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Towards a Third Way? Power and Politics in Post-Dictatorship Chile

This chapter examines the circumstances that led to the political breakdown of the Pinochet dictatorship and the rise of the post-dictatorship coalition government known as the Concertación. Although the election of the Concertación was widely expected to precipitate a radical break with the policy direction of the dictatorship period, most observers have highlighted notable policy continuities, particularly in macroeconomic management and labour policies. At the same time, altered political discourses and new initiatives in the area of social policy, have led to the recognition that the Concertación period has marked a new moment in Chilean neoliberalism. Proponents have suggested that the Concertación approach represents a progression toward a 'Third Way' strategy that stands between neoliberalism and social democracy by retaining the neoliberal emphasis on market-driven economic dynamism yet recognising that market failures require repeated state interventions. Nonetheless, in spite of these changes, there has been a relentless unease within Chilean society and amongst the coalition parties that progress in addressing the social contradictions of the Pinochet era has been muted.

To help explicate and explain the causes and areas of both policy convergence and rupture between the dictatorship and Concertación, the current chapter examines the nature of the dictatorship's defeat and the institutional and material basis of the incoming Concertación coalition government. On the one hand, the Concertación faced substantial pressures from its popular base to address the contradictions of the restructuring period manifested in ubiquitous insecurity and impoverishment imposed through low wages, disciplinary labour markets and welfare retrenchment. On the other, three principal constraints on the Concertación's political practice restricted the Concertación's response: first, the balance of social forces in Chile in the post-dictatorship period; second, the institutional form of the post-dictatorship state; and, third, constraints imposed by the trajectory of capital accumulation in Chile following two decades

of neoliberal restructuring. Such factors, it is argued, have led to the development of what can be termed 'politics within limits' manifested in the Concertación's 'growth with equity' programme. The latter represents a sophisticated political strategy that seeks simultaneously to mediate the contradictions of neoliberal capitalist development while reproducing the core institutions. As such, it is representative of many of the trends of 'Third Way' neoliberalism at a global level. Moreover, it is a strategy replete with contradictions and the present chapter highlights its underlying fault lines before the following chapters elaborate more specific instances.

POLITICAL PROTEST AND THE DEFEAT OF THE DICTATORSHIP

The cataclysmic drop in social conditions following the 1982 crisis debacle fuelled existing political discontent throughout Chilean society which had to that point been partially controlled through repression. The contradictions of neoliberal restructuring became brutally manifested in exacerbated levels of poverty and inequality and the society-wide insecurity created by the destruction of protective institutions such as labour regulations and many welfare policies. The neoliberal ideal of a harmonious society of private individuals relating to each other through market exchanges evaporated as collective organisations formed to meet local needs and to protest against the dictatorship's project. Organised resistance was given an immediate impetus by the labour movement, driven by the copper workers, which had been seeking ways to protest the repressive hue of the regime's labour code since its implementation in 1979. Although the dictatorship's reforms were intended to instil a long-term individualisation and fragmentation of labour relationships, the initial result was a politicisation of the workplace given that established labour movements resisted the imposition of new power structures between workers and employers (cf. Winn 2004c). However, fearful of the state repression that had been levelled against strikes in the preceding years, the labour movement decided to call for generalised street protests as an alternative form of struggle that would avoid recriminations in the sphere of production and possibly generate a large enough movement to dampen the prospect of coercive suppression by the military.

This strategy proved relatively successful. In spite of the spectre of violent repression, numerous highly visible public protests occurred in most major cities, therein helping to forge tentative links between

the labour movement and other opposition forces. Nonetheless, the early protests remained sporadic, driven by an eclectic mixture of labour groups and social movements, including shantytown dwellers (*pobladores*) and clandestine political organisations. As argued by Alejandro Fernández, the mobilisations did not constitute a single centralised movement, but were the point of convergence of several sectoral mobilisations with different degrees of organisation, spontaneity and combativeness (Fernández Jilberto 1993). It was only with the dislocation caused by the 1982 recession, added to the emergence and consolidation of contending oppositional leaderships, that a sustained protest movement emerged with added vigour between 1983 and 1985. The neoliberal belief that dramatic state-led restructuring could eradicate the impetus for collective forms of social mobilisation through the creation of institutions that promoted private market relationships proved spectacularly misplaced.

The first of a new and larger wave of protest erupted in May 1983 and regular demonstrations subsequently became a constant feature of the political panorama until the defeat of the dictatorship at the close of the decade. Although the labour movement and the urban poor remained the primary social base of the protest movement, opposition transcended class lines to include sections of the middle classes and bourgeoisie (De la Maza 1999: 378; also cf. Salman 1994; Oxhorn 1995; Roberts 1998a). The latter had largely been locked out of decision-making processes since the mid-1970s, a situation deemed intolerable when combined with the heavy losses incurred during the debt-crisis period (Silva 1996). Moreover, the emergence of armed opposition, inspired by the Nicaraguan Sandinista Revolution of 1979, increased the sense of an escalating political crisis within Chile and worried the United States government. The unsuccessful assassination attempt on Pinochet in September 1986 was both the highpoint of the armed resistance, but also the confirmation of its wider political failure.

