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How Neoliberalism Weakened Democracy in Chile

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Brandon Greene

Undergraduate Research Competition 2017

In order to craft an effective argument about neoliberalism in Chile, I needed to use a variety of sources and research techniques. My research assignment was to discuss how neoliberal policy reform left the Chilean people worse off than they had been before the policy change, and that this change caused a roadblock in their avenues to participating democratically in their government.

When I first began writing this paper, I knew that I was going to have a difficult time finding research material that I could use. My first problem was that the neoliberal policy shift occurred in the 1970s—more than twenty years before I was born. My second area of concern was that I had never traveled to Chile, and I was relatively unfamiliar with their government, economy, or history in general. Finally, as I began to investigate possible sources, I realized that my third obstacle was that I am not fluent in Spanish. This was a problem because most of the primary sources from the time were recorded in Spanish since it is the language spoken by most Chilean people. Though I faced many challenges at the beginning of the research process, I was able to take advantage of many different journals and databases to get the best information.

For the first half of my research paper, I discussed how the neoliberal policies under the Pinochet regime had left the working class in shambles. In order to get the best understanding of this time period, I read articles that were written during, or very shortly after the neoliberal shift actually occurred. For this information, I used journals like *The Journal of Developing Areas* from April 1994 the *Latin American Research Review* from 1990. These two journals in particular helped paint an accurate portrait of what the Chilean people were actually going through in their daily lives. To get some reflective analysis on these changes during this time period, I also reviewed statistical information on the gross domestic product of Chile and other

economic indicators to show what the people were going through financially. This information was provided by the World Bank's online archive. Using both types of information helped me get a personal perspective from people who were actually going through the social and economic hardships while I also was able to analyze the time period using statistical information.

For the second half of my project on Chile, I used research pieces that were more current in order to provide the best "reflective perspective" I could get. Since articles like "The Engagement Curve" by Rafael Pineiro, Matthew Rhodes-Purdy, and Fernando Rosenblatt was published in 2016 and "Successful Neoliberalism?: State Policy, Poverty, and Income Inequality In Chile" by Ashley Davis-Hamel was written in 2012, I was able to hear their very recent, and updated opinions about how the neoliberal policy changes halted the aspirations of the Chilean people to participate in their government. Also, by using more recent articles, the authors were able to tie the events in the 1970s to events that have taken place more recently in similar countries. Finally, these articles were retrieved from broad journals like *International Social Science Review* and *World Politics*. By using journals that didn't focus specifically on Chile or Latin America, I was able to get a broad and more coherent idea of the effects that this policy change has had on the lives of the Chilean people.

Overall, this essay helped me use different types of sources in order to get the most accurate information for each section that I was focusing on. Whether I wanted to focus directly on the personal stories of the Chilean people in the 1970s, or I wanted a general reflection on how Chile's problems mirrored those of developing countries around the world at other periods in time, I was able to use these different sources, journals, and databases to get the best, and most accurate information. This made it easier for me to construct a well-organized and argued research paper.

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9 May 2017

How Neoliberalism Weakened Democracy in Chile

As neoliberalism began spreading in countries around the world at the start of the 1970s, leading economists believed that rolling back regulations would unleash economic growth and bring prosperity to the working class. It is reasonable to assume that a thriving economy would be accompanied by a thriving set of rights for all, but as Chilean history shows, this is far from the case. The neoliberal transformation began in Chile when General Pinochet rose to power in 1973. Pinochet's path to the presidency is a smaller example of how his policies would change democracy in Chile, and it shows the effects that neoliberalism can have for democracies throughout the world. This is the case because Pinochet assented to the presidency by overthrowing Salvador Allende, Chile's democratically elected President (Davis-Hamel, 2012, 81). The period that followed this takeover was not a democracy ruled by the people, but instead, it turned into a regime ruled by a military dictator. Before Pinochet seized power, President Allende and his democratic government were pursuing policies that allowed the state to assist in developing their country and their economy, but with the drastic leadership takeover also came an abrupt policy shift away from government intervention, and more toward letting the free market distribute and allocate resources. Some of the neoliberal policies that were pursued by Pinochet aimed at limiting state spending, privatizing enterprises that were previously owned by the government, and opening up the economy to allow and encourage foreign trade without barriers. Though economists believed that the country would experience massive economic growth from this policy change, it did not happen. Instead, the neoliberal policy shift in Chile actually resulted in people having fewer rights and even less power within the government.

