

# **El Caso del Estado Chileno Actual: Proyectos de Acumulación, Proyectos de Legitimidad**

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## ***Repensar a Teoria do Desenvolvimento num Contexto de Globalização***

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### **Resumen**

*El caso de Chile es lo más exitoso de integración global de los países de América Latina. Al mismo tiempo el modelo chileno ha sido rechazado por la mayoría de los chilenos. El estado ha sido forzado de construir una gama de programas sociales en un intento de legitimar el modelo neoliberal. De hecho, estos programas son una forma de reconstrucción del papel del estado.*

*En los ochentas y noventas, el estado tuvo que reconfigurar el aparato productivo chileno, construyendo un nuevo patrón de acumulación detrás de la intervención del estado. Lo exitoso de la economía no viene por las fuerzas del mercado sino que por la intervención del estado.*

*En vez de indicar las posibilidades de una economía bajo las reglas del mercado, el caso de Chile es una indicación de la necesidad de una estrategia alternativa.*

*Presentará en esta ponencia un análisis de las formas de intervención del estado en el proceso de acumulación y de los nuevos programas de legitimación. En el parte último de trabajo explorará los límites sobre la adaptación de un modelo alternativo por la influencia de los grandes grupos del poder económico.*

## **I. Introduction**

This paper is concerned with four interrelated issues: First, what is the meaning of “neoliberalism” in the context of Chile’s evolution since 1973? Second, in spite of the partial evidence of a “restructuring” of Chile’s economy, what is the role of the traditional 19<sup>th</sup> Century agro-mineral sector (specifically the copper mining industry) in Chile? Third, given the typologies of the State are commonly used in development economics, what is the fitting interpretation of Chile’s contemporary State? Fourth, specifically, what are the key activities of the State—in the context of the economy—that give empirical definition to the State? In this section of the paper the State’s projects are divided into “projects of accumulation” and “projects of legitimation”. Following from the above analysis, the conclusion of this paper is that while the present-day State in Chile operates far beyond the narrowest confines of the “neoliberal” State as strictly defined, it is nonetheless fatally confined by the ideological limits imposed through the neoliberal vision of the State. Hence, Chile lacks a national development strategy (“proyecto país”) and is now constrained to operate within the confines of a quasi-stagnationist structure which can be temporarily buoyed by 19<sup>th</sup> Century-style commodities booms.

## **II. A Neoliberal State?**

### **A. Incoherent Restructuring (1973-75)**

At the outset of the military dictatorship the State operates within the confines of an “emergency” situation (Huneus, 2001: 296). In terms of economic policy the two key policymakers were Fernando Léniz—Economic

Minister—and Raúl Saéz serving as the Minister of Economic Coordination. Neither Léniz nor Saéz were neoliberals: Saéz, in fact, was certainly a key—if not the key—policymaker in Chile’s peak developmental institution, CORFO (Saéz 1994a, 1994b). CORFO—Corporación de Fomento de la Producción (discussed in section III, below) had been since 1938 the key protagonist in Chile’s Import Substitution Industrialization strategy (ISI), and Saéz had long been associated with ISI, CORFO and the policy of State-Led development.

Seeking to consolidate his political power, General Pinochet outmaneuvered his military rivals and formed the “second government” in July 1974 through April 1978 (Huneeus, 2001, 297). This “government” was marked by the dominance of military leaders in positions of power—24 of the 38 ministers appointed to govern were military professionals. Most were strong nationalists, they had been supportive of formative institutions such as CORFO and they held to a vague developmentalist ideology which highlighted the formative role of ISI strategies in the economy. Immediately, Pinochet appointed the first of the *Chicago Boys*, Jorge Cauas as ministro de Hacienda. This was followed by the appointment of Sergio de Castro as ministro de Economía—an extremely powerful Chicago School critic of current government policy—in April of 1975. de Castro’s appointment came shortly after what was considered a key economic conference in March—headed by Milton Friedman and Arnold Harberger—wherein the *Chicago Boys* introduced their proposal (also supported by the IMF and World Bank) to impose a “shock treatment” consisting of a drastic reduction of the money supply, a policy of privatization, opening to the international market,

deregulation and the shrinking of the State sector (Kangas 2003, 2). While Saéz remained briefly as Minister of Economic Coordination, he had effectively criticized the government's human rights record in April 1975. In June of 1975 Saéz protested a early and demonstrably corrupt privatization of the textile firm Panal (Huneus 2001,400, 413). Subsequently, he moved laterally to help set up what would become the key non-profit, semi-public/semi-private developmental institution of the Pinochet period, Fundación Chile. [Fundación Chile is described in Part IV, below] Saéz was one of the few members of the technocratic elite whose misgivings of the dictatorial regime were tolerated. His credentials could not be dismissed by the brash *Chicago Boys*. His critique of the corrupt privatization process of Panal was prescient: Later estimates of 41 of the 68 firms privatized by the *Chicago Boys* by 1978 suggested that the buyers had received a subsidy of 48 percent (approximately \$ 615 million US dollars in 2003) in buying these firms below their estimated assessed asset value (Foxely 1980 18-19).

### **B. The Chicago Era—Radical Neoliberalism (1975-1982)**

From 1975 onward the influence of the *Chicago Boys* grew—but was tempered to some degree by the developmental attitudes of the military leaders who occupied many ministries, at least until 1978. As the degree of autonomy in defining economic policy steadily increased for the *Chicago Boys* the economy moved ever closer to the precipice of economic breakdown. Financial speculation was rampant. Fueled by a variety of hidden State subsidies—most particularly the assets acquired through the corrupt privatization process—the

largest and most powerfully connected of the *grupos nacional de poder* used Ponzi-style techniques to build “new economy” firms linked to real estate, finance and foreign trade. In 1974 the largest two *grupos* were Cruzat-Larraín and BHC, holding 11 and 18 firms, respectively. By 1977 these conglomerates held 85 and 62 firms. These top *grupos* held 37% of the assets of the top 250 firms by 1978, while the inclusion of the next two largest *grupos* (Matte and Luksic) brought the level of concentration of the top four to 49% of the assets of the top 250 firms (Silva 1997, 160). Deindustrialization proceeded rapidly, while the economy grew and admirers from abroad with a Chicago School orientation proclaimed Chile a “miracle”. By 1981 Chile had a commercial trade deficit of \$2.7 Billion (USD) which represented 71 % of the value of exports. Foreign debt exploded during the hard *Chicago Boys* era—debt service alone absorbed 49.5% of the value of exports (Loveman 2001, 289, 293). Like Mexico in late 1994, the inevitable collapse arrived and GDP fell by 14.3% in the course of 1982.