In the years following 1985, the intensity of the protests began to wane and Pinochet once again appeared to be more secure in his position. Within the opposition, a more consolidated directorship of the anti-dictatorship movement began to coalesce around a group of moderate politicians connected to the old political parties and organised within the protective auspices of the Catholic Church. This led to the emergence of a political opposition cadre in 1984 called the *Alianza Democrática* (Democratic Alliance). The *Alianza Democrática* was able to prosper over other political groupings,

particularly the more radical *Movimiento Democrático Popular* (Popular Democratic Movement), owing to its willingness to insert itself into authoritarian political structures, endorse liberal capitalism, and to court business and international support. Its two primary constituent forces, the old Christian Democrat and Socialist parties, had both undergone processes of reconstruction within the political environment of the dictatorship. Each placed the resurrection of a formal democratic state at the centre of their political practice and by the late 1980s both parties had announced strong support for an export-orientated development policy predicated on neoliberal macroeconomic management (Roberts 1998b: 163).

Ideological renovation was most profound in the Socialist Party and contributed to a deep rupture amongst the parties and movements of the left. On the one hand, the dominant tendency within the party came to the conclusion that, with certain modifications, neoliberal macroeconomic management was fundamentally sound and needed to be retained to maintain the stability and dynamism of the Chilean economy. On the other, the party reinvented socialism as a process of institutional change aimed at attaining and deepening democracy through the provision of greater civil and social rights within the framework of liberal capitalism (Petras and Leiva 1994). In short, there needed to occur a process of rebuilding social institutions that promoted equality of opportunity within existing economic structures. This shift facilitated the common cause of the Socialists with the Christian Democrats and provided the ideological framework for the moderate wing of the opposition to the dictatorship. In contrast, the Communist Party and smaller radical groups remained committed to an insurrectionary counter dictatorship line, more radical visions of social transformation and the reversal of the neoliberal social restructuring.

Against this background, the *Alianza Democrática* began to focus its political strategy on the institutional openings present in the dictatorship's constitutional amendments of 1980 (Fernández Jilberto 1993). The latter, promulgated at a moment when the insecure political foundations of the dictatorship pressured the regime to consolidate its institutional basis, provided a constitutional provision for a referendum in 1988 that offered a choice between a further eight years of Pinochet's 'protected democracy' or a return to civilian rule. With the United States government of Ronald Reagan moving from a position of resolute support for Pinochet to an emphasis on 'democracy promotion', there was mounting international pressure

for the regime to comply with the referendum process that it had established. Moreover, the US encouraged the regime to guarantee some media access to the opposition and to allow international observers to validate voting practices (cf. Robinson 1996).

Approaching the date of the plebiscite the regime arrogantly yet sincerely believed that a comprehensive victory would reinforce its legitimacy by displaying wide popular backing for the project of subordinating society to the discipline of the marketplace. Its campaign emphasised the social order and economic growth that characterised the second half of the 1980s, and contrasted this to the anarchical situation at the fall of the Allende regime, which it suggested would re-emerge if the dictatorship's 'protected democracy' was removed (Paley 2001: 120). The regime, however, placed too much faith not only in its control of the media but also, more generally, in the ideological fortitude of its 'economic miracle' and the appeal of its proclaimed 'market democracy'. It therein greatly underestimated the strength of the opposition and, despite the major advantages of intimidation, public expenditure and media manipulation, the dictatorship was shocked to find itself voted out of power by a margin of 54 to 46 percent.

Although Pinochet was loathe to accept the result, important sections of both the armed forces and the business sector acquiesced to a transition to civilian government and this, alongside international pressure from international bodies including the US State Department, ensured that the referendum was respected. In 1989 national elections were held and resulted in a comfortable victory for a centre-left coalition led by the Christian Democrat and Socialist parties called the Concertación, the leaders of which had played major roles within the Alianza Democrática. Notwithstanding defeat at the plebiscite and in the subsequent election, the constitutional framework under which the referendum had taken place provided the regime with over a year's grace period in which to prepare for the transition. As the following section details, the dictatorship would use this period to reaffirm the shape of Chile's future institutional structure in a manner consistent with the overarching tenets of neoliberal social transformation.

DEMOCRATISATION AND THE LIMITS TO THE POST-DICTATORSHIP STATE

As the climax of considerable political mobilisation, the fall of the Pinochet dictatorship in 1989 seemingly ushered in a new epoch for

Chilean politics. The social basis of the incoming Concertación regime was precisely the popular mobilisation that had emerged to combat the dictatorship and that had subsequently delivered a clear electoral victory to the coalition. Although there was widespread recognition of the limited character of the victory over the authoritarian state, expectations remained high that the first Concertación president, Patricio Aylwin, would harness popular social forces in a political movement directed against the perceived excesses of the dictatorship's authoritarian neoliberal technocracy. For their part, the Concertación leaders announced a prospective programme of labour law reform, tax code revisions, increased social expenditure, new social programmes, a review of human rights violations, and constitutional reform (Silva 2002: 344). Having focused on the removal of the Pinochet regime, it was now anticipated that political practice would at this time centre on democratising society and the state (Barton 2002: 367; Haagh 2002a).

