditional landowners, did openly oppose agricultural policy up to 1978, largely through a media campaign and mobilization in southern Chile (Campero 1984). The military government repressed the mobilization, and the Chicago boys' response became legend: "Let them eat their cows." The encompassing peak association of the private sector, the Confederación de la Producción, stayed out of these policy disputes; and the commerce, construction, and mining chambers were not opposed to the new policies. Industrialists and landowners were too split on the issue of tariff protection to present a common front (E. Silva 1996).

As a result of this situation, the directors of the more traditional established conglomerates and the leaders of the business associations of the industrial and agricultural sectors reacted to policy decisions with caution and uncertainty, often finding themselves at a competitive disadvantage to the new conglomerates, who bought up their assets whenever possible. Under these conditions, as they so often warned, they were not likely to invest. After 1979, however, policymakers' commitment to opening the economy, the fixed exchange rate, and the sudden surge of available credit convinced the rest of the private sector that the time had come to stop resisting and join in.[10] Ample international liquidity provided credit for more traditional producers to adjust or change economic activity from production to importing, commercial distribution, or speculation in financial markets. In short, by 1979, the rapid expansion of the radical conglomerate heads in the policy loop provided a model of success and behavioral code for the new, modern entrepreneurs. Many who followed that path came to grief in 1982.

In conclusion, this policy period suggests that investment and confidence, usually associated with successful economic performance, can lead to disaster if they are only shared by a small group of capitalists and if policies are faulty (which presumably they would not be if policymakers listened to a broader spectrum of business interests). Rapid economic liberalization with an emphasis on neutral policy instruments leaves virtually all aspects of policy implementation to the private sector. If policymakers inclined toward radical neoliberal economic restructuring only consult with a narrow, homogeneous group of capitalists interested in rapid expansion and short-term financial gain, policy and its timing and sequencing may be disproportionately skewed in their favor with little or no attention to contributions of other sectors of the economy. In other words, inflexible outsider ideologues with a small circle of capitalists contributed to policy rigidity in Chile between 1975 and 1982. The emphasis was on quick stabilization and recovery based on investment in highly volatile short-term financial instruments. By the same token, investment stayed low until 1979 in part because capitalists excluded from the policy loop were uncertain. The incomplete feedback loop—the fact that officials only talked to a narrow group of businessmen—contributed to policy rigidity and financial collapse in 1982–83.

[10] Author interviews with Jorge Fontaine, former head of the Confederación de la Producción (CPC); Efraín Friedman, former director of the Sociedad de Fomento Fabril (SFF); Alfonso Mujica, former director of the Cámara Nacional de Comercio (CNC); Orlando Sáenz, former president of the SFF; and Manuel Valdés, former vice president of the Sociedad Nacional de Agricultura (SNA). Interviews conducted in Santiago de Chile on August 6, 1989; November 16, 1988; January 19, 1989; April 19, 1988; and March 29, 1989, respectively.

Business-State Networks during Pragmatic Neoliberalism, 1983–1988

In the final analysis, Chile's economy did not prosper in the context of a highly autonomous state, a small cohesive group of inexperienced ideological technocrats drawn from civil society, and a narrow network of contacts between them and the executives of conglomerates in which they had been employed or linked to. In 1984, the economy began to recover under a much more flexible approach to the construction of a liberal economy, one that Chileans dubbed *pragmatic neoliberalism.* Policymakers in the financial institutions still preferred neutral policy instruments. But they acknowledged that the state also had a duty to intervene in markets, particularly to stabilize prices and boost domestic production, albeit with the most market-friendly instruments available. Thus, the government saw to it that real exchange rates remained high, interest rates were reasonable, agricultural and mining activities were protected by price floors, and manufacturers received protection from unfair external competition as well as incentives to export (Fontaine 1988; Hurtado 1988; Whitehead 1987).[11] Yet price supports and other sectoral policies were set at levels that provided a minimum of protection to keep businesses from succumbing to predatory international competition. Thus, Chile's basically liberal economy set relatively high performance standards for industry because competition remained fierce despite some protection.

Regime type and state structure remained virtually the same during this policy period. Pinochet retained his system of one-man rule, and the hierarchy of ministries and their quotas of authority essentially persisted. As

[11] For agricultural and industrial supports, see *El Campesino* and *Revista Industria*, the industry journals of landowners and manufacturers, respectively.

a result, this second policy period highlights the point that a different system of interaction between capitalists and policymakers can have a positive impact on investment and economic growth in a developing liberal economy.

On the state side, the system of interaction now featured a mixture of experienced, well-trained, career bureaucrats in financial agencies that still stood at the apex of the hierarchy of economic bureaus. Between 1984 and 1985 some businessmen occupied the top positions in the financial and economic ministries. The available evidence suggests that Pinochet did this to recover the loyalty of business elites, and is to keep an industrial faction from joining the moderate opposition. But after Chile's economy and political upheaval stabilized in 1985, the top economic policymakers of those principal agencies were almost exclusively drawn from the ranks of experienced, technocratic, flexible, civil service officers. As in the previous policy period, they set general policy guidelines, which continued to emphasize economic liberalism. Beneath them, however, prominent businessmen headed the sectoral ministries (Economy for industry and commerce, Agriculture, Mining, and Public Works) (Campero 1991). Their economic interests included a mixture of financial and international and domestic market-oriented ones.[12] For example, ministers of economy and finance might simultaneously be on the board of directors of companies not linked through conglomerate structure in private pension funds (finance), supermarket chains, food processing, commerce, or construction; ministers of agriculture operated farms that produced traditional grains for domestic markets (hard-hit during the radical neoliberal policy period) and fruits for exports as well as being involved in the import-export business. Thus, it was unlikely that they would consider policy proposals that zealously pursued any one activity to the exclusion of another. Moreover, those ministers tended to be less closely linked to specific conglomerates than had been the case in the previous policy period. For the most part they did not appear in the directories of conglomerate structures. Instead, most were prominent businessmen who managed their own large firms, either in construction, commerce, manufacturing, or agriculture. When tied to conglomerates, they chose well-established ones that had not gone into financial speculation, had managed to survive the adjustment period of 1973–83, and possessed connections to pre-coup conservative political currents. Moreover, they might be directors of firms in more than one conglomerate rather than exclusively identified with a single one.

