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## Neoliberalism in Historical Perspective: The Chilean Case

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### 1. Introduction.

Chile was an early adopter of neoliberal economic policies following the ruthless military coup that deposed the Allende government in September 1973 marking the end of Chilean democracy for 17 years. Neoliberal reforms were applied in a context in which parliament was closed, political parties declared in recess or banned, labor union activity was severely restricted and no free and independent press was permitted.

The neoliberal package in the 1970s included price deregulation, anti-inflationary policies based first on shock treatment (fiscal and monetary restraint) and then complemented by exchange rate-based stabilization, a cut in import tariffs, the privatization of state-owned enterprises, the curbing of labor unions, and the elimination of restrictions to the mobility of international capital. In the early 1980s privatization was extended to education, health, pension administration and housing provision. After the restoration of democracy in the early 1990s neoliberal policies were, overall, maintained although social spending was increased as well as public investment.

The Chilean economic model has been presented as a success story in terms of growth acceleration, macroeconomic stability, and export-led growth. Although elements of this assertion are true, this optimistic assessment tends to neglect important issues of de-industrialization, financialization, ecological deterioration and persistent inequality that have accompanied its implementation.

The current Chilean GDP per capita is near USD 30,000 in purchasing power parity (2024) placing Chile among the top Latin American countries. However, this growth process has relied heavily on the exploitation of natural resources and has been accompanied by *de-industrialization*, with a steady reduction in the share of manufacturing in GDP from near 25 percent in 1972 (peak) to 11 percent in 2020. In addition, the services sector expanded sharply with a rise in the relative importance of the financial sector and the growth of commerce and non-essential services. The economy became very specialized in the exports of raw copper and, later, of lithium with a low level of processing in line with an extractive

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model. Fresh fruits, wine, timber, salmon, and other sea products are also part of the Chilean export basket. The purpose of this article is to conduct a more balanced assessment of the Chilean development experience from a long run perspective looking how different development models have evolved in the 19<sup>th</sup> and 20<sup>th</sup> century before embarking in neoliberal economics as the dominant paradigm since the mid 1970s.

## 2. Historical Perspective

Independence from the Spanish crown, achieved in the early 19<sup>th</sup> century, did not bring, automatically, economic equality and inclusive development to the country. The dominant economic elites changed from foreign (Spanish) to local and dominated land ownership in a still largely rural society. Large states owned by landlords employed wage labor and peasants. A manufacturing and financial sector developed along with mining being a main source of incomes in the country.<sup>2</sup>

### Monetary and Financial System

In the second half of the 19<sup>th</sup> century, Chile had a bi-metallic monetary system-based on the full convertibility between the local currency and gold, and silver. Besides, copper and *vellon*, a metal alloy of copper, nickel, and zinc, were also used for minting coins of low denomination. The monetary laws of 1851 and then 1860 were quite liberal and enabled the printing of paper money by a handful of commercial banks -the so-called *bancos de emisión*. The 1860 financial law, particularly, comprised very light bank regulation and required banks to hold modest capital/lending ratios.

The “mint ratio”, set by the *Casa de Moneda* (a government-run coinage house) was a key variable of the monetary regime as established the official parity between gold and silver. Misalignments between the official mint ratio and the market ratio could result either in the scarcity of lower denomination coins based, chiefly, on silver (and copper and *vellon*) or in the scarcity of higher denomination gold coins. The scarcity of low denomination coins was more predominant at the time.<sup>3</sup>

During wars such as the conflict with Bolivia and Peru the Chilean government borrowed from commercial banks to cover increased fiscal deficits associated with higher military spending. The bimetallic monetary regime lasted until 1878 followed by a period of currency inconvertibility. In 1895 Chile entered a short-lived gold standard regime that lasted until 1898 when it was abandoned. There was a long-standing monetary controversy in the 19<sup>th</sup> century and early 20<sup>th</sup> century in Chile between the *oreros*, those favoring the gold standard

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<sup>2</sup> After achieving independence in the early 19<sup>th</sup> century, Bernardo O’Higgins the “Supreme Director of Chile”, subscribed a one million sterling sovereign loan from British commercial banks to help building a Chilean navy, finance the creation of basic physical infrastructure and kick off the new public administration run independently.