In essence, this project established a liberal form of social democratisation as its primary goal through which the regime would rebuild social institutions through which civil and social rights could be extended to those marginalised within the restructuring process. At its most radical moments, the programme appeared to offer a fundamental reconstruction of labour and welfare institutions in order to reshape the prevailing trends of inequality in income and power that permeated Chilean society. Nevertheless, a combination of structural and contingent factors would decisively condition the Concertación's possibilities of action, leading to a situation in which the new regime would maintain and even deepen the pivotal tenets of the neoliberal social transformation undertaken in the dictatorship period while failing to deliver the expected degree of civil and social democratisation. To explain this disjuncture, the following sections examine three factors in turn: the institutional form of the post-authoritarian state; the balance of social forces; and the structural constraints of capital accumulation within the global context.

AUTHORITARIAN ENCLAVES AND THE FORM OF THE POST-DICTATORSHIP STATE

In spite of the victory of the anti-dictatorship forces in the 1988 plebiscite, the military regime had not been overwhelmed by popular mobilisation. Rather, it suffered defeat within the parameters of a political framework that it had established in the 1980 constitution.

Crucially, this provided the constitutional grounds for the regime to retain provisional hold on all key aspects of institutional power during the transition period, which lasted until Pinochet formally rescinded power on 10 March 1990. Bolstered by the constitutional provisions that allowed it to preside over the transition, the authoritarian regime enjoyed an extremely powerful position from which to influence the institutional form of the post-authoritarian state. In the period between the plebiscite defeat and the elections of 1989, the military regime and civilian representatives negotiated the constitutional framework for the transition of power. Within this process the outgoing authoritarian regime ensured, not least through the active promulgation of legislation that continued until the final day of the dictatorship, that there existed multiple institutional safeguards (known as 'authoritarian enclaves') to impose moderation upon the incoming elected government by strengthening state institutions that would act to maintain the status quo.

Of particular importance for the embedding of the neoliberal project was the creation of an independent Central Bank by the Pinochet regime in 1989. Following the dictatorship's referendum defeat, there existed considerable consternation amongst the business elite that an incoming elected government would not continue the monetary policies that underscored the export-orientated shift in the Chilean economy. Given that the status quo of macroeconomic policy greatly aided the large economic conglomerates that had consolidated over the Pinochet period, substantial pressure was placed on the outgoing dictatorship to insulate the Central Bank from the incoming elected government under the guise of safeguarding economic stability from the potential actions of politically motivated elected governments with a short-term mentality. Consequently, a law promulgated in 1989 made the Central Bank autonomous and legally insulated it from the influence of the Minister of the Hacienda. In place of control from the Hacienda, the bank was to be governed by a five-member board, each of whom would serve for a period of between two and ten years and could only be removed under a strictly defined set of circumstances. Furthermore, Senate approval would be a necessary prerequisite before appointing any new personnel. This shift did not represent a decrease in the power of the state, but rather a transfer of that power between state institutions. The aim was to 'depoliticise' macroeconomic management by removing it from the ambit of democratic politics and assigning it to an independent

board of technocrats who would ensure continuity of the aims and mechanisms established in the Pinochet period.

Significant reforms also were made to political institutions and the judiciary to constrain further the Concertación's ability to challenge the status quo. These measures included the appointment of nine designated senators – including one from each branch of the armed forces and the national police – that would ensure that the political right enjoyed a majority in the Senate; the appointment of Pinochet as a lifelong senator and commander of the armed forces; and an electoral system that served to create an over-representation of the parties of the right (cf. Taylor 1998; Portales 2000; Siavelis 2000). These reforms were of singular importance in strengthening state institutions that fortified the social power of money and private property through which the class structure of Chilean society is reproduced. In so doing, the dictatorship sought to ensure that the Concertación could not directly challenge the institutional basis of neoliberal social transformation.

Such particularities of the post-transition state have therefore greatly abetted the reconciliation of the Concertación with a neoliberal trajectory by imposing political limits on the possibilities of government policy and also by serving as an expedient device by which the Concertación has been able to justify its moderation to the popular constituency. It is important to highlight, once again, that these institutional idiosyncrasies did not represent a weakening of the Chilean state. On the contrary, various elements of the state apparatus, such as the Central Bank and judiciary, have been strengthened and the state as a whole remains a pervasive force within Chilean society particularly by providing the institutional framework in which the disciplinary power of money and property operate. As such, the reforms consolidated the changing modalities of power within Chilean society and have undoubtedly frustrated the ability of the more radical sections within the governing coalition to pursue a more comprehensive process of re-democratisation. In this way, they have reinforced the Concertación's call for a politics within limits.