### **C. Pragmatic Neoliberalism 1984-1989**

By 1984 a hesitant recovery began, but under a completely different policymaking regime. Some of the largest financial *grupos* had been—to the surprise of many—swept away with the crisis, along with some of their closest cronies in government including the core *Chicago Boys*.<sup>1</sup> In their stead came economists who paid homage to the core concepts of the *Chicago Boys*, but who used their power and influence to restructure the economy toward an array of new export industries based in commodities. Meanwhile peak business organizations, particularly the powerful CPC (Confederación de la Producción y

el Comercio) regained much of their historical influence. Eduardo Silva describes the new configuration:

On the state side, the system of interaction [between large business and policymakers] 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 to keep an industrial faction from joining the moderate opposition. ...after ...1985 the top economic policymakers of those principal agencies were almost exclusively drawn from the ranks of experienced, technocratic, flexible, civil service officers. ... Beneath them, however, prominent businessmen header the sectoral ministries (Economy for industry and commerce, Agriculture, Mining, and Public Works) (Silva 1997, 166).

No longer were clientelism, personal ties and political threats the main forms of nexus between the State's and top policymakers and the financial elite—a fluid linkage that had previously defined the parameters of the radical neoliberal model. The peak business associations sought and received forms of State intervention that were broadly used in the era of ISI—'drawback' schemes of tariff exemption to facilitate the new orientation toward commodities-based exports for the emerging new industrial sectors, housing subsidies for the construction industry, price floors for the ex-hacendados and medium-sized farmers as well as for the copper mining industry. In response, private investment rose steadily in the non-financial sectors. Yet, the rentier ethos was only damped-down—when the opportunity arose in the 1980s and 1990s to acquire another round of privatized firms, the looting (saqueo) of public assets continued apace: Between 1985-89, 30 large parastate firms were privatized, with the subsidy to the private sector estimated to be in excess of \$ 1 Billion (USD) in terms of dollars in the year 2000 (Mönckeberg 2001, 22).

#### **D. “Democratic” Neoliberalism 1990-2004**

Indications of an economic boom began to emerge in 1986. In 1987 per capita income was the same as in 1981, but by 1998 it was 88 percent higher. By 2002 Chile had the highest average per capita income in Latin America. Workers, however, enjoyed average wage increases of only 53 percent 1987-98, and, because of wage losses that lasted for 22 years [1970-1992], 1998 wages were only 29.5 percent higher than in 1970. From 1970 to 1998, in contrast, average per capita income rose 105.3 percent (Banco de Chile 2001: 32, 50). By 1997 a triumphalist attitude had swept Chile. The message seemed to be that if a nation stuck to the precepts of neoliberal economics (through a difficult period of 'transition') the economy would eventually soar. Nonetheless, the model was *exclusive*, wages lagged very far behind the growth in average per capita income, as did the rate of growth in employment—forcing a rise in the so-called *informal sector*.

Thus, when the Democratic regimes commenced, under the *Concertación* alliance of center-left parties, a sustained economic boom was underway—Chile was favorably compared to the “tigers” of Asia, and commonly proclaimed as a “model” for Latin America. How to explain the long boom became a serious pursuit for many, including some specialists who had long been critical of the neoliberal model. One popular interpretation held that a new “Schumpeterian” strata of entrepreneurs had emerged alongside the structural change signaled by the emergence of the new commodities-based export industries (Montero 1997). Certainly, exports had soared throughout the boom—they were the leading sector. But, much of the sectoral shift to exports had been achieved *prior* to the

boom. The export/GDP ratio had risen from 12% in 1970 to 30% in 1985, but it remained at that ratio or lower through 1995 (V. Silva 2001, 12). Oscar Muñoz guardedly endorsed elements of “new entrepreneur” thesis—while also emphasizing the constructive role that State policies had played since the 19<sup>th</sup> Century in creating a new industrial bourgeoisie:

A diferencia de los grupos económicos de la década de los años 70, que se organizaron sobre la base de algunos bancos, estos nuevos grupos se basaron en empresas industriales [basado en *commodities*--JMC], comerciales y de servicios de larga tradición .

Se trata de avances hacia una mayor profesionalización de la gestión, introduciendo técnicas modernas de información y de planificación estratégica.

Las funciones tradicionales de la gestión [cambiaron]... Aparecen innovaciones como la búsqueda del mercado nacional e internacional, el control de calidad para adecuarla a los estándares internacionales, el uso de la sub-contratación y la mayor atención a los servicios al cliente.

En síntesis, las reformas económicas en Chile han esstimulado el desarrollo de una nueva cultura empresarial, que rompe con las visiones clásicas que caracterizaron a los empresarios (Muñoz 1995, 49).

Clearly, there was (and is) some substance to the claim that a new and more professional class of managers has emerged in *some* sectors. Nevertheless, the question remains as to whether these necessary changes have been widespread and irreversible. When the bloom faded in 1997, with per capita income rising only 3.4 percent between 1998 and 2002, while unemployment stayed above 9 percent, *Concertación* economist had no policy response. The “Schumpeterian” entrepreneurs where seemingly no longer to be found. Some call this period a *slowdown*, while small business owners refer to it as a *recession*, but *stagnation* might be a more accurate term. Export growth clearly stagnated—exports in 1997 in dollar terms were \$17 billion and virtually identical (\$17.4 billion) in 2002—as did per capita income.