The ministers maintained fluid channels of communication with cohe-

[12] Based on prosopographical data gathered by the author in Santiago de Chile between July 1988 and June 1989.

sive and highly representative business peak associations at two levels. First, the umbrella organization of large-scale business associations, the Confederation for Production and Commerce (CPC), routinely discussed exchange-rate, interest-rate, and general monetary policy with the minister of finance and the central bankers. According to Jorge Fontaine, president of the CPC in the mid-1980s, "we had excellent access to ministers, even the president himself. The ministers were much more receptive to our point of view once the Chicago boys were no longer in charge."[13] Second, sector-specific peak associations participated in the formulation and implementation stages of the policy process in close contact with the ministries in charge of their sector. In the words of the director of studies of the Construction Chamber, "As a condition of accepting the Ministry of Finance, Modesto Collados demanded a free hand in the implementation of the triennial plan that he had drawn up when he was president of the chamber."[14] At both the general and sector-specific levels, then, the public and private sectors for the most part negotiated on the basis of technical criteria rather than personal favors, clientelism, or political threats.

This system of business-state interaction did not emerge as end in itself. Rather, it arose in a situation of greater government weakness: the crisis of the military regime in 1983–84, when mass mobilization and economic depression threatened the stability of Pinochet's rule. The economic debacle of 1982–83 revived opposition unions, professional associations, and political parties. Beginning in May 1983, a series of monthly mass demonstrations rocked the capital city and the rest of country. Centrist political parties quickly took control of the movement and attempted to oust Pinochet and redemocratize Chile through negotiation with disgruntled business sectors (basically industry) and some factions of the armed forces, principally the air force and the national police. The idea was to build a broad multiclass coalition against continued inflexible rule by Pinochet and the Chicago boys.

The strategy came close to working with the business sectors. For them, the deep economic crisis and the military government's refusal to enact reflationary policies constituted as grim a threat to their survival as any economic mismanagement by the moderate opposition. As a result, both the CPC and the industrialists' association issued veiled threats of joining the political opposition unless economic policy changed. Drawing on the rhetoric developed during the campaign to destabilize Allende's administration, they pointed out that the private sector only rose against governments when they posed a threat to the survival of private enterprise.

[13] Author interview with Jorge Fontaine, April 19, 1989, Santiago de Chile.
[14] Author interview with Pablo Araya, Santiago de Chile, May 3, 1989.

They quickly added that the current economic crisis posed such a threat (E. Silva 1996).

It is striking that only after this announcement did Pinochet replace Chicago boy–oriented economic ministers with businessmen who were clearly identified with Chile's more traditional economic circles and conservative political parties. This suggests that Pinochet appointed them to defuse opposition by recapturing the support of the key social base for his rule (E. Silva 1993). As part of that process, the military regime entered into a system of negotiation with the CPC and the sectoral organizations that had devised a policy proposal for economic recovery.

Throughout this whole process, then, the CPC, an encompassing peak association of sectoral business organization, was crucial in the development of a policy alternative to radical neoliberalism. During the 1982–83 economic crisis, the leaders of the CPC began a series of meetings to formulate an alternative policy package to counter the radical Chicago boys. These leaders consisted of the presidents of the six sectoral business organizations, who effectively represented the interests of Chile's large-scale businessmen. In charge of their directorships were men who were top managers—or their agents—of Chile's largest corporations, many of them linked to important conglomerates. Surmounting sectoral differences, they hammered out a consensus over general economic policy for the nation, policies that would stimulate investment and economic recovery. These included a commitment to an open-market economy, high real exchange rates, and low interest rates to stimulate exports and domestic production. They also advocated countercyclical deficit spending to restart the economy as well as some specific sectoral policies that fit within the framework of the general policy lines (Confederación de la Producción y Comercio 1983; Campero 1984).[15]

Under the leadership of Modesto Collados, president of the Construction Chamber and later minister of finance, each sectoral business organization put together detailed plans for policies that would stimulate investment in their sectors over a three-year period. This was the so-called triennial plan. For example, the builder's chamber recommended public spending for construction, and the industrial association outlined a mechanism to stimulate exports of manufactured goods and marginally raise levels of protection from imports. The landowners designed a system of price floors and ceilings to boost production of cereals, cattle, and dairy products. The mine owners detailed a mechanism for price floors for copper production.[16]

[15] Also see related documents presented by member associations.
[16] The sectoral planning groups of the triennial plan drew heavily from the programs that the individual peak associations had elaborated for the *Recuperación Económica* program of the CPC.

In sum, the economic crisis of 1982–83 threatened all business sectors. The military government's steadfast adherence to procyclical economic policies provided the catalyst for collective action among businesspeople. If the government would not adopt reflationary policy, then the private sector had no recourse but to craft a coherent alternative set of policies and convey the seriousness of their intent to Pinochet by presenting a united front via the CPC. The process was not easy. It took six months, and the industrialists' insistence on reviving the issue of differential tariffs almost brought the effort to grief. But all of the other business and landowners' associations presented a solid coalition against the industrialists on this point, and they were forced to drop the issue. This underscores the point made by Schneider and Maxfield in Chapter 1, that encompassing organizations are more likely to press for policies that favor the economy as a whole rather than particular sectors. Pinochet, however, ignored them until significant elements of the private sector threatened to align with the moderate political opposition thus jeopardizing his hold on power.

Once the military government sacked the Chicago boys, the new ministers worked in close connection with the CPC and the sectoral peak associations. They based their interaction on the CPC's economic recovery plan that moderated the radical neoliberal approach but did not overturn it. All of the proposals were relatively moderate departures from orthodoxy that the business community felt would stimulate investment and production. During this period, the CPC's main role was to keep the policy consensus among the sectoral organizations from disintegrating, to make sure that sectoral interests did not clash with the general outline of market economic transformation. This was important because major lobbying initiatives had to be conducted in the name of the CPC, not of individual sectoral organizations. Otherwise, technocratic policymakers dismissed them on the basis that narrow, selfish, sectoral interests were attempting to undermine the general good. Major lobbying initiatives basically consisted of high-level meetings between the president of the CPC accompanied by the presidents of the sectoral peak associations who formed its board and top economic ministers and financial agency officials of the government. In this arena agreements were reached concerning the size of the fiscal deficit, devaluation and interest rates, protection for industry and agriculture, and the instruments to achieve it.

According to this schema, intersectoral representation of economic interests among both government officials and business organizations avoided the formation of Olsonian distributional coalitions. This result depended on several factors. As I have previously described, the economic ministers possessed interests in many areas of the economy, and these did not by and large link up in a single conglomerate with a marked concentration in a given activity. By the same token, the CPC was an encompassing business organization whose executive board consisted of the presidents and vice presidents of the six major sectoral peak associations. Its policy stances and recommendations represented the results of negotiation that often involved sharp discussions over how best to avoid skewed distribution in favor of any particular sector—or firms that dominate it. Therefore, it was important that the main policy outline should be the product of bargaining between the CPC and top economic ministers.