In spite of the importance of these reforms, the suggestion made most forcibly by James Petras and Fernando Leiva (1994) that the perseverance of authoritarian political structures coupled to the ideological 'betrayal' of the new state managers can account for policy continuities in the Concertación era, is an argument that cannot be sustained. As the decade progressed, many of the authoritarian

political structures began to diminish in importance or, indeed, to operate in a manner that favoured the Concertación. Over time, the Concertación has been able to insert its own central bank officials and designated senators, and curtail other institutionalised expressions of the previous order. Concertación president Ricardo Lagos stated in 2001 that the newfound willingness of the political right to reform the political process derives from the constitution currently being 'on our side' (*Financial Times* 2001). However, this shift in the balance of power within the state has occurred without a significant change in policy trajectory. In contrast, while not downplaying the ability of authoritarian enclaves to influence the legislative process on several key issues, to explain more fully the Concertación's political practices it is necessary to highlight the wider material and social impacts of the restructuring of social institutions undertaken within the dictatorship period.

ORGANISED INTERESTS AND THE EXERCISE OF POWER

Following 15 years of neoliberal restructuring that specifically sought to transform social institutions in a manner that imposed the disciplinary power of market institutions to a greater degree, the balance of power between social classes remains extremely uneven. As a consequence of reinforcing the power of money as the primary regulatory force within Chilean society, neoliberal restructuring inevitably shifted social power into the hands of those who controlled capital and away from those with few resources and who are reliant on collective forms of mobilisation to influence their social environment. Of particular note are the structural weaknesses prevalent in both organised labour and other social movements. The latter weaknesses, born both through direct repression and the authoritarian regime's destruction of their institutional power bases, reduced the ability of these social actors to influence the politics of the Concertación.

Despite its important role in the initial anti-dictatorship movement of 1983–85, organised labour suffered almost two decades of systematic repression and social restructuring that profoundly debilitated its political capacities. At a grassroots level, the union movement had been impeded by the character of economic transformation coupled to the institutionalisation of anti-union practices enshrined by the authoritarian labour code (discussed in chapter 3). Owing to the processes of de-industrialisation and privatisation that were integral

to neoliberal reform, the movement was left devoid of its traditional heartland in the industrial and public sectors and had to readjust to a more fractured membership. This entailed a corpus drawn from smaller and weaker unions that covered more diverse economic sectors. Simultaneously, the labour institutions established by the dictatorship's Plan Laboral promoted the fragmentation of the labour movement at the local level through the encouragement of multiple small unions within enterprises that represented different sectors of the workforce and through the disempowerment of labour bodies organised at sectoral or national levels. At the time of the democratic transition only 44.2 percent of unions belonged to the re-formed national labour federation (Central Unitaria de Trabajadores, CUT), therein reducing its national bargaining strength within the new political arena (Ruiz-Tagle 1993: 146).

At a national level, the political momentum of the anti-dictatorship movement had given rise to a union leadership drawn primarily from the Concertación parties, embedded in those political networks, and strongly in favour of the new regime's moderation. Indeed, the initial reaction of the CUT was one of complicity with the Concertación's extremely moderate political direction, accepting the strategy of economic liberalisation and cooperation with capital over production relations in return for a greater emphasis on investment in workers through training, education, health, pensions and job security. The leaders who presided over the transition period explicitly embraced a strategy that involved the suppression of labour's demands in order to help guarantee the stability of the democratic transition. Although mounting frustration with the outcomes generated by the post-transition compromise would gradually induce a radicalisation of the CUT and its eventual rupture with the politics of conciliation in the mid-1990s, the legacy of acute structural and institutional weaknesses compromised its ability to influence the Concertación. One of the most telling signs of the weakness of the labour movement over the 1990s was its inability to pressure the state into a more fundamental reform of the Labour Code, an issue discussed in detail in chapter 7.

Similarly, although multiple social movements played an important role in the struggle against the dictatorship, political oppression and the effects of extreme economic marginalisation perpetuated weaknesses and factionalism within these small groups. In terms of their political impetus, many threw their limited weight behind the Concertación's electoral movement in the mid-1980s and became less

visible after the victory of the latter. As indicated in Philip Oxhorn's detailed study of popular movements in the anti-dictatorship struggle, most had set their aims on re-establishing the procedural guarantees that would both protect them from the routine violence of dictatorship and ensure a political process that was not immune from popular pressure (Oxhorn 1995: 171). However, once the unifying principle of the struggle for democracy had dissipated, most social movements either disappeared or retreated onto issue-specific and geographically localised campaigns.

This fragmentation of social movements both facilitated and was reinforced by a second trend that manifested itself as the decade progressed; namely, the transformation or displacement of social movements by foreign supported and generally apolitical NGOs. Remaining grassroots movements that sought to retain a politically independent nature have been considerably marginalised by this process. Where they have chosen to interact with the state, they have been commonly subordinated as instruments of state policy within the technocratised institutions of anti-poverty policy and have been unable to effect notable policy change above the level of implementing localised development projects (Paley 2001: 169). Alternatively, where they have avoided interaction, they have often been reduced to marginalisation and ineffectiveness (Foweraker 2001: 847). Power structures of this nature have been reinforced through the specific tenor of government welfare institutions, such as the FOSIS anti-poverty policy, analysed in chapter 8.