One of the most telling indicators of the “new entrepreneur” hypothesis—and its corollary, the new “professionalized” macroeconomic policymakers—was the return of massive capital flight in 1998 and 1999. In fact, capital flight—equal to 9.6% and 12.3% of GDP in 1998 and 1999, respectively—was higher than in any other years of the entire neoliberal era (Bener and Dufour 2004, 38). Under pressure the “new” entrepreneurs appeared no different than the “old” predatory entrepreneurs. The “new, professional” economic policymakers were powerless, and silent, regarding the predatory practices of the *grupos nacional de poder* which had drained the circuits of capital as never before in modern times. Chile had gained notoriety in the 1980s for its imposition of capital controls on short-term financial flows. But in the 1990s those controls were eliminated.

Why this occurred should be set in a larger context: In the late 1990s the peak business organizations, particularly the CPC had adopted a much more aggressive stance in opposition to initiatives of the State than existed during the period of “pragmatic neoliberalism”. Within the CPC were two other extremely powerful business peak organizations—SOFOFA (Sociedad de Fomento Fabril, or SFF) and SNA (Sociedad Nacional de Agricultura). The SFF had once been strongly associated with CORFO’s ISI policies and broadly supportive of the initiatives of the 1940-60s to stimulate industrial, particularly manufacturing, development. The SNA had been the organization of the hacendados, and was now the organization of the remnants of the ex-hacendados and the new agribusiness elite. By the late 1990s, in the face of the dominance of the center-

left coalition of *Concertación*, the CPC shifted to the right and Chile's political polarization became much sharper: By 1999:

The hard right defenders of the military government's legacy now dominated both right wing politics and large-scale business elites. [And], the balance of power with the employer organizations had shifted to the hard-line elements of the Industrial Society (SFF). Over the past ten years, the SFF had grown increasingly dissatisfied with its subordination in the CPC and the CPC's willingness to compromise with Renovación Nacional [a conservative party] and the Concertación...In fact it briefly broke with the CPC in the late 1990s. By 2000 the SFF had rejoined the CPC and gained ascendancy within it (E. Silva 2002, 350).

In spite of the fact that it was commonplace to praise the "objective" macroeconomic management of the economy, the technocratic elite running the State apparatus in the economic areas were, apparently, powerless to challenge the unprecedented capital flight that occurred in 1998 and 1999. The degree to which the policymaking elite was limited by the agenda of the right became the subject of a mocking editorial in Agustín Edwards's extremely influential newspaper, *El Mercurio*. The *Chicago Boys* had made their public debut in the editorial pages of *El Mercurio* in the 1970s, and Edwards continued to offer the editorial pages to adamant neoliberals such as Hermógenes Pérez de Arce who proclaimed in late 2003:

Como ustedes no saben, pero debieran saber, la derecha en el mundo lo ha ganando casi todo:...la contienda ideológica, ... la supremacía económica del sector privado y el control político de gobiernos propios y de signo contrario. En este último hemos sido geniales, porque allí donde no tenemos explícitamente el poder, logramos hacer que los gobernantes izquierdistas pongan en vigor nuestras políticas. (Pérez de Arce 2003, 3).

As discussed below, the "Democratic Neoliberal" governments under *Concertación* have been able to make some important policy changes, particularly to address Chile's highly unequal distribution of income, yet economic

policymaking at the level of the State has been heavily constrained by the neoliberal view seeking a minimalist State.

### **III. Chile's "Resource Curse" and Path-Dependence**

Commonly used in development economics, the term "resource curse" aptly describes many Latin American economies, particularly that of Chile, since it has been relatively easy to rely on resource exports and Direct Foreign Investment (DFI) in resource intensive activities to spur economic growth. This relative ease has led to the relative neglect of a more difficult path to economic development—a determined ISI strategy which would pivot on the implementation of a flexible Industrial Policy. Rather than take this difficult path, Chile has become "path dependent" on agro-mineral exports, first with the salitre boom (nitrates) in the 19<sup>th</sup> Century, and then with copper. By 1970 seventy six percent of Chile's exports were copper. The copper mines were unionized and under Salvador Allende (1970-73) they had been nationalized. Even though the industry had been substituting capital for labor for decades, the military/Chicago-School dictatorship faced a looming paradox: ramping up copper production and other mining activities (Chile is the Persian Gulf of copper, controlling over 33 percent of the world's reserves) would pivot the economic policy on (1) the constant suppression of the militant miners, (2) the substitution of even more machinery and equipment for human labor—constituting massive investments. While a copper-led Industrialization strategy had much to recommend it, the military sought an easier path—pivoting growth on the export of forestry products, aquaculture, fresh fruit and wines.

Even though the State-led strategy for economic development did not, in the final analysis, lead to a coherent policy for the development of the copper industry, in terms of creating backward and forward linkages, copper resources were massively turned-over to foreign mining transnationals (TNCs). Between 1989 and 1995 \$11.5 B US dollars of Direct Foreign Investment was received by Chile. In contrast, during the entire dictatorship only \$5.3 B flowed to Chile. Sixty percent of the DFI received by Chile in the 1989-1995 period went into mining, virtually all into the private transnational copper mines which were allowed to expand under the dictatorship's new "constitution" of 1980. Chile controls 37 percent of the world's reserves of copper, and from 1974 to 1999, eighty percent of all new copper reserves discovered and developed in the world were found in Chile. (Moguillansky, 1999, 119-132).

Graciela Moguillansky attributes the mining investment boom to (1) the high rate of profit anticipated from the new mining areas due to extremely high copper prices in the 1986-89 period; (2) new technologies and new levels of productivity attained by the mining transnationals in the 1980s; (3) the perceived "stability" of Chile due to changes in the constitution and the mining laws which virtually assured the transnationals that a new pro-corporate/pro-DFI regime had been consolidated and made irreversible (Moguillansky 1999, 132). The vast bulk of the investment in copper mines has occurred under the *Concertación* governments. Thus, in theory, Chile had a higher potential to achieve a broad-based, socially rational, expansion of the copper industry *if* the *Concertación* government's had been willing to bargain with the TNCs, to control the direction

and pacing of that investment and to ensure that backward and forward linkages to the domestic economy were created, sustained and solidified. Indeed, a State-led policy to create a mining *cluster* could have also enabled a strategy of incipient support for the capital-goods industry, since nearly one-half of all the capital goods produced in Chile are for mining (Culverwell 2001, 78). Focusing economic development around a leading sector, copper, carried the potential of creating a “proyecto de acumulación” that might well become a “proyecto país”.