<sup>3</sup> A full monetary history of Chile from the Colonial period until the early 20<sup>th</sup> century is Subercaseaux (1922).

as monetary regime, (*oro* stands for gold in Spanish) and the *papeleros*, favoring inconvertible fiat money as the money system (*papel* stands for paper money).<sup>4</sup>

Since 1898 “fiscal (paper) money” say bills issued by a government agency (no central bank yet existed) became the only authorized currency, which was sanctioned as legal tender. Fiscal money displaced commercial bank currency as commercial banks were forbidden to issue liabilities in the form of currency.

In 1925 several monetary-financial-fiscal reforms were undertaken: the creation of the Central Bank, the modernization of the public budget, the establishment of a regulatory superintendency for the banking system and the creation of the General Office of the Comptroller (“Contraloría”). These four institutions remain until today. These reforms followed the recommendations of Princeton University Professor Edward Kemmerer –the famous “Money Doctor” who also recommended Chile to return to the gold standard (abandoned in 1898) but this regime only lasted until 1931 at the time of the great depression. Then, over decades Chile had a variety of exchange rate and monetary regimes ranging from multiple exchange rates, fixed rates, and flexible exchange rates. The central bank was declared independent in the early 1990s.

### Political Constitutions

Since independence, Chile has had 10 constitutions. The first three (1811, 1812, and 1814) were attempts to legitimize its independence from Spain. Two more constitutions were written, in 1818 and in 1822, both with a marked nationalist spirit. Another in 1823 was written by conservative Juan Egaña but was largely a discordant initiative at a time of mounting liberalism. After Chile’s first provisional constitution was approved by direct democratic vote in August 1818, conservatives and liberals engaged in a 12-year civil war in which the country’s constitution was changed four times according to whatever group-maintained power.

A conservative, constitution emerged in May 1833 written by a non-elected body. The president of the country was allowed two consecutive five-year terms, and the office held extensive power over the cabinet, judiciary, public administration, and the armed forces. The 1833 Constitution was markedly centralist, with political hegemony residing in the capital city of Santiago, a feature that still defines Chile’s highly centralized administrative and political system today.

According to official history Chile in the 19<sup>th</sup> century emerged as one of South America’s most democratic, stable, politically advanced, and most educated (by the standards of that time) nations. Nevertheless, less than 5 percent of the total population voted in elections during most of the 19<sup>th</sup> century. Further, to vote people had to be able to read and write and hold property. In turn, members of parliament had to have a level of income above the average of the country.

The two other most important constitutions were approved in 1925 (more progressive and lasted, with amendments, until the military coup of September of 1973) and in 1980 (during the Pinochet period and lasting with amendments until today). All three charts were actively

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<sup>4</sup> See Fetter (1931) and (Subercaseaux, 1922).

influenced by the Chilean military. So far, no constitution of the Republic of Chile has been written by elected bodies. In 2022 and 2023 there were two failed attempts of passing new constitutions drafted by an elected convention, but they were ultimately rejected by the electorate.

### Development Strategies.

Since the 19<sup>th</sup> century, Chile the country has been reliant for its development process on nitrate, copper, coal, and gold, along with agricultural products such as wheat. Two long cycles of commodity dependence can be identified: the nitrate commodity cycle (mainly exploited by British companies and financed by British banks) from around 1880 to the early 1930s and a copper cycle (dominated by US companies) that started in the 1930s and runs until today with as when copper replaced nitrate as the main export commodity, mainly directed to the American market. In the early 1970s, sizeable foreign copper corporations were nationalized. Nowadays, the share of copper in total exports remains close to 50 per cent, but its contribution to fiscal revenues has diminished.