In contrast to labour and grassroots movements, the organised bodies of capital emerged strengthened from the authoritarian epoch and, in the post-transition period, have proven well structured, highly mobilised, and presciently aware of the political strength that stems from concentrated ownership of the means of production within an institutional setting that privileges financial power (Silva 1998). The Chilean bourgeoisie – and above all those in control of the large economic conglomerates – have enjoyed multiple channels through which to assert political pressure, including influence over major media sources. There are at least two tiers of organised business interests. In the first tier, a powerful overarching business union called the *Confederación de Producción y Comercio* (Confederation of Production and Commerce, CPC) represents the interest of big business at a national level. In the second tier, specific sectoral business unions represent capitals located in each branch of production. As well as these directly representative organisations,

there has been a consistent representation of the interests of capital by the political parties of the right, and particularly through the close links forged between the CPC and the largest right-wing party, the Unión Demócrata Independiente (Independent Democratic Union, UDI). On this basis, Jorge Nef (2003: 22) has suggested that for the first time in Chilean history, 'the size, financing, organization, interlocking capacity, representation in official government agencies, control over the media, internationalization, and ability to determine the intellectual agendas of universities', has forged a hegemonic business class.

Given their organisational strength and numerous channels of influence, capitalist organisations have enjoyed an active and privileged relationship with the government throughout the Concertación period, and particularly under the administration of the Christian Democrat president Eduardo Frei Ruiz-Tagle (1994–2000). All important policy initiatives, including fiscal and labour reforms, were negotiated through a dialogue between the Concertación and the CPC and the opinions of business interests were widely propagated through their ownership of most national media outlets (Bresnahan 2003). Even the administration of Ricardo Lagos (2000–06) – who was viewed with wide suspicion by the Chilean bourgeoisie owing to his socialist roots – has maintained close consultation with business interests in the formulation of economic and financial policies. In this vein, the US State Department quickly attempted to reassure American investors in the credibility of Lagos' administration, claiming that: 'Lagos has put in place a top-notch economic team: his principal economic advisers are U.S.-trained and internationally acclaimed for their technical expertise, and they share Lagos' strong commitment to Chile's successful free-market economic model' (US State Department 2001: 10).

CAPITAL ACCUMULATION AND THE STATE

As the third element shaping the post-dictatorship political environment, it is expressly important to highlight that, regardless of the political leanings of particular state managers, there are strong systemic pressures upon the Chilean state to ensure the continued accumulation of capital by reinforcing or reconstructing existing social institutions. Within capitalist society, the very reproduction of society – including the state-system itself – hinges on the relatively smooth continuance of the capital accumulation as it is the manner by which

capitalist societies reproduce their material and social foundations on a day-to-day basis. At an abstract level, this entails that the entire institutional structure of the state is pressured to facilitate the social conditions for capital accumulation – characterised by the systematic need for the owners of capital to expand its value through profit-making activities – and these pressures condition the possibilities and limits to the action of state managers and bodies.

This is not to put forward a crude functionalism wherein the state is bound to chart the optimal course for capital accumulation (a ‘capital logic’ approach). Undoubtedly, pressure to attempt to ensure capital accumulation at a social level is very real, as manifested not only in the direct – yet often conflicting – demands of specific capitalist interests but also, more generally, through the everyday movement of economic indicators such as the rate of profit, inflation and employment levels, tax revenues, and balance of payments and exchange rate fluctuations. These pressures can lead to various and frequently inconsistent courses of action put forward by state managers, leading to conflicts within and between various bodies of the state. As indicated in chapter 2, far from being a smooth and harmonious process, the accumulation of capital necessarily produces intense social conflicts and strains. On the one hand, the pressures to maintain profits repeatedly generate conflicts between capital and labour within the production process. On the other hand, capitalist society suffers from an intrinsic propensity to subordinate social and environmental needs to the dictates of profit appropriation. These tendencies ensure that capital accumulation gives rise to a multiplicity of social struggles including industrial strife, social movement activities, and pressure group politics. This basic contradiction – the tendency to subordinate all aspects of social life to the demands of capital accumulation – lies at the heart of capitalist society and is therefore imprinted onto the state, which must constantly aim to mediate these tensions while simultaneously reaffirming the conditions for capital accumulation that underscores the material reproduction of society.

Although much has been made of the tendencies of ‘globalisation’ to constrain the actions of states, this complex relationship between the state and capital accumulation was no less present in the national-developmental period, as chapter 1 discussed (cf. also Müller and Neusüss 1975; Holloway and Picciotto 1977; Radice 1984; Clarke 1991b). As such, the internationalisation of capital does not reduce state capacity, but rather changes the nature and forms

of state actions. Since neoliberal restructuring necessarily created a substantial dependence of accumulation within Chile upon the global movement of money and commodities, subordination to the discipline of capital in the contemporary period is closely tied to reaffirming Chile's position within global capital circuits. To maintain economic growth, the validity of accumulation within Chile must constantly be reasserted vis-à-vis the competitive pressures imposed by the trajectory of global accumulation. The state is constantly involved in this process through a multiplicity of institutionalised forms through which it regulates the social relationships that underpin capital accumulation. For example, one of the principal forms by which the discipline of capital is exercised upon the actions of the contemporary Chilean state is through the constant necessity to retain flows of world money anchored within the Chilean financial system. Owing to the accelerated processes of integration with global capital circuits, sustained capital accumulation within Chile relies in no small measure upon the constant input of foreign capital, both as investment and as credit (foreign direct investment [FDI] and portfolio capital respectively). This constant influx of capital is necessary to service high-levels of private sector debt, finance new investments and to implement the technological advances necessary for sustained productivity increases to keep Chilean exports competitive on global markets. Concurrently, a significant decline in capital inflows or accelerated capital outflows threaten to plunge the Chilean economy into serious crisis, as was acutely realised in 1998 following the Asian financial crisis.