The copper industry in Chile is the first of several “proyectos de acumulación” to be examined because of its broad potential and also because of the extreme *laissez faire* policy adopted by the State in this vital sector. When the Chilean government opened up the vast mineral reserves to TNC capital it also unleashed a process that led to a global overproduction of copper, declining prices and a mining slowdown which was the chief detonator of the period of virtual stagnation in per capita income from 1997 through 2002. Between 1989 and 1994 Chilean copper production in the private sector increased by 197%, while CODELCO dropped production by 9%. Globally, the growth in Chilean production accounted for 111% of the growth in output. From 1995-1999, private sector TNC output increased by 165%—in this period Chilean production accounted for 77% of the increase in global output (Alcayaga and Lavandero 2001, 81). Rising production, to some extent, coincided with rapidly rising global demand during the boom years of the 1990s. Nonetheless, no boom could match the overall 172% increase in Chilean copper output, 1989-99—with the onset of the “Asian Crisis” in 1997 the overproduction of copper

became apparent. The copper bust went on until October of 2003 when a sustained price rise began. In April 2004 copper prices reached levels (\$1.40 lb) last achieved in 1995—but meanwhile the dollar had fallen strongly in 2003/2004 leaving the price (in real terms) still far below that achieved in 1995.

Any focus on Chile's mining sector immediately reveals a series of great opportunities forgone by the State as well as implicit consent for sweeping predatory activities carried out by the private mining sector. Highest on the list is "legal" tax evasion—since the Chilean government permits a number of activities that allows the TNCs to show a "loss" on their investment in Chile. Of the 47 copper TNCs operating in Chile only 3 showed profits and therefore paid taxes (Lavandero<sup>a</sup> 2001, 207). Senator Lavandero has become *the* outspoken critic of the copper policy: Working with a number of economists and specialists Lavandero has revealed the fact that the mining transnationals use a combination of transfer pricing schemes and fraudulent interest payments (the parent company "loans" funds to the Chilean subsidiary and then the subsidiary makes interest payments on these artificial/inflated "loans". Most of CODELCO's mines are extremely efficient which allows for a meaningful comparison with the newer and highly efficient mines of the TNC. In 1996 CODELCO paid taxes to the central government of \$860 a ton, while the private mines paid only \$156 per ton (Alcayaga and Lavandero 2001, 98). This suggests that the total mass of economic rents given by the State to the private mining sector (and taken by the private mining sector through transfer prices and fraudulent "debt" service) could have been as high as \$1.1 billion—assuming identical average cost structures.

(Obviously, not all these rents could have been captured by the State if production remained in the private sector—a normal rate of profit would have to be deducted from the above estimate.) In 1999 the private copper companies paid only \$350 million in taxes: By comparison, CODELCO paid \$858 million in taxes in 1994, even though its production in 1994 was only 39% of that of the private mines in 1999 (Alcayaga and Lavandero 2001, 81, 98; Lavandero<sub>b</sub> 60.).

These were not the only rents that the State relinquished, seemingly willingly, to the private TNCs in copper production. When the mining areas were turned over to the TNCs for exploration and production the State failed to perform proper assessments of the discounted present value of the ore reserves. It is impossible to reconstruct the complex transaction which occurred during the years when foreign concessions to exploit the ore reserves were granted. Nonetheless, it is conceivable that CODELCO was paid as little as 1% of the normal market value of the mineral reserves in some instances (Lavadero<sub>c</sub> 2001, 36-40). Since Chile's private mines pay no royalty—all other copper-producing nations charge a royalty—Senator Lavandero and his associates have initiated a political process in support of royalties that could become unstoppable. However, the *Concertación* government is currently (2004) working to deflect such an initiative and has suggested as a counter-proposal a meek gross profit tax (0-3%) on profits declared (EMOL 2004).

Beyond the question of royalties and the control of transfer prices and related matters, the larger issue in this sector pertains to the opportunities foregone in terms of turning the mining sector into the cutting-edge of a “proyecto

país”. Specifically, in the region of Chile where a network of linkages exists—Antofagasta—only 5.8% of the value of the inputs into mining (holding aside labor) are produced in the region (Culverwell, 2001, 79). Given the very low, and declining role of national manufacturing in the GDP (discussed below), and given the lack of technological autonomy in terms of national research and development (also discussed below) the probable inference to be drawn is that an extremely high portion the remaining 94% of the inputs into the mining sector are imported. Thus, a potential opening in terms of backward linkages would be to encourage, through a targeted industrial policy, manufacturing industries that could supply a wide range of inputs.

Chilean specialists are currently putting more emphasis on “horizontal” and forward linkages. Leopoldo Contreras of the Institute of Chilean Mining Engineers, believes that Chile has the potential of expanding horizontally by boosting exports of mining services and mining technologies and specialized mining equipment from \$2.5 Billion per year to \$10-\$20 Billion (Contreras 2003, 3). Meanwhile, the director of ASIMET (Asociación de Industriales Metalúrgicos y Metalmecánicos) believes that Chile could do much more than refine only roughly 1% of the copper metal produced—the rest being refined abroad (Lehuedé 2003, 3). Fully refined copper could be used as an input into a great variety of manufacturing processes. Currently in the electronics industry alone only one firm Coporin of the nearly 100 in this sector is Chilean. Coporin is located in the lowest value-added area, producing only copper wire and cables. All remaining firms in this sector, overwhelmingly operating at higher levels of

technological sophistication are either TNCs or joint-ventures (Electro Industria 2003, 44). One government agency with oversight in the copper sector, COCHILCO, estimates that the tendency to export unrefined copper cost Chile approximately \$400 million per year in the 1990s—these value-added activities are captured by the nations that refine Chile's copper, thus constituting, from Chile's perspective, another economic rent for the TNCs (Lavandero, 2001, 15). While it is impossible here to explain with any detail the vast opportunities for development foregone through a lack of a coherent "proyecto país" (or even a sectoral "proyecto de acumulación") it seems unquestionable that the preponderance of evidence presented above illuminates a situation rife with predatory practices demonstrating simultaneously "market failure" and "government failure".