### The Great Depression, Import Substitution Development and Chronic Inflation

Chile was hit very hard by the Great Depression of the 1930s, with GDP contracting by 46 percent between 1929 and 1932.<sup>5</sup> In 1931 after the gold standard was abandoned it appeared an array of foreign exchange controls, multiple exchange rates were put in place to save declining international reserves due to terms of trade deterioration, fall in export volumes and cuts in foreign lending. A severe external balance of payments deficit developed that called for a cut in imports induced by recession.<sup>6</sup>

After recovering from the economic depression and restoring a degree of political and social stability, Chile, like other Latin American countries, embarked on an import-substitution industrialization (ISI) strategy to reduce external dependence on imports and foreign investment and promote domestic industrialization. The import substitution industrialization (ISI) strategy followed by Chile from the early 1940s to the early 1970s created productive activities that enjoyed import protection from tariffs and other devices (quotas and preferential import arrangements for intermediate parts and capital equipment). The ISI strategy also came along with expanded labor union membership in the public and industrial sectors. Labor unions were particularly active in the 1950s and 1960s as inflation eroded the purchasing power of wages.

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<sup>5</sup> Solimano, (2020 and 2023).

<sup>6</sup> At political level, the disarray brought about by the great depression in Chile was reflected in the fall of the authoritarian Ibañez government followed by a short succession of different presidents. The situation stabilized with the election of Alessandri Palma again, who headed the government from 1932 until 1938. Unlike his progressive populist stances of the early to mid 1920s the second Alessandri Palma government was rather conservative politically in the period 1932-38 and in the economy gave strong emphasis to fiscal consolidation.

The agrarian elite of landholders that had benefited from the ownership of large areas of land, with large parts of the land remaining commercially unexploited, faced the process of agrarian reform that took place from the mid-1960s until 1973. In the social area, public policies were advancing towards increasing degrees of universality in the provision of social services within a general trend of rising inclusion of the middle and working classes through access to public education, public health, housing, and social security schemes. Social rights were promoted through progressive legislation and labor codes improving universality but faced difficulties in reaching the very poor in rural areas and the marginalized in urban centers.

From 1938-1952, the Radical Party (a centrist, non-religious, political party) held power through three presidents and embarked on an import-substitution industrialization policy, which created a sector of state-owned enterprises in copper, steel, energy, and other activities and established a mass-education program, a national health system, and a pay-as-you-go social security system. Chile maintained a relatively participatory and stable democracy during the period that could accommodate social movements and working-class organizations, chiefly the Central Unica de Trabajadores, a nation-wide union operating in the industrial and service sectors, public enterprises, and other government agencies.

In 1952, Carlos Ibañez del Campo (the former general who had ruled as an autocrat between 1927 and 1931) won the presidential election. His presidency was marked by high inflation, labor unrest and unstable politics. President Ibañez hired, to help solving Chilean economic difficulties, a group of US-based external consultants—the Klein-Saks mission—that recommended fiscal austerity, monetary restraint, wage repression and trade opening.

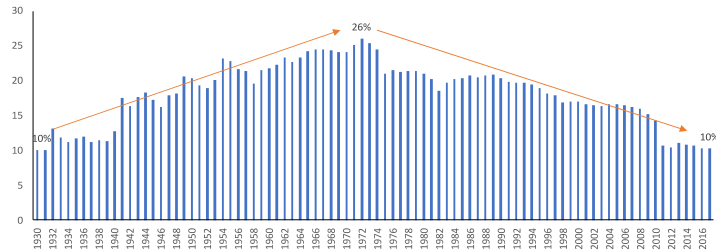
The results of the Ibanez stabilization policy were not encouraging, and the new conservative government of Jorge Alessandri (1958-1964) launched in 1958 an anti-inflationary program centered on a fixed exchange rate parity between the Chilean peso and the US dollar. The program also included cuts in import tariffs (to cheapen import of goods) and financial deregulation (private dollar-denominated accounts could be open in domestic banks). Inflation declined but at the cost of creating, after certain period, a large balance of payments deficit and financial vulnerability following the dollarization of liabilities in the banking system. The program was abandoned in 1962 due to a foreign exchange crisis.

The period of import substitution industrialization had helped to build an industrial base of state-owned and private sector companies. As shown in figure 1 this was reflected in a steady increase in the share of manufacturing in GDP from the 1940s to the early 1970s when it starts declining.

The ISI period, also coincided with an acceleration of inflation in Chile, particularly in the 1950s, 1960s and 1970s. Inflation was associated with fiscal imbalances, partly financed by money creation (loans from the central bank to the treasury), wage increases and recurrent currency devaluations and imported inflation.