In this respect, the intrinsic mobility of capital in its money form generates further pressures upon the Chilean state to provide a stable and profitable investment environment and to reproduce the conditions for the comparative advantage of Chilean exports on global markets. The latter are constant considerations for the Concertación in the management of trade and exchange rates policies alongside its interventions in diverse social relations, including labour markets, production relations, education and training, and the financial system. In the contemporary global political economy, this concern with sustaining the conditions for capital accumulation implies a relative commitment to maintaining the social institutions fashioned by neoliberal restructuring and that are taxonomised in the publications of the IMF, World Bank, credit-rating agencies and other international financial actors. To be sure, however, the most vocal

advocates of the neoliberal status quo are the large Chilean economic groups who are deeply integrated within global capital circuits.

Given that the political practices of neoliberalism sought to fashion social institutions that would uphold the viability of Chilean capitalist accumulation through precisely this subordination of both state and society to the discipline of capital as a global social relation, there is a strong material basis to the Concertación's dedication to the neoliberal project. To attempt to implement a significant break from this mode of capital accumulation would not be impossible, but it would require a rupture in the established patterns of capital accumulation with notable ramifications for medium-term economic stability and the direct antagonisation of established interests. While some within the Concertación's grassroots were keen for the coalition to attempt just such a rupture, the social and political conditions for such a radical course of action that would inevitably cause severe economic dislocations, including mass capital flight, did not exist in the early 1990s.

THE GROWTH WITH EQUITY STRATEGY – A CHILEAN 'THIRD WAY'?

Within these parameters, the Concertación's political mandate was initially grounded upon an appeal for the acceptance of politics within limits. In the context of the manifold political weaknesses that characterised organised labour and progressive social movements, the more conservative wing of the Concertación, rooted within the Christian Democrat Party, was able to assert its predominance within the coalition and adopt a heavily elitist (*'cupular'*) style of politics. The latter served to insulate the political cadre of the Concertación from direct engagement with more radical voices located in the grassroots of the coalition parties (Taylor 1998). All reform, argued the Concertación, would involve change within a fourfold conjuncture of limits: namely, the limits of the stability of the democratic transition, the limits of the sanctity of private property, the limits of fiscal prudence, and, ultimately, the limits of sustained capital accumulation. Consequently, in the months before formally coming to power the Concertación pledged to recognise the sanctity of private property, institutionalise the dictatorship's economic model, and make no dramatic changes to the country's social structures. Explicitly, it promised to exercise fiscal prudence and refrain from the populist excursions of past Christian Democrat and Socialist governments in order to maintain the pro-business

climate of the Pinochet years, but also to avoid repoliticising issues that the dictatorship attempted to reduce to the realm of technocracy (Muñoz Gomá and Caledón 1996; Portales 2000). In spite of some differences highlighted in the following sections and chapters, the three successive post-dictatorship Concertación governments, headed by Patricio Aylwin 1990–94, Eduardo Frei Ruiz-Tagle 1994–2000 and Ricardo Lagos 2000–06 respectively, have constrained their political practice within the parameters of the social institutions forged by neoliberal restructuring.

This pledge to maintain a basic continuity with the neoliberal model, however, did not entail a carbon copy of Pinochet-style neoliberalism. Unlike the Pinochet regime, which relied upon the systematic deployment of coercion to fortify its position, the Concertación operates in a formally democratised state apparatus that, for all its authoritarian idiosyncrasies, necessitates the establishment and maintenance of a strong electoral base. Political struggle within the electoral arena would add a further mediating link between state and society, and the legitimacy of successive Concertación governments rested in no small part upon their pledge to strive for social justice within the neoliberal model. At one and the same time, the Concertación was pressured to respond to the contradictions of neoliberal restructuring even as it reproduced the fundamental parameters of the neoliberal project.

In response, while the Concertación has maintained neoliberal and technocratic solutions to socio-economic issues in an attempt to promote continued capital accumulation, this has occurred alongside an emphasis on building social institutions that correct market failures and promote social inclusion. The banner under which they christened this strategy was 'growth with equity', a designation chosen to emphasise the confidence in the free market, export-orientated strategy and its amalgamation with a more progressive social policy agenda that would compensate the strata of society marginalised by the dictatorship's restructuring programme. Hence, while remaining wedded to the primary economic and labour institutions crafted by the dictatorship, the Concertación ideologues argued that reconstructed welfare institutions could be used to correct market failures that restricted the benefits of economic growth from reaching all parts of the population and, in a less pronounced manner, to initiate a virtuous circle of increased human capital leading to sustainable and more equitable economic expansion.