Even though Chile made major, and perhaps irreversible concession to the copper TNCs in the early 1990s, the State retains CODELCO, the largest and perhaps most efficient copper mining company in the world. CODELCO's large, professional labor force could become the operational basis for strategies to develop forward, backward and horizontal linkages. In no other area could the Chilean State move so easily or broadly, with such diverse and important ramifications, to realign the economy. How such an endeavor might unfold will be discussed, by implication, in the following section.

#### **IV. Typologies of the State**

Peter Evans' research has been extremely useful in terms of concepts and interpretations that allow for a stronger theoretical presentation of the role of the

State in the economy (Evans, 1995). Unlike neoclassical/neoliberal economics—the State is an *endogenous* element of any national economy. In contrast, in the neoclassical paradigm the State is viewed as *exogenous* and no attempt is made to present a theory of State action.<sup>2</sup> Evans' research point to three possible State forms: 1. The Predatory State, 2. The Intermediate State, 3. The Developmental State. These are static categories in Evans' presentation—movement from one form to another can be inferred, but is not presented.

### **A. The Predatory State**

A Predatory State is dysfunctional by every possible measure. A Predatory State has no “proyecto país” nor does it have “proyectos de acumulación”. A Predatory State could be the “captured” agent of TNC capital, or it could operate without any exterior influence. In any case, the Predatory State will not consider issues of sustainability in regard to natural resources, State-Owned Enterprises will not be operated efficiently to fulfill national development goals, no merit-based system will exist in terms of requirements for State employees who administer the State apparatus. Corruption will be rife, the State will be unstable and fragile. The minimalist functions of the State—those to which the neoliberals believe the State must be confined to—cannot be achieved because the police, the military, the judicial system (all needed to preserve a regime of law and sanctity of property rights) will be decimated by endemic, systemic corruption.

Chile, clearly, began to exhibit some of the characteristics of the Predatory State under the military dictatorship through a sustained process of human rights

violations and the targeted crushing of the autonomous labor unions. Yet, at the same time, the dictatorship sought some degree of legitimacy via some support programs for the poorest, and it also sought to foster some “proyectos de acumulación” (Huneus 2001). Far from being merely theory-driven technocrats, many of the most zealous *Chicago Boys* engineered corrupt privatizations and otherwise abused their authority—often for personal gain—as noted above.

### **B. The Intermediate State vs. the Developmental State**

Evans’ second typology describes a State that operates areas of efficiency, but yet is unable to mount a coherent “proyecto país”. For whatever reason, this State lacks the *embedded autonomy* which is a requisite for the Developmental State. Embedded Autonomy is Evans’ key concept: In such a construct the State has to be an autonomous actor, capable of presenting a coherent vision and acting on this vision. The State will be in a position to offer to the private sector incentives to enter into or expand certain areas of economic activity. But incentives given demand reciprocity in terms of compliance by the private sector. Nonetheless, the State’s autonomy is limited, conditioned on the fact that the State is embedded in civil society. This demands a fluid and complex web of relationships between the public and private sphere. Embeddedness means that the State is not “above” or autonomous from the business sector, but neither is it “below” or captured by the business sector.

Given this formulation, there seems to be ample evidence to demonstrate that Chile has an Intermediate State today. Chile exhibits ‘pockets’ of efficiency

in terms of the role of the State in the economy—some of which will be reviewed in the following section. But it also shows major areas of deplorable inefficiency and capture by the business sector—the best example being in the key copper sector as reviewed in the previous section. Another extremely important example was the failure of the State to address the long-standing issue of capital flight, as discussed in part II, above.

### **C. Industrial Policy in the Developmental State**

The best available sustained examination of the broad range of Industrial Policies and ISI policies has been presented by Alice Amsden (Amsden 2001). Latin American nations, Chile included, were generally unable to shift from a relatively passive general ISI framework to a active and agile Industrial Policy. Industrial Policy, unlike a general ISI strategy, demands both embeddedness and autonomy of the State. Figure I, below, illustrates a general range of Industrial Policies applied in Asia by the most dynamic economic performers in the last half of the 20<sup>th</sup> Century: These specific elements of Industrial Policy are examined in detail by Ha-Joon Chang and can only be discussed peripherally here (Ha-Joon Chang, 2003). Perhaps the most important underlying component of the Developmental State is the capacity to engineer a *strategy switch*. *Strategy switches* require a State to define, express and execute a “proyecto país” and to be flexible enough to realize that any created comparative advantage will eventually prove to be inadequate. When the nation begins to experience diminishing returns the State must be able to abandon a previously encouraged sector—it must fulfill the “sunset function” (number VI). This is achieved through