Figure 1

## Chile-Industrialization and De-Industrialization in the period 1930-2017



The Christian Democratic Party government of Eduardo Frei Montalva (1964-1970) launched agrarian reform (though the corresponding law was approved during the Alessandri government), undertook the “Chileanization” of U.S.-owned copper interests (agreed semi-nationalization), pursued more inclusive credit policies. Moreover, Frei endorsed “*Promoción Popular*” (Social Promotion), “*Reforma Educacional*” (Education Reform), and “*Juntas de Vecinos*” (Neighborhood Associations) as main projects.

The Frei government followed a multi-front inflation stabilization strategy around incomes policy based on wage guidelines, a managed (*programada*) exchange rate policy (following a path of pre-announced decreasing peso devaluations) and the setting of monetary targets by the central bank, all consistent with a target inflation rate.

The government of President Salvador Allende (1970-73) quickly began implementing policies around a program called the “Chilean way to socialism”, (different from the Soviet Union and Cuba) to be pursued through reforms within the existing legal and constitutional system. To break up the concentration of economic power in the capitalist class, large size industrial holdings and large banks were nationalized in the so-called *area social*. The foreign-owned copper mines were nationalized by law with unanimous vote (from left to right) in parliament, and agrarian reform was accelerated, the agrarian reform was accelerated, a national program of milk distribution to children, massive popular housing construction and holidays for workers and their families were implemented.

The Allende government had active support from labor unions, peasant organizations, left-wing political parties, intellectuals, and progressive middle-class organizations. However, inflation accelerated sharply in 1972—1973, food shortages developed, and growth was affected, turning upper-middle-income groups and well-to-do households against the government.

In retrospect Allende made two strategic miscalculations that ultimately contributed to the military coup of 1973: (i) his government under-estimated the aggressive US reaction, under the Republican administration of Richard Nixon, to a socialist government in the Southern cone and (ii) the undertaking of over-expansionary macroeconomic policies based on a strong fiscal impulse, a simultaneous large increase in wages to stimulate aggregate demand and a price freeze that created macro imbalances that were hard to finance given shortages of foreign exchange.<sup>7</sup>

### Neoliberal Economics under Pinochet (1973-1990) <sup>8</sup>

The military regime that deposed the Allende government, after an initial flirtation with nationalistic economic policies that reflected the historical leanings of the Chilean army in economic matters, started to experiment with neoliberal, free-market economics. Policies could be carried-forward without much concern for social opposition as the military junta, since the very day of the coup, developed an active repression against political and social dissent resulting in thousands of killings, disappearances, torture, and exile.

Neoliberal policies had the support of a class of new owners who acquired public enterprises at low cost, and of financial intermediaries that reaped big benefits from banking deregulation but affected traditional industrialists who had flourished in the ISI period. In turn, workers suffered significant cuts in real wages, high unemployment, and severe restrictions on labor union activity. In 1979 a new labor code was passed that was very pro-business. A new dynamic sector was the agroindustry for export, which created additional support groups for trade opening. This sector benefited from more competitive real exchange rates and lower tariffs, and from policies adopted in the 1960s to promote forestry, fishing, and fruit planting.

The Chilean experiment with neoliberal economics drew support from two champions of free market economics: Milton Friedman and Friedrich Von Hayek. Both came to Chile at different points and advised General Pinochet on the virtues of a free market revolution through “shock treatment” (Friedman) and Constitutional reform (Hayek).<sup>9</sup>

Policies in trade liberalization, fiscal adjustment, inflation stabilization made progress and economic growth accelerated but the pattern was volatile.

Eventually, the exchange rate-based stabilization program adopted between 1978 and 1982 led to economic collapse including a financial crash with the cumulative decline in GDP in

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<sup>7</sup> The Church Report of the US Congress later confirmed that the Nixon administration through the CIA also engaged in political and economic destabilization of the Allende government and favored the military coup of September 1973.

<sup>8</sup> Parts of this and subsequent sections are based on Solimano (2012a and 2012b) and Solimano and Zapata-Roman, (2024).

<sup>9</sup> The story goes that Friedman could have risked receiving the Nobel prize in economics in 1976 due to his close association with the despised general Pinochet, see Kornbluh (2013).