The discourse of correcting market failures in order to reaffirm economic dynamism and social inclusion closely relates to new refinements to the neoliberal discourse at a global level. The Concertación's political programme – like that of Tony Blair's 'Third Way' in the United Kingdom – presents itself as assuming the middle ground between free-market capitalism and traditional social democracy, one that could combine the capitalist dynamism heralded by the political right, with the social justice craved by the left. Giddens' (2003) typology of an ideal Third Way project of reform closely resembles the rhetoric and policy practice of the Concertación governments:

[T]he restructuring of the state and government to make them more democratic and accountable; a shake-up in welfare systems to bring them more into line with the main risks people face today; emphasis on job creation coupled with labour market reform; a commitment to fiscal discipline; investment in public services but only where linked to reform; investment in human capital as crucial to success in the knowledge economy; the balancing of rights and responsibilities of citizens; and a multilateralist approach to globalisation and international relations.

The theoretical underpinnings of the Concertación's position rest upon the recognition of three broad areas of market failure that were ignored or suppressed in the more orthodox neoliberal approach (Vial 2000; Javier and Fuentes 2000). The practical effects of such weaknesses have underscored the constant revision of neoliberal theory and policy practice, including the World Bank's rapid rush to emphasise the importance of institutional structures on the basis of a partial incorporation of the insights of the new institutional economics within the mainstream neoclassical canon (World Bank 1997). The shift is also ably represented in the work and influence of Joseph Stiglitz and information-theoretic economics that attempts to theorise and justify the existence of non-market social institutions on the basis of individual responses to informational imperfections (Stiglitz 1998; see Fine 2001a).

At a general level, the approach highlights three areas of weakness within the orthodox neoliberal perspective. First, the approach recognises the presence of 'externalities', whereby 'rational' market outcomes produce harmful social effects such as pollution or monopoly control, and therefore require state intervention to regulate such occurrences. Second, market activities rest upon numerous social institutions outside of the market and may therefore be incomplete as judged against the market model used in neoclassical theory. For

example, differences in the information possessed by actors can create sub-optimal market performance and therefore necessitate state intervention to create supporting institutions that improve market performance. Third, the unequal distribution of resources in society prevents all individuals from adequately and fairly participating in market activities, which can lead to a further form of market failure. State intervention can be deployed to correct some of these inequalities by providing public goods such as education, training, healthcare and other subsidies to raise the level of human capital in excluded groups.

Retaining the core institutions of the neoliberal project while providing correctives to these instances of market failure, it was argued, would provide the optimal route to overcoming the social contradictions of the Pinochet era without undermining economic dynamism. It is on this ideological basis, moreover, that the reformed neoliberalism of the Concertación has been a source of inspiration for the spirit and content of a refined neoliberalism emergent on a global level since the late 1980s and, subsequently, adopted and propagated by the World Bank and other development institutions during the 1990s. The discourse of the 'Chilean model' employed by international financial institutions would therefore undergo a process of metamorphosis in this period. Moving from a belligerent emphasis on the virtues of sound economic fundamentals as demonstrated by the Chilean experience, the stress shifted to new concerns with democratic procedure, building institutions and attaining a requisite level of social equity which could improve economic efficiency (cf. World Bank 1997; 2000; 2001; for critique, cf. Taylor 2004).

The argument of the current and following chapters, however, is that 'growth with equity' represents not an idealist endeavour to engineer a more just society, nor simply a technical corrective to flaws within neoliberal policymaking. Indeed, the ability of 'Third Way' policies to address social inequalities and market failures are quite limited, as detailed in the following chapters that examine various facets of the post-1990 Chilean political economy. Rather, 'growth with equity' represents a complex political strategy that emerged unevenly from the clash between popular pressure to mitigate the inequalities and insecurities associated with neoliberal restructuring and the constraints imposed by the vastly asymmetrical power relations that characterise post-dictatorship Chile. The contradictory heart of this strategy is manifested in the need to assure the expanded accumulation of capital by reaffirming the class relations forged in

the dictatorship period, which in turn undermines the potential to reshape prevailing structures of production and distribution that would be necessary to create a more equitable society.

In these circumstances, the 'growth with equity' strategy soon developed into an attempt to allay pressure for more profound forms of social transformation by incorporating social aspirations of the working class into the realm of social policy. On the one hand, this strategy would maintain the social relations of production that underscored capital accumulation characterised by a sharp division between the consolidated power of capital and a 'flexibilised' labour force, as detailed in chapters 6 and 7. On the other, it offered a strategy of translating and containing political struggle into areas where the state anticipated the ability to exercise greater control. Increasing social expenditure and initiating new targeted social programmes therefore formed the mainstay of the government's social reconciliation strategy, whereby they pledged to seek consensual arrangements between major social groups including the organised bodies of business and labour over all key issues. Ultimately, the issue of labour reform provoked irreconcilable tensions between organised business and labour and, with the regime leaning to the side of business, it prefigured the ultimate demise of the attempted consensus-building strategy (Frank 2004). Nonetheless, the Concertación retained its pledge to divert more resources into social expenditure so as to ameliorate the sharp inequities produced by the two decades of restructuring. This intervention, they warned, would be both gradual and would have to remain set within the bounds of fiscal responsibility in order to maintain macroeconomic balances. Concertación ideologues were adamant that their new regime would not succumb to populist pressures (Weyland 1999). A 'responsible' social strategy of this nature was contrasted to the older forms of Chilean populism as it rigidly grounds the expansion of social expenditure within the constraints of firmly embedded neoliberal macroeconomic management and would be administered in a heavily technocratic manner.