**Figure I. EFFECTIVE INDUSTRIAL POLICIES OF EAST ASIA:  
A CASE FOR STATE INTERVENTION**

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- I. COORDINATING COMPLEMENTARY INVESTMENTS IN PRESENCE OF SIGNIFICANT ECONOMIES OF SCALE (BIG PUSH)
  - II. CREATION OF “IMPLICIT CARTELS”: STATE-LED NEGOTIATIONS WITH TNCS
  - III. INITIATING INDUSTRIAL TRAINING—CREATING LEARNING EXTERNALITIES
  - IV. “MANAGING COMPETITION”: COORDINATING INVESTMENTS ACROSS COMPETING FIRMS--CUTS EXCESS CAPACITY IN OLIGOPOLIES  
(E. ASIA’S MOST IMPORTANT IND. POLICY COMPONENT)
  - V. ALL-OUT PURSUIT OF SCALE ECONOMIES (REDUCING COSTS 30-50%)
    - A. COST COMPETITIVENESS
      - 1. INVESTMENT LICENCING
      - 2. FORCED MERGERS
      - 3. EXPORT REQUIREMENTS
    - B. LUXURY CONSUMPTION CONTROL
      - 1. RESTRICTION TO FEWER MODELS MANUFACTURED
  - VI. PROMOTING STRUCTURAL CHANGE
    - A. PICKING WINNERS (SUNRISE INDUSTRIES)
    - B. HELPING LOSERS (SUNSET INDUSTRIES)  
(SPEEDING TECHNICAL CHANGE BYCUTTING INSTITUTIONAL DRAG AS LOSERS USE POLITICAL LEVERAGE OR INTERNAL TECHNOLOGICAL CONTROL TO STOP R & D AND PRODCUCT DEVELOPMENT THAT WILL TERMINATE PART OF THEIR EXISTING CAPITAL STOCK)
  - VII. MAINTAINING AN INDEPENDENT TECHNOLOGICAL CAPACITY
    - A. LEARNING
    - B. CREATING
- 

a broad range of strategies designed to encourage a (largely) orderly transition from one area of emphasis to another. In the aftermath of the coup in 1973, Chile abandoned its manufacturing core, but it did so without regard to the effects of this structural change. The lasting effect is that Chile does not have a viable manufacturing sector, and this means that it cannot derive the productivity enhancing externalities that flow from a viable manufacturing sector—the essence of Verdoorn’Law, which Chile has ignored (Verdoorn 1998).

The military dictatorship under the guidance of the *Chicago Boys* engineered a predatory strategy switch—developing manufacturing had been the

core of the State's ISI policy. Hence, to destroy the socioeconomic framework that the neoliberals claimed was the central reason for Chile's relative economic backwardness—allegedly inefficient State-Owned Enterprises and supported private-sector manufacturing firms associated with a dynamic unionized labor force—the neoliberals privatized without regard to the macroeconomic context and the opened the economy to lower cost international producers without regard to the dynamic effects to Chile's emerging industrial/manufacturing base. This helped insure that Chile's technological capabilities, with some notable exceptions, remained nearly non-existent (discussed below). Tables I, below, traces the recent trajectory of the manufacturing sector: In Chile this relationship is often presented in an unclear manner, with much emphasis placed on the growth of "industrial" exports—actually commodities that have undergone some, often minimal refining processes. Table II, below presents data on the key export sectors:

**Table I. Chile: tasa de industrialización: Sector Manufacturero/PIB**

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|  |                                |
|--|--------------------------------|
| 1950-1987 (precios constante de 1977)                |                                |
| 1950   | 20.8%                          |
| 1960   | 22.3%                          |
| 1970   | 24.7%                          |
| 1975   | 21.5%                          |
| 1980   | 21.6%                          |
| 1987   | 20.8%                          |
| 1987   | 17.6% (precios constante 1986) |
| 1990   | 17.5%                          |
| 1995   | 16.2%                          |
| 2000   | 14.4%                          |
| 1996   | 17.5% (precios constante 1996) |
| 2000   | 16.3%                          |
| 2002   | 16.0%                          |
| Cambios adentro de las epocas en precios constantes: |                                |
| 1970-87  | 3.9% PIB                       |
| 1987-1996  | 2.0% PIB                       |
| 1997-2002  | 1.5% PIB                       |

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**Declinación del sector manufacturero 1970-2002: -7.4% PIB**

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Source: (Banco de Chile, 2001)

**Table II: Relative Shares of Chilean Exports (%)**

|                        | 1975  | 1985   | 1995   | 1998   |
|------------------------|-------|--------|--------|--------|
| Exports (\$ Billions)  | \$1.6 | \$3.85 | \$16.0 | \$14.9 |
| Copper (%)             | 54    | 47     | 40     | 34     |
| Primary Materials      | 19    | 18     | 13     | 12     |
| First Stage Processed  |       |        |        |        |
| Natural Resources      | 14    | 24     | 25     | 26     |
| Second Stage Processed |       |        |        |        |
| Natural Resources and  | 12    | 11     | 22     | 27     |
| Other Manufactures     |       |        |        |        |

Source: (V. Silva 2001, 13)

Note the last category—a slightly higher level of processing designates that the natural resources have been converted into “manufactures”. With this sleight-of-hand, Chilean policymakers began to portray Chile not as a deindustrialized nation but rather as a nation with a growing “manufacturing” sector—based in raw materials. Thus, to those who did not understand the new categories, Chile was viewed as a nation that was successfully achieving export-led growth not in raw materials, but in “manufacturing”. Note also that by 1985 the shift to First Stage Processed Natural Resources was no longer a leading sector driving growth. Essentially, the same effect is to be found in Second Stage Processed exports after 1995—a jump from 11% of exports in 1985 to 22 percent in 1995 occurs. The 1998 number in this category suggested that growth continued; however, it did so at a much slower rate (the average share for 1990-94 was 20% and this rose modestly to 23% in the 1994-98 period).