After the CPC negotiated major points with policymakers, the sectoral associations worked closely with their respective ministries to hammer out specific policies. This was the case with drawback rules for industry, housing projects for construction, price floors for agriculture and mining. All of this presupposed a high technical capacity on the part of the sectoral associations. They had to justify their petitions with detailed economic modeling of their proposals and its expected impact on investment and production.[17] In short, after an agreement had been worked out between ministers and business leaders, the respective technical staffs hammered out the technical details.

This new system of interaction between policymakers and business elites contributed to the adoption of policy instruments that facilitated economic recovery from the 1982–83 debacle. Without the benefit of international liquidity and laboring to repay external obligations, overall investment rose steadily from 17 percent of GDP in 1986 to 20 percent in 1988 (*La Epoca*, August 18, 1993). After a reflationary surge of public investment to 49 percent of the total in 1986, it declined to 34 percent in 1989, the last year of the military government, and 32 percent in 1990, the first year of the democratic government that followed.[18] Industrial production indexes rose to higher levels at a higher rate than during 1975–82. By 1986 the general index had already exceeded the level of 1981, the best year for the previous period (Teitelboim 1987). By 1989 it was thirty-six points higher than in 1981 (Banco Central de Chile 1992b). During a period of low international inflation, exports surged significantly. Agricultural and sea-product exports expanded by $100

[17] Author interviews, all conducted in Santiago de Chile, with Gustavo Ramdohr, president of the Nontraditional Exporters Association (ASEXMA), August 25, 1988; Manuel Valdés, president of SNA, March 21, 1989; Efraín Friedman, member of SFF, November 16, 1988; Lee Ward, director of the National Commission for External Commerce, Ministry of Economy, December 13, 1988; minutes of the meetings of the Subcommission for Drawback Legislation, National Commission for External Commerce; Jaime Palma of the National Commerce Commission, Ministry of Economy; Carlos Recabarren of the Cámara Nacional de Comercio, January 24, 1989.

[18] Cieplan data base.

million to $150 million each year. Industrial exports rose by two-thirds from their peak in 1980 (Banco Central de Chile 1992a). Those exports were strongly tied to agribusiness and timber.

These figures underscore the fact that much of post-1983 investment was in productive enterprises in agriculture (packing companies) and industry, both internationally and domestic-market oriented (timber, fishing, manufacturing, communications). The financial sector recovered its health but no longer overshadowed other activities. A substantial portion of foreign investment went into joint ventures with the holding companies of Chile's largest and best-established surviving conglomerates, particularly in timber, agriculture, and fishing (Rozas and Marín 1989). All of these factors strengthened Chile's robust economic expansion at an average GDP growth rate of about 8 percent until 1988 (*La Epoca*, August 18, 1993).

The private sector's participation in policy formulation contributed to the emergence of investment-enhancing policies. Businesspeople responded by actually investing in production, which in a market economy amounts to policy implementation. Interview data suggest that two additional conditions bolstered their resolve to commit their resources: their inclusion in those processes also increased the credibility of proposed policies, and close interaction with government officials buoyed their confidence in the nation's economic future. According to the president of the CPC during that period, "Hammering out a consensus within the CPC was a difficult process. But once completed, we knew that these policies would stimulate production, not the financial speculation of the past. Once the authorities began to listen to us, our hope in the future rekindled. Although we don't get everything we want, we can trust the rules of the game that emerge. As long as they remain stable, they encourage us to invest."[19] A member of the merchants' association confided, "Once the president of our association became minister of economy, we knew that things would work out. He understands our problems, and that gives us confidence in the future."[20] Pointing to a large conference table, another added, "Government officials sit down with us here to go over the design of policy instruments for the commercial sector. We can flag anything that is really bad for us. This gives us confidence that our sector will not be neglected."[21] Similar expressions emerged from interviews with leaders and members of the industrial and

[19] Author interview, Jorge Fontaine, former president of the CPC, April 6, 1989, Santiago de Chile.

[20] Author interview with Humberto Prieto, member of the Executive board of the CNC, January 19, 1989, Santiago de Chile.

[21] Author interview with Carlos Recabarren, director of studies of the CNC, January 14, 1989, Santiago de Chile.

landowners' associations: "The Chicago boys were too isolated, too ideologically rigid. We industrialists kept telling them that their policies were not conducive to investment. They ignored us. Now things have changed. We don't dictate policy, but dialogue allows policymakers to avoid the worst mistakes. This gives our people the confidence they require to commit their resources."[22] "Things are much better now in agriculture. We can talk to these people, work things out. As long as things continue as they are, the sector will expand."[23]

In sum, this policy period was characterized by interaction between more adaptable policymakers and a much broader spectrum of business interests. The result: a much more flexible approach to policy-making that gave rise to pragmatic neoliberalism, a policy orientation in which the market provides essential signals for the allocation of resources but where specific regulations and small-scale protections and subsidies induce modernization and rationalization of more traditional economic sectors rather than simply letting them sink. In short, economic policy seeks balance among different sectors and the healthy internal development of each. On the state side of this system, policymakers set the agenda and opened policy formulation to the private sector. After the dust settled in the wake of the political repercussions of the 1982–83 economic debacle, top economic ministers tended to be career bureaucrats with an interest in overall conditions for capital accumulation. Line ministers tended to be capitalists from the same economic sector that the ministry oversaw but with wider economic interests. Moreover, these ministers were not closely identified with any single, specific conglomerate. This gave them an interest in more flexible policy that balanced the needs of different economic sectors. On the side of capitalists, business organizations essentially represented their interests and negotiated with policymakers.

Two conditions promoted flexibility and balance in this arrangement. First, the major policy positions emerged after negotiation between the sectoral peak associations. This mitigated the possibility that policy recommendations could completely run roughshod over the interests of any given sector, as they had in the radical period. Second, sectoral peak associations then developed specific policy documents as a basis for negotiation with the respective authorities. This far-more-complete feedback loop between policymakers and a broad spectrum of capitalists gave business elites credibility in government economic policy and confidence in the country's economic future because policies now addressed their perceived needs.

[22] Author interview with Pedro Lizana, member of the board of directors, SFF, October 25, 1988, Santiago de Chile.
[23] Author interview with Raúl García, member of the board of directors, SNA, January 23, 1989, Santiago de Chile.

Business-State Networks in Democratic Chile, 1990–1994

The center-left democratic opposition bloc that took over the Chilean government in March 1990, the Concertación de Partidos por la Democracia, had long pledged its commitment to the development of a liberal economy and society during the transition to democracy. It explicitly promised not to tamper with the general economic model—pragmatic liberalism—developed during the last years of the dictatorship (E. Silva 1996). Because it had been the opposition during the dictatorship, however, the Concertación faced the problem of convincing investors that it was sincere. The problem was how to maintain investor confidence and avoid an antagonistic relationship with business. As we will see, the party resolved the problem through a strategy that used business as association to contain business as capital.