Part I: The Effects of Neoliberal Policies

Under Pinochet's rule, the Chilean government slashed programs that were designed to improve the living conditions of the working class. They ended long-held practices of subsidizing consumer goods and health services, and they also eliminated subsidies that were given to low wage earners to supplement their income (Bruey, 2012, 534). A majority of the Chilean people felt these cuts in almost every area of their lives; whether it was at the doctors office after the government slashed health care funding by 40%, or in the classroom after the state cut spending on education by 73% (Davis-Hamel, 81). Though these were all consequential to the working class, one of the most devastating changes to the Chilean peoples' way of life was that the state slashed spending on public housing. These were not just small reductions either; in 1975, for example, "spending on public housing was cut by 60%" (Davis-Hamel, 81). This means that the people who previously relied of the government's help to live in their homes would now be forced to vacate their communities and relocate. These communities were a vital part of democratic participation in Chile because they were prime locations for people to meet and organize. Without them, as it will become evident later, there is no hope for the working class to participate in their government.

During General Pinochet's first full year in power, the country's GDP fell dramatically from \$16.397 billion in 1973 to \$7.226 billion in 1975 (Word Bank). This was a huge shock to the Chilean people after years of gradual growth under President Allende. The reduction in revenue meant that the government would have even less money than they had in previous years to spend on programs to help the working class and the peasant population. Since neoliberalism calls for removing the state from the economy, the Pinochet administration's main goal was to reduce the amount enterprises that the state controlled. Seeing that they owned over 550 different

companies at the start of 1973, Pinochet tried to privatize many of the state's water companies, sewage controllers, and telecommunication industries (Hachette and Lüders, 1994, 438). Additionally, another aspect of neoliberalism calls for free trade policy, and the Pinochet government aimed to eliminate all of the consumer protections, like price controls, that were put in place during the Allende administration. Since they were eliminating price controls as an attempt to attract more businesses, this ultimately meant that the price was free to rise to an uncontrollable level just because of simple theories like supply and demand, or even corporate greed. Like other neoliberal thinkers of this time, they felt that the economy and the free market would do a better job at setting guidelines for things like prices, so they worked to remove any and all regulations that the state had previously put in place. They also tried to reduce tariffs and free businesses from the burdens that they were previously weighed down by throughout the highly regulated Allende government. Pinochet also believed that his government could help businesses operate without any strife from their workers by suspending labor laws and banning labor unions from operating (Davis-Hamel, 81). As a whole, these changes left the working class in much worse of a position than they were in before the neoliberal policy overhaul occurred.

Overall, these radical reforms show how the quality of life was diminishing for the working class in Chile while the government was trying to encourage economic success. The country's GDP had nearly fallen in half, social spending on housing, education, and health care were at all time lows, people were losing their homes and communities, prices were out of control, and workers were losing their rights. All together, these neoliberal changes to create a free economy left the workers without many freedoms of their own. In fact, free markets often stand in stark opposition to the idea of a pluralist democracy, and this was shown explicitly in Chile (Kurtz, 2004, 267).