Efforts to stop the slowing of the rate of growth of Second Stage Processing became a major theme in the 1990s as many economists stated their belief in the continuance of the 1987-97 boom based on “La Segunda Fase

Exportadora”. As proposed, Chile would diversify its exports, emphasize more the Second Stage process, increase value-added and enhance the indigenous technological component of these commodity-based exports—this new step would also entail the rapid development of linked service components in these exports. As proposed this constituted an effort to articulate a new “proyecto país”. This vision stood in contrast to several other attempts to articulate a “proyecto país”—but it was the one proposal that implied a strategy switch with only marginal changes to the socioeconomic base of Chile (Muñoz 2001, 17-66). But, in the course of the 1990s nothing of any great note was done to alter the production system of the economy—instead, the *grupos nacional de poder* shifted some of their resource activities out of Chile and they moved into the service sector seeking the rapid returns. The difficult, capital-intensive, technology-intensive process of pushing their activities up the value chain did not appeal to the *grupos*. Instead (Figure 2) they virtually stopped investing, and (as



mentioned) they engaged in high levels of capital flight beginning in 1998. In short, while the growth trajectory until the late 1990s was strong, when Chile reached a moment for a *strategy switch* the neoliberal economic apparatus of the State did not exhibit either the necessary autonomy or embeddedness needed. Instead, Chile became devoted to signing as many trade agreements as possible—including the 2003 Free Trade Agreement with the US. This trade agreement, along with the soaring prices of copper, wood products and some other raw materials should allow for a year or two of strong growth. Nonetheless, Chile will return to what Jorge Katz referred to as the “stationary state”—meaning in this instance a “stationary” low growth rate which will allow for near stagnation of per capita income, as was the case from 1997-2002<sup>3</sup> As Moguillansky stressed, Chile’s financial/industrial groups are disinterested in technological modernization—in a study of 15 similar nations, the UN ranked Chile next to last in its index of technological capabilities, and 13<sup>th</sup> in terms of expenditures on research and development (R&D) by private firms.

## **V. The Intermediate State in Chile**

While Chile has made some notable achievements in its recent economic past it owes much of that success to policies and institutions created in the ISI era, or to entities that derived from that era. As these institutions have been weakened with time due to the steady pressures exerted by the neoliberals to destroy such institutions, Chile’s potential for making a necessary *strategy switch* and articulating and engineering a new “proyecto país” continues to decline.

### **A. Proyectos de Acumulación**

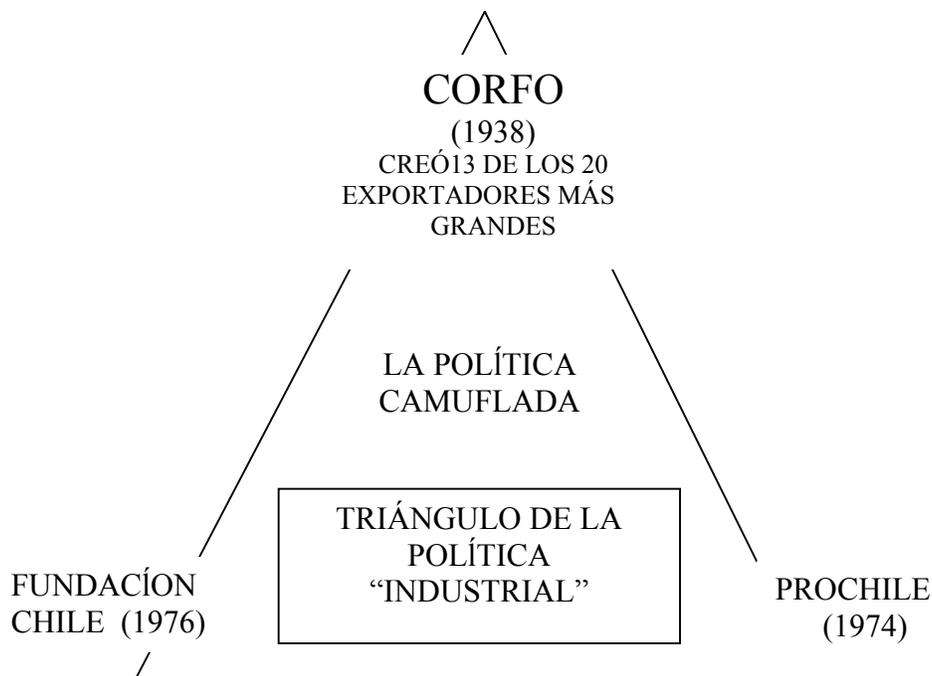
As noted above, the Intermediate State is noted for its “pockets of efficiency” and for its ability to achieve limited transformations in some sectors. Specifically, Chile has been able to realize many important “proyectos de acumulación through three key State institutions: Chile’s development path was established by CORFO (the state development agency) from the late 1930s onward. CORFO was responsible for the creation of the great bulk of Chile’s industrial sector from 1940 to 1974: A 1993 study pointed out that of the 20 top private exporting companies, at least thirteen had been created by CORFO (Alvarez, 1993).

For awhile under the dictatorship it seemed that CORFO’s mission was to assist the sell-off all the state-owned firms, and then disappear. But, CORFO continues to exist, and after the great crash of 1982-85 CORFO became more active in the funding and development of new firms that were geared toward the export market in the resourced based sectors. Furthermore, CORFO was responsible for the funding and creation of the forestry sector—a strategy that CORFO had advocated and supported for decades prior to the coup. Thus, while the Chicago School economists have portrayed the boom in forestry products (the largest export sector after mining) as a result of good policy and private initiative, the real story is that CORFO struggled to *create* a new comparative advantage. Private capital would not take the risks and lacked foresight to develop the forestry sector.

The same was true for the salmon industry (and fishing in general) as well as most of the developments in fresh produce and processed food: Rather than

the invisible hand moving through market forces, the visible (but largely unknown) hand of *Fundación Chile* was responsible for most of this diversification by underwriting technological experiments and initial funding in these areas (Huss, 1991). *Fundación Chile* began in 1976, with the assistance of a prominent economist (Raúl Saez) who had headed CORFO for many years. Like many of the military leaders, Saez was contemptuous of the pretensions and ignorance of the Chicago School neoliberals. With CORFO under attack by this cadre, Saez moved laterally and gathered a group of experts who have achieved major changes in the productive apparatus of the Chilean economy. If we examined the causes of Korea's or Taiwan's or much of Asia's recent economic development we would find incubating institutions like *Fundación Chile*—but these nations have consciously avoided neoliberal free trade policies. Instead of *accepting* the dictates of the market, they have sought to *govern the market*. In a

**FIGURA III: INTERVENCIÓN DEL ESTADO**



similar vein one finds ProChile, a government agency created in 1974, designed to assist the private sector in locating and marketing to foreign markets. Today many of the activities of ProChile are coordinated with support programs fostered by CORFO. Although the “política camuflada” has been one of sizeable State intervention and support for production—encompassing many other areas not discussed here<sup>4</sup>--there is no one unifying concept behind the production promoting activities of the State.