The administration of Patricio Aylwin established a system of close interaction—consultation—with the business peak associations whenever the new administration wished to introduce changes in the pragmatic neoliberal model founded under Pinochet. This approach fundamentally applied to tax- and labor-code legislation that Aylwin's administration wanted to pass in order to make economic growth compatible with social equity. But it also included discussions of more sector-specific problems as they arose. For example, one director of the Industrial Development Society (SFF) confided, "On matters large and small, we have excellent access to the ministries. All I have to do is pick up the phone, and we arrange a meeting right away."[24] This system was an integral part of the Concertación's consensus politics.[25] It was a means to make good on Finance Minister Alejandro Foxley's assertion: "We have given businessmen every assurance that we will respect their fundamental interests. We will not countenance a return to populist policies. Chile needs to retain the conditions that foster private sector investment because that's the only path to healthy development."[26]

Although the system of interaction was not institutionalized, top policymakers regularly consulted and negotiated with the leadership of business peak associations on major economic-policy issues from the policy formulation stage on down. As we have previously seen, the main agenda had already been set with the participation of business elites under

[24] Author interview with Pedro Lizana, then on the executive committee of the SFF (later its president in 1993), June 10, 1992, Santiago de Chile.
[25] This pattern also represented a continuity in the consensus style of interaction with business that the Alianza Democrática (AD), and later the Concertación de Partidos por la Democracia, developed during the transition to democracy. As early as 1984, AD had explicitly included business sectors in the discussion of economic, social, and political policies in democracy. See Centro de Estudios del Desarrollo 1985.
[26] Author interview with Alejandro Foxley, August 29, 1988, Santiago de Chile.

Pinochet. The new authorities had taken it upon themselves to set an agenda for changes at the margin. Taxation and labor-code policies were among some of the major initiatives on the table and thus were subjects for consultation with business leaders. According to Manuel Feliú, then president of the CPC, "tax and labor code changes were negotiated settlements with the government."[27] A brief discussion of the style of interaction on these policy issues follows.

The Aylwin administration proposed legislation for a tax on corporate earnings and increases in the value-added tax (VAT) in order to fund greater spending on social programs. It was widely believed that the private sector would resist the measure and find it to be a disincentive to investment. These expectations fit closely with theorizing that proposals for tax increases reduce investment (Przeworski and Wallerstein 1988). To overcome these difficulties, top policymakers of the Ministry of Finance consulted closely with the CPC, as well as with the major conservative party in the congress, Renovación Nacional (RN), in the policy-formulation stage. Finding ways to assure the business community and RN that proposed taxes were not going to work against anyone's survival—that they would not be confiscatory—was key to the government's effort. The exchange of information revealed that a tax on profits of between 10 and 15 percent should not dampen investment, given the high profitability of most Chilean firms. To overcome suspicions over government use of the revenue, policymakers built in sunset clauses and tied the new revenue to specific programs. While some businesspeople remained unhappy about the measures—notably industrialists—the taxes were not so onerous as to induce business as capital to use its veto power.[28] As I will show, investment and production did not abate. Moreover, neither interviews nor the available evidence suggests that investment would have gone up significantly further in the absence of a tax increase.

A similar, albeit more drawn-out, process took place in the reform of the labor code. The government wanted to equalize labor-management relations.[29] That involved key issues such as job security, collective negotiation, and unionization rights. From the outset, the Labor Ministry involved the CPC in the policy process. Policymakers passed draft legislation to the CPC and then held a series of meetings with top business leaders to discuss their observations. As a result, the government began to moderate what the business community felt were excessively pro-labor

[27] Author interview with Manuel Feliú, June 1992, Santiago de Chile.
[28] Author interview with Manuel Marfán, architect of the Ministry of Finance's tax reform strategy, July 7, 1992, Santiago de Chile.
[29] Author interview with Joseph Ramos, special consultant to the Labor Ministry, July 3, 1992, Santiago de Chile.

elements of the bill.[30] The government compromised most on collective negotiation and unionization rights (Herschberg, forthcoming). It was a bit more successful with respect to job-security measures such as severance pay and increased protection from dismissal. Part of the success was related to the fact that the policymakers possessed detailed impact studies that they shared with business organizations. These studies showed that such measures would not substantially raise costs for firms. When conservative think tanks came up with the same projections, the business community relaxed.[31]

The clear subordination of labor to business interests in state-society relations became apparent in the negotiations over the labor code, which played a significant role in providing the state-business nexus with relative autonomy from labor and contributed to the effectiveness of accords between policymakers and capitalists. Labor was indirectly represented in the Concertación through various political parties, principally Christian Democrats and Reformed Socialists. At first, the Labor Ministry fought hard to obtain as much of the union's platform as possible in tripartite negotiations among state, business, and labor. Business nervousness about this turn of events led the president to balk, and he ordered the minister of labor to offer more substantial concessions to business. Eventually, the government backed out of the negotiations, abandoning a very weak organized-labor sector (the result of the dictatorship) to bilateral talks with a very strong organized-business sector. Once the political parties of the Concertacíon abandoned labor, their fate was sealed; for they had no other avenues of protest. Strikes were not a viable alternative in the view of labor leaders.

So far we have examined the willingness to compromise that resulted from closer interaction between policymakers and business elites. What were some of the characteristics of the top policymakers and the business peak associations that helped to reduce tensions between business and the Concertacíon? Some of the traits of the policymakers changed from the days of pragmatic neoliberalism under the military government. The top ranks were no longer composed of a combination of career bureaucrats and businesspeople. Instead, most were highly trained economists from think tanks linked to the major political parties that formed the

[30] Author interview with Antonio Guzmán, president of the CPC, June 16, 1992, Santiago de Chile. Other interviewees agreed: Manuel Feliú, president of Banco Concepción, past president of the CPC; Pedro Lizana, executive committee member of the SFF; Raúl García, secretary general of the Sociedad Nacional de Agricultura; Alfonso Mujica, vice-president of the Cámara Nacional de Comercio. All interviews conducted in Santiago de Chile between June and July 1992.
[31] Author interview with Joseph Ramos, Labor Ministry consultant, July 3, 1993, Santiago de Chile.

opposition bloc (P. Silva 1991). This suggests that having businesspeople in the cabinet was not absolutely essential for investor confidence in Chile. But according to both government officials and business leaders, a commitment to building a liberal economy and society, along with technical capability, was crucial. Flexibility in policy stance after feedback on policy proposals was also important.[32]

Similarly, the existence of an encompassing peak business association—the CPC—facilitated interaction with top policymakers on policy measures that affected the whole business community. The CPC acted as a filter that allowed only the most central and crucial points of divergence to emerge for discussion. This facilitated negotiation and dispute resolution. The CPC also promoted consensus within the business community with respect to proposed policy. In the end, individual sectoral organizations may not have been happy with some of the results, but none was so disgruntled that it began to disinvest or sought to affect policy independently. Of course, on sector-specific issues, policymakers dealt directly with the appropriate business organization.