1982 and 83 was 16 percent and effective unemployment climbed to nearly 30 percent. Inflation had itself almost more than doubled from its low level of 9.5 percent in the twelve months prior to December 1981. After the crisis of 1982-83 economic policies started to orient the exchange rate to promote exports rather than fight inflation and the economy started to recover in the period 1984-89. Massive national protests emerged in early 1983 and lasted for nearly four years at varying intensity levels. Main issues were the reduction of unemployment, more economic security, and the restoration of democracy. The social pressure led the regime to organize a plebiscite (that was lost by the regime) in 1988 and then free elections in 1989.<sup>10</sup>

### The Chilean Economy and Society since 1990

The first Post-Pinochet government was headed by President Aylwin (a Christian Democrat leader) who served from 1990 to 1994 in what could be considered as a transitional phase. There was a continuity with the neoliberal economic model in place. To guarantee the primacy of big business, labor demands including further unionization, higher wages, and more extensive labor rights were *not* encouraged. On the other hand, the Aylwin administration in agreement with Congress did raise taxes at the outset to fund programs to reverse the social deterioration inherited from the military period; this was done through raising minimum wages, increasing monetary subsidies to the poor, and providing more money to chronically under-funded public health and educational systems. Fiscal resources were also devoted to revamping public infrastructure —ports, roads, and highways— which had deteriorated after years of public investment neglect. Macroeconomic policies in the 1990s were targeted to reduce inflation, imposed taxes on short-term capital inflows and reducing public external debt. However, a structural rebalancing of the regressive functional income distribution between capital and labor was avoided.

In the next election, December 1993, Christian Democrat Eduardo Frei Ruiz-Tagle, the son of President Eduardo Frei Montalva, led the *Concertación* coalition to victory with a clear majority of votes, at 58 percent. In his administration, President Frei Ruiz-Tagle, himself a former entrepreneur, leaned toward the neoliberal paradigm, by privatizing the water sector, closing coal mines, and overseeing the integration of the Chilean economy by integrating it more fully into the international community. He signed free-trade treaties with Canada, Mexico, and various Central American countries, and during his tenure Chile became a member of MERCOSUR (Southern Common Market), the World Trade Organization, and Asia-Pacific Economic Cooperation (APEC) group. At the same time, President Frei R-T was more generous in his minimum wage policy and tried to undertake

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<sup>10</sup> After the plebiscite of October 1988 rejected the intent of general Pinochet to remain in power for another eight-years, on December 14, 1989, the first truly free and open election in nearly 20 years took place, electing most new members of a two-chamber Parliament, as well as a new President, Christian Democrat Patricio Aylwin, the candidate of the center-left coalition *Concertación*, who received 55 percent of the vote.



counter-cyclical fiscal policies to protect employment and cope with the aftermath of the Asian crisis in Chile in the 1998-99 years.

In 2000, Socialist candidate Ricardo Lagos was elected President. President Lagos actively courted representatives of big business and high finance and dampened the potential activism of organized labor and postponed changes in labor legislation. He also moderated environmental demands from ecological groups.

Lagos did introduce public health legislation to extend health coverage for several chronic illnesses to working- and middle-class people. In turn, he devoted important efforts to upgrade and modernize physical infrastructure with strong private sector participation through user's fee schemes. At the same time Lagos introduced a structural fiscal surplus and achieved a further reduction in inflation, suspended the tax on short-term capital inflows and supported a floating exchange-rate regime with minimal Central Bank intervention (orthodox package).

Although Lagos presented legislation to remove several provisos of the constitution of 1980, he fell short of calling for a national referendum to re-write the constitution approved under Pinochet. More than 50 constitutional reforms were approved in 2005 by parliament to eliminate some of the remaining, more undemocratic areas of the constitution such as ending the non-elected Senators and Senators for life, phasing out the prohibition to the President from removing the commander-in-chief of the Armed Forces, reducing the President's term-of-office from six to four years, and diminishing the powers of the National Security Council.