### **B. Proyectos de Legitimidad: Concertación Programs**

Of greatest note, *Concertación* policies pushed the rate of poverty down from 45.1 percent of the population in 1987 to 20.6 percent in 2000 (Ffrench-Davis 2003, 320).<sup>5</sup>

It is possible here merely to mention three new, creative programs that *Concertación* has introduced (or attempted to introduce) in the past three years: *Chile Solidaridad*: This innovative program (begun in 2001) is designed to eliminate extreme poverty (indigence) in Chile by 2006. It is also designed to reduce non-indigence poverty while creatively orchestrating programs in housing, health care, urban facilities, education, food subsidies along with income support programs that approach “poverty” in a much broader context than a defined income level. *Chile Solidaridad* is premised on the view that empowerment is the objective of the program—not merely income support. This program will potentially lift 5.7 percent of the population (roughly 900,000 individuals) out of extreme poverty. As of late 2003 the program was “on track”—the annual rate of

decline in indigence, if maintained, will eliminate extreme poverty in 2006.

(Ministerio de Planificación, 2003, 1-9).

*Programa de Cesantía (Unemployment Insurance)*: Unemployment insurance is virtually non-existent, although it may exist by statute, throughout Latin America. Begun also in 2001, Chile's program now has 1.7 million affiliates—about 28 percent of the labor force (servants and houseworkers and the self-employed are excluded). All newly hired workers from 2002 forward will be automatically incorporated into the program. After 12 months of payments, unemployed workers are eligible for replacement of 30-50 percent of their previous wage (Estudio Juridico 2003).

*Plan Auge (Universal Access to Health Care)*: With the full backing of *Concertación*, an ambitious program to deliver a broad array of health care programs to all Chileans (some without cost, some with modest co-pay arrangements) was introduced into the legislative process in June 2002 (Ministerio de Salud 2002). Although some aspects of the Plan have raised debate, a modified and weakened version of *Plan Auge* will allow for a minimum health plan available to all of its citizens in 2005. This stands in stark contrast to the Chicago School's attempt to fully privatize health care in Chile.

## **VI. Conclusions**

The Chilean State has demonstrated its capacity to achieve “pockets of efficiency” and to sustain important “proyectos de acumulación”. Major efforts have been made to promote “proyectos de legitimidad” under the reign of the *Concertación* governments. Their crowning achievement has been to drive the

poverty rate dramatically down at a time when throughout Latin America the poverty rates have remained brutally high. At the same time, *Concertación's* focus on issues of production has been blurry. No movement toward a “proyecto país” is to be found, nor has any *strategy switch* been promoted. The dynamic thrust of the policy triangle of Chilean Industrial Policy is weakening—the State appears unable to mount new “proyectos de acumulación” of any consequence. Instead, *Concertación* seeks a passive neoclassical/neoliberal “solution”, signing major Free Trade Agreements with the US and the EU in 2003. Predatory practices abound—the State has no policy to either stop capital flight or the saqueo of the copper sector by the TNCs, while tax evasion remains a major (largely) unaddressed factor. In an effort to address the critical lack of technological capacity *Concertación* appointed Álvaro Díaz (the Economic Undersecretary), to a new “embedded” public-private committee for the national advancement of Information Technology in early 2003. But this needed step fell far short of a technological policy or strategy, and the technological gap between Chilean producers and many developing nations—particularly Asian nations—continues to widen.

Behind the current short-term commodities boom, Chile's export-led model appears exhausted. Far from being a “successful” model of adaptation to “globalization”—to inspire the rest of Latin America—Chile's economy is mired in an “stationary” state trend of near-constant per capita income. 19<sup>th</sup> Century style commodity booms and busts can cause deviations from this trend. Only a shift toward the Developmental State, complete with a *deep* Industrial Policy (as

depicted in Figure I), will end Chile's malaise. And the powerful neoliberal faction will struggle to foreclose this *salida*.

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#### NOTES

<sup>1</sup> “Many of the key Chicago Boys...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\*. 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. That access allowed them to discuss policy reforms with the policymakers; and according to [Juan Villarzú—budget director from 1974-75] the directors of privileged conglomerates participated with increasing frequency in key policy meetings, and that clique eventually froze out all opposition to their views” (Silva 1997, 159).

\* “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. Significantly, these were the same conglomerates that had organized business resistance against Allende...and collaborated with the military in the conspiracy to overthrow [him]” (Silva 1997, 159).

<sup>2</sup> Anne Krueger, a influential neoclassical economist, has maintained that the State can be understood as an endogenous component of a national economic system. For Krueger, however, the State is no more than a area wherein rampant rent-seeking occurs, by the agents of the State. Thus, in this formulation, no State policy could ever be effective—except by accident—since the people who create an implement policy are only interested in using the State apparatus as an instrument for personal accumulation of wealth and power. In this section no direct reference will be made to Krueger's views. For further analysis see (Cypher and Dietz 2004 Ch 7).

<sup>3</sup> Personal Interview, 3 de octubre, Santiago, Chile.

<sup>4</sup> A full survey of forms of Chilean State Intervention in the neoliberal era has yet to be written. See Enrique Román for a discussion of the scope and the financial commitment made to the State's smaller development programs (many linked to CORFO) (Román 2003).

<sup>5</sup> The Chicago School economists would argue that the decline in the poverty rate was due to the economic growth of the period, not to the “interventionist” policies of Concertación. However, Patricio Meller has differentiated between the effects of growth on poverty reduction and the effects of policy changes on poverty reduction. This research demonstrates that in the 1990-1996 period as much as 50 percent of the decline in the poverty rate was due to policy changes designed to distribute income to the poor, with the residual being explained by economic growth (Meller, 1999, 48-55).

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