How did authorities and capitalists participate in the policy-making process? In this period, top policymakers set the agenda for incremental changes. After their technical commissions drew up draft legislation, it was circulated to the appropriate peak association. For each initiative the business organizations formed a technical commission to study the proposal and make observations. Policymakers and business leaders then negotiated on the basis of those reports. The exchange of information on the basis of technical evaluations facilitated accommodation. According to a member of the executive committee of the Sociedad de Fomento Fabril (SFF), "we meet often to technically evaluate policy proposals. We then make counter proposals and accompany our directors when they negotiate with government officials. Ever since we began discussing policy on a more technical basis, we have had better relations with government, and better results."[33]

This arrangement has contributed to impressive economic results. Investment, reported at 25 percent of GDP in 1992, continued to flow into the country; and the economy has enjoyed sustained high production rates and export figures. This has contributed to high aggregate-growth figures of about 7 percent per year since 1986 (*La Epoca*, August 18, 1993). As was the case for 1984–89, the interview data with business leaders suggest that the system of interaction between business and poli-

[32] Author interviews with Manuel Marfán of the Ministry of Finance, Joseph Ramos of the Ministry of Labor, Antonio Guzmán of the CPC, Pedro Lizana of the SFF, Alfonso Mujica of the CNC, and Raúl García of the SNA, all conducted in Santiago de Chile between June and July 1992.

[33] Author interview with Pedro Lizana, June 10, 1992, Santiago de Chile.

cymakers instilled enough confidence in the private sector to invest. Easy access to the executive branch, a flexible attitude there, and a commitment on the part of the Concertacíon to do what was necessary for growth with low inflation bolstered trust among capitalists that the Concertacíon indeed intended to keep its promise to adhere to the main tenets of pragmatic neoliberalism. In virtually every interview, business leaders acknowledged that this system allowed them to alter proposed legislation in ways that favored their interests.[34]

The finding is especially significant because the relationship between business and the Concertacíon was not naturally harmonious but fraught with the potential for investment-dampening conditions. For capitalists, the policymakers belonged to a political bloc tied to a statist past who had to prove their capacity to maintain a good business climate. Business leaders were on their guard, ready to challenge deviance and defend the gains made during the dictatorship. In public debates it sometimes seemed that the relationship is highly conflictual.[35]

Nevertheless, interviewees were careful to point out that, underneath the occasionally belligerent public stance, private negotiation with authorities was fruitful. It generated confidence to invest more than they might have without close ties. According to one source, "at first [in 1990] we worried about the Concertacion's capacity to manage the economy. We feared that their policies might reduce investment opportunities in Chile and that the nation would suffer an economic setback. Fortunately, the administration's economic team has been very prudent. They meet with us frequently to discuss policy, at either our initiative or theirs. The policymakers are serious, highly trained, and capable individuals, with the ability to learn from the interaction between us and to translate that learning into the design of effective policy instruments. This lends credibility to their policies and gives us the confidence we need to continue to risk our resources in the service of Chile."[36] In short, close ties between capitalists and policymakers convinced business as association to accept the fact that the Concertación would compromise, perhaps not on all issues but often enough to keep business as capital from rebelling and engag-

[34] Author interviews with José Antonio Guzmán president of the CPC; Manuel Feliú, president of Banco Concepción, past president of the CPC; Pedro Lizana, member of the executive committee of the SFF; Raúl García, secretary general of the Sociedad Nacional de Agricultura; and Alfonso Mujica, vice president of the Cámara Nacional de Comercio. All interviews conducted in Santiago de Chile between June and July 1992.

[35] This was also the case when the Concertación contemplated some constitutional amendments that would weaken authoritarian protections for conservatives. These were holdovers from the authoritarian constitution of 1980 fashioned under Pinochet, which is still the law of the land.

[36] Author interview with Pedro Lizana, member of the executive committee of the SFF, 1992. Antonio Guzmán corroborated such views in a separate interview. Both interviews conducted in June and July 1992 in Santiago de Chile.

ing in investment strikes and to keep capitalists investing at rates similar to the last years of the dictatorship.

Policymakers agreed that the interaction with business was crucial to calming the fears of investors. Through reiteration of the negotiation process—consensus politics—they hoped to prove to capitalists that they were technically capable of running an economy and compromising with the private sector in the interests of maintaining a good business climate. They wanted to prove that democracy, and the Concertación in particular, did not pose a threat. No one's fundamental interests would be gored.

Before moving on to the conclusion, let me summarize the conditions of benign collaboration in Chile, both during the dictatorship and under democratic rule. It seems clear that the pattern is not uniform; no one, single formula appears with respect to the characteristics of top policymakers, although other factors are more constant. In the period after the economic debacle of 1982–83, career civil servants occupied most of the top posts in the policy-making hierarchy of state institutions (the Ministry of Finance and the Central Bank) while businessmen with multisectoral economic interests who were not completely identified with a specific conglomerate occupied line ministries. During the democratic period, technocratic party appointees, many from recognized (if opposition) think tanks, occupied the highest positions in the state economic policy-making hierarchy, while businessmen with ties to the administration's political parties often headed line ministries. In both periods, the formulation of economic-reform policies and their implementation (in the form of investment and production) benefited from a working relationship with organized business as opposed to multisectoral conglomerates alone.

It seems, then, that whether career bureaucrats or party technocrats occupy the top economic agencies of the state is not crucial for neoliberal reform. What is important is that they be highly trained, not dogmatically ideological, and flexible. The difference in the two periods may rest on political factors and institutional development in processes of democratic breakdown, authoritarian rule, and redemocratization. The first cohort of new career bureaucrats after the overthrow of Allende and subsequent purges just had time to emerge by 1984. That served Pinochet's purposes. But they were all closely linked to the dictatorship and the political parties that supported it. The Concertación had its own political agenda and could not rely on bureaucrats politically beholden to the civilian groups that backed authoritarianism. They had to put their own people in charge. They necessarily had to be from outside the bureaucracy, from the shadow government born in semiclandestine opposition to Pinochet. Perhaps in another ten years a new generation of less

politically compromised career bureaucrats might appear. But this seems unlikely given the low level of salaries and general lack of prestige of public service. Professionals often begin a career in the government and then move to the private sector once they gain experience. Later successes, party affiliation, and reputation usually determine whether one occupies high office.

The pattern of interaction between top policymakers and business elites also remained constant across the last two policy periods. The heads of the Ministry of Finance and the central bank, as well as the Ministry of Economy, generally collaborated in the formulation of general economic policy with the heads of the encompassing organization of business (the CPC). Within the confines of that general policy (macroeconomic measures and overall levels of mild protection and subsidies), line ministries hammered out sector-specific implications with sectoral peak associations. At all levels, discussions were usually based on technical criteria elaborated by the departments of study of both private- and public-sector institutions.