In March 2006, the Socialist Party candidate, Michelle Bachelet, assumed as the first woman president of Chile. It was the fourth administration from the *Concertación*. Ms. Bachelet had been in jail in the 1970s and then exiled for activities of resistance to the Pinochet regime. She initially tried to rule under the banners of a "citizen's government" and "gender parity government". These two goals were relaxed later in her administration. In the economic front she appointed a neoliberal finance minister and strongly empowered him to resist pressures to change the prevailing economic model either coming from disaffected sectors of the *Concertación*, the labor movement, environmental groups, or pro-redistribution constituencies. Her main (partial) social reform was of the social security system by creating a non-contributory "pension floor" that extended universal pensions payments and rights to all eligible citizens. However, she did not undertake reforms of the private, dominant, pillar of the individual accounts managed by for-profits companies (the AFP).<sup>11</sup>

Summing up, the first four center-left, *Concertación* administrations (between March 1990 and March 2010) did not attempt serious reform of the neoliberal model: all refrained from introducing progressive labor legislation, reduce the incidence of for-profit delivery of social services and reduce market and ownership concentration in big economic conglomerates. They rather promoted macroeconomic stability and adopted the fiscal and monetary

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<sup>11</sup> AFP stands for Administradoras de Fondos de Pensiones, see Solimano (2021).

orthodoxies of the time. In the social front the focus was primarily on poverty reduction and increased social protection for the most vulnerable groups trying to reach also to the middle class. At the same time, they put in place an expensive student-loan system that has left hundreds of thousands of indebted graduates for many years.<sup>12</sup>

In 2010 businessman and Forbes list member billionaire Sebastian Piñera<sup>13</sup> was elected President marking the return of the first post-Pinochet right-wing government. Piñera, managed to keep the economy growing at a respectable rate, maintained reasonably low inflation and pushed an agenda of deepening the privatization of the economy regardless of social and environmental consequences. Wealth inequality accentuated while the labor share in national income remained compressed and job vulnerability and labor's low influence in national politics accentuated. In 2011, the Piñera government faced serious conflicts with the student movement demanding both the end of the system of paid education and student debt and the launching of not-for-profit educational reform (with education as a social right rather than as a service delivered by markets). In turn, Piñera faced an active environmental movement opposing emblematic projects such as the building of large water dam in the far south of the country (the Hydro-Aysen project).

In late 2013 former President Michelle Bachelet run second time for office and won. Her second government tried to strike a balance between maintaining a continuity in economic policies regarding the orientation of the last two decades with needed reforms of the electoral system, women participation, social equity, and other topics. An important piece of her economic agenda was tax reform oriented to collect more fiscal revenues to finance expanded social programs. Importantly, she promoted a process of public deliberations, the *cabildos*, that could have led, potentially, to a new constitution replacing the one approved in 1980.

An important legacy of the Bachelet administration was bringing an end to the binominal system that had allowed, since the start of the transition to democracy in 1990, right-wing political parties to hold a sort of veto power in congress. On the other hand, she failed in her push for a new constitution.

The presidential election of 2017 brought again to government Sebastian Piñera. His second government was less guarded than his first administration regarding his neoliberal, pro-elite agenda and dismissed popular demands for more social equity, changes in labor laws, environmental protection, and a new constitution. However, contradictions within Chilean society mounted and eventually he faced an unprecedented social uprising —the *estallido social*— in October and November of 2019 accompanied by massive protests, at times accompanied by acute violence, fire and destruction of property and public symbols. The triggering was a relatively modest rise in fares of public transportation that sparked student protests, street fighting against police and massive rallies across the country calling for a renewal of the neoliberal model.

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<sup>12</sup> See Fazio (2005); and Solimano (2007, 2012b, 2012a).

<sup>13</sup> In February 2024 former President Piñera died in a tragic air accident.

The Piñera government repressed harshly the social unrest. Police repression included tactics such as police shooting rubber bullets to the eyes of protesters (many of them lost their eyes or were badly injured in their faces) and received condemnation from Amnesty International, the UN human rights commission, the InterAmerican Human rights commissions and, Human Rights Watch. The uprising of October-November 2019 tapered when a broad political agreement was signed in mid-November 2019 calling for a constitutional assembly to draft a new constitution that would replace the constitution of 1980. The draft was rejected in 2022 and a new attempt also failed in 2023 as discussed before.