Part II: Neoliberalism and Democracy

Suggesting that neoliberal policies will erode democracy is a big claim, but it is one that must be confronted. Ideologically, neoliberalism calls for reducing the role that the government takes when allocating resources, and leaves this task up to the free market. This means that necessities will be given to the highest bidders, instead of to the people who need it most. Because of this idea, poverty, unemployment, and inequality increased in Chile while the standard of living decreased (Bellinger, 2007, 99). Additionally, as stated earlier, Chilean workers lost legal protections in the workplace since labor laws were diminished, and they also lost their government-backed retirements when the government handed them over to the private sector (Kurtz, 276). In any other normal government without neoliberal policies, these circumstances would create the perfect opportunity for activists to intervene to force the government to change and help the people, but this wasn't the case under Pinochet after Chile's neoliberal transition. Where workers were once the backbone to political organization and mobilization, they were now dubbed as the "most natural opponent" to Pinochet's free market economic reforms (Kurtz, 287).

As the Chilean government began to remove itself from the economy, they moved away from Allende's goal of increasing industrial production. In 1972, 26.6% of Chilean GDP came from this sector. But, as the government's intervention and involvement was reduced, this percentage continuously fell to 21.1% in 1988, and then to only 18.9% in 1996 (Kurtz, 275). As this percentage fell, so did the amount of labor protests that took place in the country. During the early 1970's, the Chilean government was confronted by an average of two thousand and four hundred labor strikes each year. Less than twenty years later in the late 1980s, after the neoliberal reforms were implemented, the average amount of strikes was reduced to just seventy

four per year (Kurtz, 275). The reason for this shift is not simple. Since the industrial working class was now accounting for a smaller part of the Chilean economy, the government felt as if these peoples' needs were not as important as they were before. Instead, the government would focus on the people and economic sectors that were more important to their economy. There are many factors that were caused by these neoliberal policy shifts that gutted the possible options of the working class to make a difference and have a voice in society, but there are two main reasons that were explicitly seen in Chile that put a spotlight on this crisis to democracy that was caused by neoliberal policies. First, since spending on public housing was slashed, land was taken away from the working class and given to those who would pay the most for it; and this meant that the working class lost their ability to be part of political communities that they previously used to organize. Second, the Chilean people lost control of their government as the technocratic elitists took over. Overall, these two neoliberal reforms gutted all powers and avenues for change that interest groups, social organizations, and political parties previously used before neoliberal policies were implemented.

The first reason that must be examined is what the effects were when the free market stripped most of the land away from the peasants and working class. In 1973, nearly two thirds of the land in Chile was in the hands of peasants (Kurtz, 277). But, as the government eliminated their housing and income subsidies as well as their funding for public housing in general, the percentage of land owned by peasants declined astronomically to only 37% just twenty years later (Kurtz, 277). The new neoliberal way of thinking was that those who can afford the most land should own the most land because they could use it to expand their companies and grow their businesses—but this is not the case. Instead, reducing the amount of peasants who owned land had took a drastic toll on the idea of being able to participate in government. The working

class relied their communities to get information and stay informed in what was going on around them politically. But as they were being dispersed and separated, their ability to stay informed was also diminished. As a result, the amount of peasants who were unionized shrunk from 30% in the early 1970s to just 4.6% in 1992 (Kurtz, 278). This shows that as fewer and fewer peasants were in land-owning opportunities, fewer peasants were taking part in their government. All across the country, political parties and interest groups were also weakened. Unions became more divided, were retaining less members, and became less influential (Weyland, 2004, 147). Declining social movements and organization ultimately undermines democracy because these activities and organizations hold political officials accountable. In short, they make sure that they follow through on the promises that they campaigned on. To clarify the direct relationship with this point, it is easy to see that as fewer peasants were able to own land, fewer peasants were taking part in social movements. This reduced the power of labor unions and organizations, which ultimately allowed the government to abandon the promises that they made to the people. And this left the people feeling as though their needs were not being met.