Comparative Conclusion

This section briefly addresses three issues. First, on the basis of limited available evidence, it examines whether processes of neoliberal transformation in Venezuela contributed to the kind of embeddedness that the Chilean state has achieved with business elites and the likely consequences of that embeddedness. Second, it suggests that the requirements for optimum state-business relations differs somewhat in cases of neoliberal economic restructuring as opposed to developmentalist ones, such as some of the East Asian states. Third, it argues that Chilean-style embeddedness has limitations. It is an exclusionary arrangement in which, for the moment, neither policymakers nor business elites appear to have strong incentives to include other social groups meaningfully.

Venezuela under Carlos Andrés Pérez began a process of neoliberal restructuring in the late 1980s. How it structured state-business relations, however, was not conducive to forging the kind of embeddedness that Chile exhibited after 1984. Rather, it resembled the Chilean situation between 1975 and 1982. That is, policymakers with close links to specific conglomerates churned out liberalizing decrees without significant participation from other business interests. Thus, although investment rates rose somewhat during the Pérez administration (1989–94) compared to previous recessionary periods, that rise was on the basis of volatile international financial capital or shot-in-the-arm investment blips in newly privatized companies. Domestic capitalists basically remained wary. In short, a steady stream of stable investment in production by the national bourgeoisie was not forthcoming, meaning that, hard-won macroeconomic stability rests on very uncertain ground. Moreover, as we will see, the fragmentation of business organizations and the willingness of powerful capitalists to defend their own sectoral interests directly before ministers of state make Venezuela's future development of the Chilean pragmatic coalition difficult. This might be a serious obstacle to building Chilean-style state-business relations and reaping its benefits for investment and production.

The Pérez administration undertook its program of neoliberal restructuring against a backdrop of state-business relations that was virtually the opposite of Chile's. In Chile, during the economic crisis of 1982–83, highly cohesive state institutions bargained with a fairly cohesive private sector. Venezuela met its economic crisis, which began roughly in the same period, with a system of state-business relations in which fragmentation and particularism within both the government and the private sector seems to have been its main characteristic (Gil Yepes 1981). This made Venezuela's economic policy-making institutions more porous than Chile's and facilitated corruption and private deal making on the part of capitalists and government decision makers alike, both before and during the economic crisis. It also encouraged competing particularistic coalitions of state institutions and capitalists (Martz and Meyers 1977; Blank 1973).

The system worked after a fashion once democracy was consolidated in the mid-1960s and before the economic crisis hit in 1982 because public investment (from oil revenues) drove Venezuelan private investment. The government targeted industries for growth and offered subsidized credits and other incentives for their development. Private investment followed. As oil wealth increased, so did investment as a percent of GDP, although the private share was always higher than the public share. The translation of that investment into higher production figures (industry performance) and GDP rates, however, was sluggish for several reasons. First, those government resources were not conditioned on expectation of better performance by capitalists. Second, successive administrations—and semiautonomous parapublic institutions—constantly redefined the priority sectors. As a result, Venezuelan capitalists continually diversified their holdings in new industries where they had little experience and favored short-term gains over long-range planning (Escobar 1984; Naím, 1984, 1988; Francés 1988). Third, in the context of the myriad regulations and controls associated with the ISI development model, the fragmented system of collaboration between government policymakers and capitalists encouraged corruption. The director of a leading pulp and paper company said, "We lobby government officials by offering stock options,

a job when they get out of office, and other incentives."[37] The president of an insurance group added, "The most important businessmen regularly strike private deals with politicians over prices, contracts, and exceptions to policies they don't agree with for their firms."[38]

Business peak associations played a secondary role in this situation. They were weak and divided among themselves (Salgado 1987; Gil Yepes 1981). Their weakness primarily stemmed from fact that they did not really speak for large-scale business (Sweeney 1989).[39] The leadership of the peak associations was not composed of businesspeople with executive capacity. They mainly worked out the details of policy implementation, especially in regulations and prices (Gil Yepes 1981).

Given the relative lack of importance of business peak associations following the oil boom of the early 1970s, the main channels of access and communication between the state and capitalists were on a personal level between large-scale businesspeople and ministers of state. Business peak associations might agree on a general position on a given problem with government officials. After that, the most important businesspeople of a particular industry would privately seek out their friends in the respective ministry (Naím 1988).[40] They would either negotiate an exception for their firms or block or modify proposed regulations or prices for the entire industry in accord with their individual needs. The insurance group president said, "The peak associations work out a position. Then the owners of the largest corporations in the sector sabotage it by making private arrangements with friendly politicians. We won't get anything done until this situation is reversed."[41]

On the government side, business association leaders and top capitalists dealt with top policymakers who could be either party politicians or important businesspeople. They directed the Ministry of Finance, the Central Bank, the Ministry of Development, the Planning Ministry, the Venezuelan Investment Fund, and the Ministry of Mines and Energy (oil). All of these agencies made important investment decisions in a relatively decentralized manner. As a result, their goals were sometimes in conflict as well. In a sense, they had their own clienteles in the private sector that they dealt with directly. The decentralized economic decision making and the discretionary pots of money for industrial policy that different semi-

37 Confidential author interview, July 1993, Caracas.

38 Author interview with Iván Landsberg, Venezuela, July 1993, Caracas.

39 Antonio Francés of the Instituto de Estudios Superiores de Adminis tración (IESA) and Roberto Bottomme, editor of *Veneconomía*, confirmed this view in author interviews in June and July 1993 in Caracas.

40 Author interview with Pedro Palma, vice president of Booz-Allen & Hamilton, an international business consulting firm, July 1993, Caracas.

41 Author interview with Iván Landsberg, noted financial-sector businessman, July 1993, Caracas.

autonomous institutions wielded encouraged fragmentation in the private sector. They were also disincentives for top capitalists to work within business associations.

As Thorp and Durand show in Chapter 8, this system ceased to be even moderately functional for investment and production once oil revenues were no longer sufficient to drive the Venezuelan economy. With the debt crisis of the early 1980s, the end of the fixed exchange rate for the bolívar, plummeting oil prices, and increasing economic instability, Venezuelan capitalists stopped investing. Capital flight, much of it through corrupt and illegal movements, reached scandalous levels (Maxfield 1989; Frieden 1989, 1991).[42] Private-sector investment levels dropped below public-sector investment for the first time in democratic Venezuela (Escobar 1984; Baptista 1993). Public-sector investment also declined as fiscal spending concentrated on fueling populist social spending programs or bailouts for financially strapped companies with good political contacts (Naím 1993).