### Evaluation

Neoliberalism, applied for around half of a century, has had profound consequences on Chilean society. It led to a capitalist modernization that affected the economy, the social structure of the country, and the cultural attitudes of the population. The Chilean economic model has enabled, over various decades, an increase in GDP per capita that placed Chile at the top of the Latin American region. However, this indicator can be deceptive in terms of social welfare that omits distributive considerations, the incidence of defensive goods, valuable non-market household work and so on. In addition, it does not convey information per se on the sustainability of the growth path.

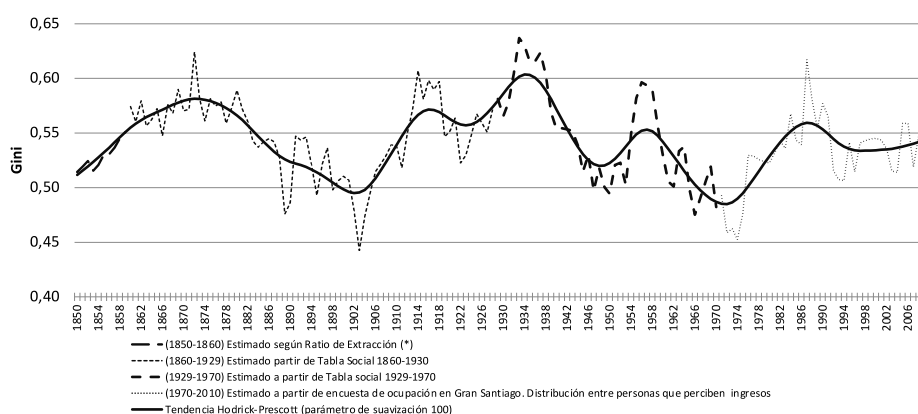
Aggregate economic growth rose rapidly in the late 1980s and the 1990s, but it started to decline its rate of growth thereafter particularly after the global financial crisis of 2008-09 suggesting the lack of dynamism of a growth model based on extractive industry, financialization of the economy and the export of semi-processed forestry products, fishing, and water-intensive fruits. A rent-based economy may not be sustainable in the long run. If evaluated by the criteria of the United Nations Sustainable Development Goals (UNSDGs) agenda for 2030, stressing social equity, ecological sustainability, participatory development, productive diversification, and other socio-economic goals Chilean development needs substantive redirection.

Macroeconomic cycles have been a permanent feature of the Chilean economy. The most severe recessions in the last one-hundred years took place in 1930-32, 1975 and 1982-83. In all these episodes annual GDP declined by more than 10 percent. Then smaller recessions (GDP declining by 1-2 percent) occurred in 1999 (Asian crisis), 2009 (sub-prime crisis) and in 2020, at the time of the COVID pandemic, when GDP declined by 6 percent.

The social dimension of the neoliberal Chilean model of the last 50 years are problematic as they have been accompanied by persistent inequality. The income Gini coefficients from 1850 to 2010 is in the range of 50 to 60 percent for the whole period showing the persistency of high inequality over more than a century and a half. This range of inequality is very high by international standards.

Figure 2.

## Chile-Historically-High Inequality (income Gini, 1850-2010).



However, from around 2006-07 the Gini coefficient dropped approaching levels close to 45 percent. In turn, the income share of the top 1 percent of the population captures nearly one-third of national income.<sup>14</sup> Three factors that have contributed to high income inequality in Chile include the lack of progressivity of the tax system, the relatively weak bargaining power of organized labor and the chronic underfunding of public education. In turn, Gini coefficients for personal wealth calculated for Chile by the World International Database (WID) of the Paris School of Economics are close to 90 percent although other sources put the index closer to 70 percent. Policies of privatization, booms in asset prices held by a minority of high net wealth individuals, higher savings rate for upper income groups are all contributing factors for high wealth inequality. Finally, neoliberalism has contributed to environmental fragility by encouraging a development model based on extractive industries and intensive use of non-renewable natural resources. Pending issues in the realm of political economy is how to deepen democracy and having a new constitution that transcends the 1980's constitution approved in the regime of General Pinochet.

<sup>14</sup> López et al. (2013).

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