The second major reason that democratic participation was depleted in Chile was because neoliberal policies cater to the technocratic elites. These people are in the higher tier of the middle class and they hold jobs like lawyers or teachers, and most of them have some type of knowledge that can be traced back to the United States. Shalendra Sharma noted that neoliberalism “relies on a handful of elitists and ideologically driven people” (Sharma, 1999, 350). Since they are only focused on the elites, they no longer place an emphasis on the average working citizens. As noted previously, the working class lost what little power they had in their government as they began accounting for less and less of the country’s GDP. She went on to acknowledge that this change in focus means that the neoliberal state will focus less on welfare

and distributive functions that were aimed to help those who needed the most help (Sharma, 350). The position taken by technocrats was that economic decisions are highly technical and they should be left to the smartest people to figure out. In direct terms, this means that the powerful would stay in power over the average people. Further, the elites felt that these economic choices “should not be subjected to bargaining and politicking” so they gutted the possibilities for lobbying or interests groups to try to make a difference and get involved (Conaghan, 1990, 19). This shows that they cared less about the demands of the average people, meaning that the ideas that they were organizing for were no longer seen as a priority to the leaders. This could also explain why, as discussed earlier, there was a decrease in the amount of protests seen in Chile, because their ideas were just not being listened to.

This new neoliberal system ensured that the rich and powerful stay in power because money can be an influence on politicians. It is reasonable to see that “politicians need money for the media and other channels of communication” that they need to stay in office (McKelvey and Ordeshook, 1986, 927). Therefore, since the politicians want as much money as they can get for their next election, they cater to the demands of the rich. In turn, the politicians will ultimately shape their positions and views to be more closely aligned with those of the rich in order to get their political and financial support. Implicitly, this means that the politicians become less concerned with the needs of the lower classes, and these people eventually feel like their voices aren't being heard. Along this same line of discussion, this shows the power that interest groups can have on a politician. In the same way that the rich elites can use their money to influence the policymakers, strong and wealthy interest groups can flex their muscles by donating, or withholding their money from a lawmaker in order to get their policies implemented. But since neoliberal policies reduced the power of unions, interest groups, and social organizations, the

power of the rich and wealthy filled the void and caused Chilean leaders to focus more on the their needs.

Democracy is obviously weakened by neoliberalism because it gives so much more power to business leaders and corporations instead of to the average citizens. To describe this, Kurt Weyland said, “neoliberalism has also changed the balance of power between domestic socioeconomic and political forces. Leading business sectors have gained greater clout” (Weyland, 142). In general, the neoliberal ideology bestows a great deal of power to the technocratic elites which keeps them in powerful positions in society, and helps them collect even more power over the average citizen. This erodes any idea that the country can be governed through a democracy, but instead, it leads the country down a path of aristocracy where those at the top can lead.

While McKelvey and Ordeshook argue that money can influence policymakers, they argue more importantly that the main reason that people need interest groups is because they provide access to information to their followers (McKelvey and Ordeshook, 909). Like how the peasants used their communities of public housing to stay informed politically, the case was the same for workers who used their labor unions to get educated politically. It was clear to see that these neoliberal reforms caused lasting damage on the ability of interests groups and unions to educate and inform the regular people. As Rafael Pineiro argued, “The poor lack the resources to transfer their interests to politics,” and this, he explained, creates a lack of interest amongst the people that leads to inequality in the democratic system (Pineiro, 2016, 4). This inequality, like the inequality between the working class and the technocratic elites in Chile, creates political conflict which is insolvable “because of the inability to solve collective action dilemmas” and their inability to take effective political action (Pineiro, 4). Since the neoliberal reforms stripped

protections from workers like minimum wage standards, the workers needed to work more hours in order to earn the same amount of money that earned before to continue their way of life. And since they were working so much, they no longer had time to engage politically; and thus, the conflict and inequality increased and the poor workers were left worse off than they were before. This is one of the main reasons that neoliberal reforms deteriorated the idea of taking democratic action in Chile. Since interest groups lost their footing in neoliberal regimes, they also caused the electorate to become uninformed and out of touch with what was going on in their government.