In response to the economic crisis, the second administration of Carlos Andrés Pérez (1988–93) initiated an economic stabilization plan and liberalizing economic reforms. The system of interaction between business and the state that emerged closely resembled that of the radical period in Chile. Pérez appointed to top policy-making positions a narrow group of businesspeople and technocrats interested in radical liberal economic restructuring (Naím 1993).[43] Mostly by decree, they pushed through price and trade liberalization along with privatization and a high real exchange rate.[44] Again, as in Chile, the capitalists involved were associated with large conglomerates that concentrated their holdings in internationally competitive industries; and some had long supported tariff reform. Many of these businessmen/technocrat policymakers were "on loan" to the government, as Venezuelans phrased it. Moreover, quite a few had been associated with a working group established in the early 1980s—the Grupo Roraima—dedicated to finding a liberal solution to the crisis of the populist state.

If the relationship between a narrow band of capitalists, technocrats, and the president proved fragile in authoritarian Chile, it was even more so in democratic Venezuela. Unlike Chile, those adversely affected by economic adjustment and restructuring had means with which to defend

[42] About one-fifth of total capital flight between 1976 and 1985 ($6 billion) occurred between 1983 and 1985. The amounts lost to capital flight between 1976 and 1982 were also very high ($25 billion).

[43] Author interview with Janet Kelly de Escobar, academic director of IESA, May 1993, Caracas.

[44] It may be worth examining these relationships in other cases, such as Peru, Bolivia, Ecuador, and Mexico. This may be a stage in the process of adjustment. For a description of adjustment policies in Venezuela, see Naím 1993 and Toro Hardy 1992.

themselves: the congress. They stalled supporting legislation intended to deepen privatization and market liberalization (Tarre Briceño 1993). With the impeachment of Pérez in May 1993, the fate of the reforms became uncertain. This does not mean that economic restructuring cannot be accomplished in democracies. The Argentine case shows that Pérez's main problem was that he did not control his own majority party in the congress. Conversely, the vice-president of a leading business consultant suggested that Pérez's "biggest failing was not to have built a broader business coalition first. He should have communicated better to the different sectors the costs and benefits of economic change. If he had, they would never have turned on him this way."[45]

Meanwhile, the bulk of the investments for Venezuela's high growth levels in the early 1990s came from abroad. The absence of a cohesive capitalist policy coalition capable of negotiating a new form of articulation to the state made the Venezuelan private sector very cautious. They were not certain of the rules of the game, and most did not have the funds to gamble in the long term.[46] The relative porousness of the Venezuelan state coupled with the fragmentation of weak peak associations were not incentives to forging a capitalist coalition like the pragmatic one in Chile. Instead, top capitalists still sought private deals with top policymakers or key congressional leaders, depending on the circumstance.

In conclusion, the equivalent of Chile's pragmatic coalition and its relationship to the state did not appear in Venezuela. Instead, the state mirrored Chile's situation during the radical restructuring phase—a core economic team in close contact with a core of top capitalists from a select number of multisectoral conglomerates that could take advantage of rapid change. As in Chile during that period, the major areas of economic activity were in financial intermediation, privatization deals, real estate, and commerce. Domestic investment was not particularly stimulated, certainly not in production. In Chile, this turned out to be a fragile situation and did not end well. Venezuela's situation has already changed, as the new government of Rafael Caldera attempts to moderate some of the Pérez reforms.

The Chilean Case in Light of the East Asian Experience

Much of the initial impetus for the study of the interaction between state officials and businesspeople arose from analyses of the East Asian

[45] Author interview with Pedro Palma, vice president of Booz-Allen & Hamilton, an international consulting firm, July 1993, Caracas.

[46] Author interviews with Cristina Rodríguez, president of Metroeconomía, a high-powered business-consultancy firm, July 1993; Pedro Palma, vice president of Booz-Allen & Hamilton. For overall investment figures, see *Metroeconomía* 1993; Naím 1993.

developmental states, especially South Korea and Taiwan. Analysts such as Karl Fields have found states that played an important role in shaping the economy, carried out aggressive industrial policies, and in some cases favored public enterprise (see also Amsden 1989; Deyo 1987; Wade 1990). Their studies focus on the characteristics of bureaucracy that promote effective policy-making and discourage collusion.[47] They point to the need for the formation of elite, meritocratic, professional career civil servants on the assumption that training and esprit de corps facilitate good policy-making. To promote efficiency, as they also note, bureaucrats attach performance criteria to industrial subsidies (Evans 1992; Schneider 1993a).

In terms of the relationship of top policymakers to business elites, those same studies have found that bureaucrats should be highly autonomous from pressure groups in order to formulate industrial policy but not isolated from contact with the nation's largest conglomerates or intersectoral encompassing business associations. Contact with multisectoral conglomerates provides a window into policy design that cuts across economic sectors. It also furnishes potential allies in policy implementation—firms with investment capacity that can shift resources more easily than can companies dependent on the health of a single economic sector (Onis 1991).

The prescription for Latin America, however, has been to dismantle the developmental state—to forge liberal states with minimal involvement in the economy. At most, fiscal and monetary policy should be used to send general signals to private economic agents, who then take such action as they see fit. Industrial policy is to be avoided. But even the World Bank in recent years has begun to realize that a minimalist, night-watchman state needs to be an effective state. As a result, it began a campaign to promote an effective bureaucracy. The principle prescription is a meritocratic, technocratic career civil service (World Bank 1991). But neither the World Bank nor similar institutions and consultants have paid much attention to the interaction between the state and capitalists in the liberal economies of developing nations. It is generally assumed that the state and the private sector have their own spheres of activity, and the less interaction between the two the better.

The evidence presented here calls such assumptions into question. Chile is widely perceived as a model for neoliberal economic restructuring; yet the form of interaction between capitalists and policymakers clearly mattered for policy design, investment, and production. The case suggests that liberal developing economies also require a state characterized by embedded autonomy. Of course, some of the specific features of

[47] France is another case that has received some attention in this respect (Zysman 1983).

embedded autonomy in liberal states will differ from those of developmental states.

The Chilean case has at least two differences from the East Asian cases. First, Chile has taken a liberal path to economic development, while a number of East Asian countries have opted for industrial policies that require more direct state intervention in the economy. This means that some of the requirements for efficient bureaucracy in East Asia may not be strictly necessary in cases that follow a liberal developmental path. To begin with, the successes in East Asia are partially attributed to the formation of an insulated, meritocratic career civil service or bureaucracy. In Chile, however, most of the top policymakers were political appointees, members of the parties of the governing coalition. Nevertheless, a functional equivalent may exist between these two divergent patterns. In both, top policymakers possess an intense professionalism and high levels of technocratic expertise. The Chileans had those qualities because their top economic policymakers had advanced academic degrees from elite, foreign universities. That training and leadership functions in academically styled think tanks linked to political parties were the wellsprings of their stance. The main reason for this difference may lie in the following condition. Career bureaucrats may not be essential in countries where liberal states have less discretion over the allocation of resources. A caste-like insulation from the temptations of particularistic or captive relationships, or outright corruption, seems less necessary under conditions in which policymakers have fewer favors to dole out. Solid technical competence to manage general macroeconomic conditions, however, appears to be crucial.