To propose such an interpretation of 'growth with equity' is not to suggest a crude instrumentality in the Concertación's actions. On the contrary, the strategy emerged and evolved through the political struggles between various coalition factions within the circumscribed political and economic environment. From this perspective, therefore, 'growth with equity' constituted an evolving attempt to reconcile the tensions in the Concertación's political position as a coalition whose

electoral support and grassroots activism was based upon a pledge to ameliorate the social conditions of the working class, with the three conditioning factors highlighted above: the material constraints of ensuring the expanded reproduction of capital in Chile, the institutional constraints of the post-transition state, and the strength of contending social forces. In this way, far from a pre-formed and static core of policies, the political doctrine of 'growth with equity' would undergo periods of turmoil and change during three phases that loosely correspond to the three successive presidencies.

The Aylwin presidency (1990–94) would mark the rapid ascription of limits to the 'growth with equity' strategy, as the outcome of struggles between the Concertación and the political forces of capital and the right undercut many of the more progressive aspects of the reform package. Aylwin himself coined the phrase 'justice within limits' to describe the inability of the government to hold the armed forces accountable for human rights abuses during the dictatorship, yet the saying had far wider connotations. Growing frustrations heightened ruptures and conflict within the Concertación coalition itself, particularly between its grassroots activists and its political cadres (Portales 2000). The remainder of the Aylwin period and the majority of the Frei Ruiz-Tagle administration (1994–2000) witnessed a consolidation of 'growth with equity' within the context of sustained economic expansion that temporarily eased social tensions by providing the conditions for expanded employment opportunities and increased wages. Nevertheless, the implosion of the economic boom in 1998 put an end to the fragile social and political peace that had, until that point, been tenuously maintained. Shortly before the culmination of the Frei Ruiz-Tagle administration in 1999, the Concertación encountered growing social and political tensions, which became manifested in escalating intra-coalition struggles and a moderate shift leftwards within the Concertación coalition prior to the 2000 elections. This move was reflected in the choice of Ricardo Lagos, a member of the Socialist Party, as the Concertación's presidential candidate for the 2000 elections, yet was not resolved by Lagos' appointment and continues to the present.

Indeed, the succeeding Lagos presidency (2000–06) has reacted in a patchwork and contradictory manner to the challenge of maintaining social discipline while simultaneously reinvigorating prevailing forms of capital accumulation. The end of the export boom and renewed political polarisation has placed the greatest strains yet on the Concertación and its Third Way paradigm of 'growth with equity'.

Such strains, despite being driven by the dynamics of social struggles, are not merely contingent, but rest upon the contradictions at the heart of social reproduction within capitalist social relations and their current articulation within the Chilean social formation. To elaborate this argument, the following three chapters analyse the major areas of the Chilean political economy during the period 1990–2003. This includes, in chapter 6, a focus on macroeconomic policies and the uneven effects of an export boom that occurred from 1990 to 1997 and which was followed by a period of recession and socio-economic dislocation at the turn of the millennium. Subsequently, chapter 7 focuses on labour relations and, specifically, the Concertación's attempts at reforming the existing labour code established by the Pinochet regime. Finally, chapter 8 indicates both the successes but also the limitations of the Concertación's approach to social policy which, as noted above, lay at the heart of their 'growth with equity' political discourse.

SUMMARY

The defeat of the dictatorship in the 1988 plebiscite put in motion a political process that ended in the election of a new government. The latter was formed from an alliance of the Christian Democrat, Socialist and other minor parties and was known as the Concertación. Despite hopes that this reintroduction of electoral democracy would lead to a pronounced reversal of neoliberal social transformation, the Concertación was quick to scale back such ambitions. This moderation reflected a threefold structure of constraints. First, the institutional form of the post-dictatorship state impeded the ability of the Concertación to implement significant policy changes owing to the perseverance of 'authoritarian enclaves'. Second, the balance of social forces within Chilean society reflected the dictatorship's explicit project to marginalise labour and social movements and to permit the fortification of organised business. Third, the Concertación faced the structural impediments inherent to capitalist society, which functions in and through the expanded reproduction of capital. Given that capital accumulation had been significantly reconfigured through the internationalisation of Chilean commodity chains, capital accumulation became strongly dependent on the reproduction of Chilean society within its neoliberal form. Within this conjuncture of constraints, the Concertación has gravitated towards an emphasis on the limits of politics. This strategy has involved an attempt to discipline

both its own party apparatus and its social base so as to accept a liberal form of social democratisation predicated on strengthening welfare institutions while maintaining the basic parameters of neoliberal capitalism. Such an approach bears similarities to other forms of 'Third Way' neoliberalism and shares common tensions implicit to these strategies. The following three chapters explain in more detail how this policy orientation has unfolded in practice, and details some of the many contradictions it has engendered.