Overall, the neoliberal reforms that took place in Chile eroded the quality of their democracy. Since this can be measured empirically with data, it is easy to see the decline as neoliberal reforms took place. The amount of citizens taking part in their government had been reduced greatly because of Pinochet's neoliberal reforms; and just by looking at the stark decline in the amount of strikes per year, it shows that the Chilean people were feeling less connected and less powerful in their government. Second, since the political parties, organizations, and unions were run into the ground and stripped of their powers, the people leading their country were not being held accountable to follow through on the promises they made to the electorate. Third, the lack of political competitiveness in Chile eroded democracy because the average working class people weren't given a say. During Pinochet's entire reign as dictator, obviously, there were no presidential elections so that he could continue to rule over Chile. Finally, the fourth indicator of the reduced quality of democracy has to do with how responsive the government was to the needs of the people. This declined because the government was no longer focusing on providing welfare programs and benefits to its people. But, additionally, this declined because of the idea of free and open markets. Since the government was opening up to foreign competition, limits were being implemented that limited popular sovereignty (Weyland,

143). As Latin American countries like Chile was becoming more involved in the world economy, they were often accepting bad deals for their people in order to stay competitive on the global stage (Weyland, 144). Since they needed to have resources available to bid for deals and agreements on the global market, the amount of resources that the government could use to respond to the needs of the Chilean people was reduced greatly. Overall, these neoliberal reforms made democracy and popular inclusion “shallower and less meaningful” in Chile (Bellinger, 102).

The argument overall here is that neoliberal shifts hurt the average Chilean citizens, and that this suffering eroded their abilities to take part in their government. Both workers and peasants lost access to tools that allow them take part in their governments and enjoy their lives. Since the Chilean government slashed public spending, they lost housing subsidies and were forced to break up the communities that they lived in. The working class also had fewer protections in the form of price controls and minimum wage regulation, which ultimately caused them to suffer financially. On this same line of thinking, since the people were no longer promised a high wage, they were forced to work more hours to make up the difference, and in turn, they no longer had time to engage politically. With people being less involved politically also comes the fact that social organizing is weakened and interest groups and unions are less successful at holding politicians accountable to their constituents. Finally, and most generally, since neoliberal reforms really left the Chilean working class worse off than they were previously, they also lost their ability to make a difference politically. This idea should be one that economists and political scientists take into account around the world. Is economic success more important than political freedom? Can a country ever truly have a thriving participatory democracy while they have neoliberal policies? The answer to both of these questions, based on

what happened in Chile, is simply no. In the search of economic success, the Chilean people lost their rights politically, and suffered financially—and this should serve as a lesson to other countries trying to decide if neoliberalism would be a good fit for them.

Annotated Bibliography

Belinger, Paul T., Jr. and Moises Arce. "Low-Intensity Democracy Revisited." *World Politics* 60 (October 2007), 97-121.

This article provided real and personal examples of how neoliberal policies were damaging the lives of the Chilean people. In the article, the authors discussed how unemployment and poverty skyrocketed after the neoliberal reforms occurred in Chile. This article served as a good data-driven argument that the neoliberal reforms really did hurt the Chilean people.

Bruey, Alison J. "Limitless Land and the Redefinition of Rights: Popular Mobilisation and the Limits of Neoliberalism in Chile, 1973-1985." *Journal of Latin American Studies* 44:3 (August 2012) 523-552

This piece was a great post-neoliberal-transition piece because it connected all of the dots between my paper. The author argued that because neoliberal policies let the wealthy own more land because they could afford it, and because the state was spending less to fund housing projects, the people were dispersed and removed from their communities. Because of this, they lost their political belonging and were therefore less likely to participate democratically. It helped to show directly that the neoliberal policies that took people away from the land that they lived on really had political ramifications that hurt democracy as a whole.

Conaghan, Catherine M., James M. Malloy, and Luis A. Abugattas. "Business And The 'Boys.'" *Latin American Research Review* 25:2 (1990), 3-20.

This article offered a great historical preface to the time period in Chile. It showed the previous socialist policies, as well as the newly implemented neoliberal policies under

Pinochet. This article also helped to show how the elites were being given more and more power and how they would, eventually, become more important to the government than the working people were. Overall, it was a preface to what was to come with the problems that would soon face the Chilean people.