The Chilean case also reveals something that is not discussed in the literature on East Asia, which focuses so much on the state, but that was crucial to the success of interaction between business and the state in Chile: Learning in the business community was also important. Business organizations developed technical expertise in their research departments in order to speak a common technical language with professional, technocratic policymakers. Otherwise, government officials tended to ignore them because business leaders were seen as defending parochial interests in ignorance of wider economic consequences.

Second, the Chilean case suggests that negotiation with encompassing peak associations functions better for processes of neoliberal reform than do dealings with multisectoral conglomerates. This is different from cases such as South Korea, where bureaucrats engaged in the design and implementation of industrial policy dealt directly with such conglomerates. In cases of liberal reform, where the state is not directing the flow of investment, it appears that reliance on a few conglomerates sparks intense inter-business competition that can dampen investment because those business sectors on the "outs" tend to withhold investment as they struggle for survival. This may be at the root of the investment problem in production in countries undergoing liberal economic reform processes, such as Argentina and Mexico, and may be part of the problem in Venezuela. Those cases relied on short-term external financial flows and foreign direct investment in privatization schemes to help stabilize their economies. But they have had little success in convincing their own private sectors to invest in production. The available data reveal that policymakers in both Argentina and Mexico have interacted mainly with the leadership of a few carefully selected conglomerates.

The Limits of Chilean-Style Embeddedness

This chapter has focused on the characteristics of successful and not so successful collaboration in Chile. Some of the key features of the discussion and the framing of its terms, however, raise additional difficult questions. For some time now, the issue of economic efficiency has tended to dominate mainstream academic discussions of economic development on the periphery. Thus, the current debate about the consequences of collaboration is defined in terms of rates of investment and economic growth. Not too surprisingly, the evidence reveals that successful collaboration requires single-minded dedication to providing a good business climate, of favoring growth to the exclusion of other values. This focus crowds out other questions. What, for example, are acceptable trade-offs between equity and growth in developing countries (Thorp 1991)? How can capitalists be induced to continue investing once governments begin to address the social question in terms that challenge neoliberalism (E. Silva 1996)?

The Chilean case highlights some of the difficulties involved. The Concertación certainly paid more attention to social equity than to the military government did. It has also induced capitalists to contribute more for social programs than they would if left to their own devices. This was evidenced by very mild tax and labor-law reforms in the early 1990s. Laudable as these efforts were, they never challenged the core of the dictatorship's neoliberal social reforms (E. Silva 1996). Increased social expenditures were channeled through the same welfare framework designed in the early 1980s. As in the dictatorship, services remained targeted for the extreme poor. There was no pretense of universality (Vergara 1994). Similarly, changes in the labor code were carried out in essentially bilateral accords between business and labor. In this arrangement labor did not gain much, certainly nothing substantive. On a number of occasions, business groups took very strong stands and made the government back down on proposed reforms.

In short, the neoliberal version of social welfare and labor law remains essentially intact in Chile. The mild reforms that have been undertaken look good, but that is only because they are contrasted with those of the dictatorship, a nadir. The real test is the comparison to the pre-Allende period. Compared to the two decades before Allende, the statistics do not appear quite as impressive. Chile has essentially only caught up with itself. The available estimates on income distribution also lag behind those of East Asia. In part, that is because Chile, and other Latin American countries, lack effective land reforms, which skews the curve. In part, it is because East Asian states concentrate in labor-intensive export manufactures as opposed to primary-product exports. Whether Chile and other Latin American countries can follow that route remains unclear; so does whether they should. For in the absence of well-developed welfare provision, the move to capital-intensive production in East Asia appears to be skewing income distribution in an unfavorable direction.

Despite these shortcomings, compared with the period of the dictatorship and to many other Latin American countries, the increases in spending and effectiveness of targeted programs for the extreme poor make Chile a model for neoliberal welfare reform. Within the confines of the model, increased social spending without negative effects on investment seems possible. Countries in which the welfare systems set up in the 1950s are under stress or that never really established any system in the first place look to Chile for ways to structure changes (Angell and Graham 1995).

The crux of the issue, however, lies in the Concertación's inability to move beyond a liberal conception of the welfare state (Esping-Andersen 1990). This is what the targeted programs for the extreme poor are: They set up a dualistic system of provision of services—stigmatized, substandard ones for the very poor, and everybody else must rely on their ability to pay for private insurance. Moveover, it is a system that leaves individuals unprotected from the labor markets in which they have little power. In other words, people will need to work at whatever price the "free" market offers and under virtually any condition if they want to survive. This fits business's conception of efficiency and its desire for the most flexible labor arrangements possible. Needless to say, there are welfare and labor-market systems that move away from such positions and offer the individual a modicum of increased protection from the market in which business has far greater power than they do. In that sense, perhaps Costa Rica and Uruguay would be better laboratories for investigation, maybe even Venezuela after Pérez.

In conclusion, all modern states, especially democratic ones, have a welfare function. The question is under what principles will they be structured. In this sense there are principles consonant with (neo)liberalism—

least protection of the individual from the market—and other forms, including the Social Democratic one, that offer different arrangements. Chile's mild reforms fit the liberal model.

There are serious obstacles for moving beyond this in Chile, which I and others have written about. One is the structure of Chile's political institutions as inherited from the dictatorship (Loveman 1991). The congress, particularly the Senate, gives conservative forces virtual veto power over all legislation. Thus, from the outset, bills have to be couched in ways that will be acceptable to the faction. Moving away from liberal principles is not acceptable. Another obstacle is related to the form of interaction between business and policymakers, also inherited from the dictatorship. The pragmatic capitalist coalition was forged during the military government and gave good results for economic investment and growth. The Concertación pledged basically to uphold those arrangements. Business holds them to their promise in an aggressive manner. If the Concertación were to deviate, investment strikes might follow. In this, an open capital account further fortifies the influence of business, augmenting its veto power over reforms. Moreover, Chilean capitalists have become accustomed to a relationship with the state in which other social actors are kept either absent or in extremely subordinate positions that will not threaten the privileges and prerogatives of business, a situation that business claims is necessary if Chileans want their investment. For the time being, this is the equilibrium outcome in Chile.

PART III

COLLECTIVE BUSINESS ACTION AND WEAK STATES