Davis-Hamel, Ashley. "Successful Neoliberalism?: State Policy, Poverty, and Income Inequality In Chile." *International Social Science Review* 87:3/4 (2012), 79-93.

This article was a great overview of the inequality and poverty that stemmed from the neoliberal policy shift in Chile. The author provided many facts and pieces of data that showed just how much the people lost, and how they were suffering.

Hachette, Dominique and Rolf Lüders. "Privatization in Chile: An Economic Appraisal." *The Journal of Developing Areas*, 28: 3 (April 1994), 438-440

This article was also a great piece that showed the background of what neoliberal policy reform really is. It focused heavily on how the state was attempting to privatize everything that they had previously owned in order to remove itself from the economy. Obviously, privatization has huge impacts on how the working people live their lives and how they are treated in their workplace.

Kurtz, Marcus J. "The Dilemmas of Democracy In The Open Economy." *World Politics* 56 (January 2004), 262-302

This article discussed how after the neoliberal reforms were implemented in Chile, the amount of strikes that took place each year declined astronomically. This shows that as the working class lost their footing in the Chilean democracy, their demands were not being listened to also. This is important because it shows, perhaps, the clearest correlation between the freeing of the economy through neoliberal policy reform

and the decline in social organization and participation that occurred.

McKelvey, Richard D., and Peter C. Ordeshook. "Information, Electoral Equilibria, and the Democratic Ideal." *The Journal of Politics*, 48:4 (November 1986), 909-937

This article was very intriguing and it offered points that went beyond many other authors I read for this assignment. They basically argued that since the people leading the country are normally focused on winning reelection and staying in power, they will cater to the needs of the wealthy. This means that they will make policies that benefit them, while the working class people, who do not contribute much to campaigns, are left behind. Obviously, this shows that by keeping the powerful in charge, the needs of the people are not being met, and they are not being well represented in their government.

Pineiro, Rafael, Matthew Rhodes-Purdy, and Fernando Rosenblatt. "The Engagement Curve." *Latin American Research Review* 51:4, (2016). 3-21

The authors of this article compiled information about how the social and economic conditions in Chile played a part in the dwindling ability of the Chilean people to participate democratically. Since the protections of workers were stripped, like minimum wage regulations, the people could no longer make a living wage by working a reasonable amount of hours. In order to make the same amount of money than they did before, they now needed to work more hours. With the workers working more hours, they had less time to participate and organize politically. This fit in perfectly to show how the neoliberal reforms hurt the idea of being able to participate democratically in their government.

Sharma, Shalendra D. "Democracy, neoliberalism, and growth with equity: lessons from India and Chile." *Contemporary South Asia* (1999) 8(3), 347-371.

Sharma's article helped me discuss how neoliberal policy reforms takes power away from the average person and bestows it amongst the wealthy and powerful elites in society. Since these people seem to have managed their wealth and status successfully, neoliberal policy tends to let them remain in control over the people of the lower classes. This point contributes to the idea that aristocracies are born from neoliberal policies, so a democracy can not possibly exist.

Weyland, Kurt. "Neoliberalism and Democracy in Latin America: A Mixed Record." *Latin American Politics and Society* 46:1 (Spring 2004), 135-152

The main purpose of this article was to show that while neoliberal policy reform was meant to make the economy free, most people ended up losing their personal freedoms, which ultimately undermines democratic ideals. Weyland also focused heavily on the idea that corporations became more powerful than the average citizens, and that the resulted in a decrease in the quality of democracy for the Chilean people.

World Bank "GDP in Chile" accessed 25 April 2017. <http://data.worldbank.org/indicator/NY.GDP.MKTP.CD?end=1993&locations=CL>

By using the World Bank's online archive of financial data, I was able to see how the economy functioned before, during, and after the neoliberal policy shift. This helped me prove my point that the new policies really left Chile left off because their economy was slashed in half. Since the government was tightening its belt in terms of spending, they were less able to spend money on services that their people depended on. Ultimately, this caused them to become unable to take time to participate in their government.