Chile’s Innovations in Social Welfare: Principles and Policies

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A Global Reevaluation of Democracy at Century’s End

Carnegie Council on Ethics and International Affairs
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As part of an ongoing program on public philosophy titled “Toward a New Public Philosophy: A Global Reevaluation of Democracy at Century’s End,” the Carnegie Council on Ethics and International Affairs has initiated a workshop series to address current conceptions of democracy around the world. Approaching democratic theory and practice through the lens of ethics, the Carnegie Council has begun to map the values intrinsic to public policy making. In part, the project is driven by the disparity in public policy practices across democracies. While many states have formally claimed to be democratic, ethical norms clearly vary across societies, creating a wide spectrum of democracies in the world today.

This monograph is a reworked and updated version of a paper presented at the October 1997 workshop “What Do You Deserve? Public Philosophy, Welfare, and Changing Social Contracts.” This particular workshop aimed to assess social welfare policy in the light of trends toward integration in global markets. It concentrated on the influence of globalization on the social contract in a number of democracies, including those in the developing world, states in transition, and the post-industrial welfare state. Above all, it asked the question: What are the differences in the social contract across democratic states? How are these contracts formulated and what are the political, economic, and social factors that cause them to change? Further, who should benefit from social welfare policies?

The workshop took up case studies of public philosophy in the United States, Hungary, Japan, Germany, the United Kingdom, and Chile. Specifically, it examined the philosophies behind welfare policy in each society, given the recent climate of cutbacks. Particular emphasis was given to the question of whether a dominant paradigm for public philosophy could be discerned, and to what extent it might be “Western” in nature. In many cases, there was a theoretical conflict between community solidarity and individual choice as the appropriate models for public philosophy. The workshop also addressed the role of culture in the formulation of public philosophy and the extent to which public philosophy is deliberative and/or reflects elements of participatory democracy. In addition, it evaluated the volatility of public philosophy in transitional democracies.

The social welfare workshop was the second in the Carnegie Council’s public philosophy program. The first workshop analyzed and compared the models of public philosophy in Western and Asian states. The goal of the public philosophy program, which will continue to explore these issues, is to develop a more nuanced understanding of the public policies adopted in democracies, based on the study of the norms and values that exist in democratic states around the world.

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THE EVOLUTION OF SOCIAL POLICY REFORM

For most of this century, the remarkable stability of Chilean political institutions was linked to the belief that a democratic state would guarantee economic development and social mobility. In the past three decades, as the country has moved from democratic to authoritarian rule and back to democracy, significant changes have affected the extent and mechanisms of state involvement in social provision.

In the synopsis presented here, it is argued that those changes have been shaped by the interweaving of politics and ideas as well as internal and international factors. The analysis centers around the evolution of institutional arrangements in the country’s political economy. Over time, Chile has been converted into a prototype of policy experimentation, not only because of the “revolutionary” character of many of its reforms, but also because of the early and growing internationalization of intellectual and political elites and policy paradigms. For decades social policies responded to the interplay of state actors and politically mobilized groups. More recently, the design of public policies has been influenced by technocratically inspired models aimed at the depoliticization of conflicts and the efficient distribution of resources.

Historically, the strength of the political center and the left in the Chilean party system supported a political culture that emphasized the value of democratic participation and social egalitarianism. These concepts were reinforced by popular myths of racial homogeneity and gender equality. From the 1920s until 1973, advancements in social welfare were founded in a philosophy that valued state interventionism to achieve higher levels of economic and social development. The early influence of Marxism, Keynesianism, and Catholic social doctrines was followed by the impact of developmental theories promoted by international organizations and academic and technical cooperation programs.

It has been argued that in Chile, “populist currents penetrated the Marxist, social Christian, and conservative traditions.” In the most characteristically populist period, which lasted until the 1960s, economic and social reforms were moderate. As in other countries of the region, Chile’s populist reform program was primarily a middle-class phenomenon led by professionalizing elites. The incremental and limited expansion of citizenship coexisted with rules that enforced political and social stability. The mobilization of popular support was not intended to promote radical changes but followed a controlled and paternalistic style, in which the co-optation of specific groups was achieved through networks of clients who received special benefits. The arrangement by which technocratic state elites favored the interests of organized workers, often at the expense of the less organized workers in the rural and urban areas, was part of a tacit compromise between conservative and reformist political elites institutionalized in the 1950s.

A major contributing factor in policy innovation was the ability of state administrators to strengthen their policy capabilities by appropriating important portions of export revenues (mainly from the foreign-owned mining sector).

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Government programs were thus financed and expanded without significantly altering the economic bases and social privileges of established groups.

Although legal provisions imposed significant constraints over unions, these displayed a high level of politicization. Unlike other countries in Latin America in which workers followed populist, personalistic movements, the unions in Chile had a more distinctive class, if not necessarily revolutionary, consciousness. Political parties provided important organizational, financial, and legal resources to organized labor. Class conflict rhetoric, stemming from the traditional dominance of Socialists and Communists, was accompanied, nevertheless, by the type of pragmatism that facilitated negotiations for the satisfaction of economic demands.  

Competing socioeconomic demands had to be carefully negotiated, for resources were scarce, inflationary pressures recurrent, and foreign trade vulnerable to international fluctuations in the copper market. Political parties played a crucial mediating role in these conflicts. In Chile’s highly competitive and ideological party system, politicians had to be flexible enough to entice the larger electorate with new policy formulas while obtaining special favors and privileges for specific constituencies. In accommodating the demands of competing groups, policy elites often opted for fiscal deficits to help ensure electoral advantages. Political parties learned to balance ideological struggles with the pragmatic accommodation of group interests and state actions.  

Chilean political parties, relatively less dependent on charismatic leaders and less nationalistic than parties in other countries of the region, had well-established connections with transnational political movements, foreign academic institutions, and international organizations. This is important for understanding changes in Chilean public philosophy. Compared with the rest of Latin America, Chilean parties had a peculiar tradition of intermingling intellectuals and politicians in what has been called a pattern of “thinking politics.”  

International political and professional networks, foreign ideologies, and policy debates were readily incorporated into domestic controversies. Also, Chilean events had resonance abroad. For example, the early organizational and electoral strength achieved by the Chilean Marxist left drew considerable international attention and resources to political and policy actors in Chile.  

While governments, political parties, and the better-organized social actors engaged in elaborate compromises over resource distribution, it was officially claimed that the state promotion of economic development would facilitate the pursuit of social welfare for all Chileans. Early attempts at achieving universal coverage resulted in the gradual extension of education, health care, and pension and housing programs. By mid-century, Chile had significantly improved many indicators of well-being and ranked high among countries at a similar level of development.  

In Chile’s segmented society, decades of

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7 In 1970, over 20 percent of GDP was allocated to social expenditures. Enrollment in basic education reached 94 percent.
class-based political rhetoric and growing mass mobilization nurtured an exaggerated vision of social progressiveness. In practice, sharp inequalities in the access and quality of services persisted. As a result of economic constraints and explicit political design, only a minority of the population was able to enjoy full protection under the country’s fairly sophisticated system of labor and social legislation. It was understood that the extension of social benefits would be achieved gradually, preserving some basic forms of social hierarchy. For several decades many groups improved their economic and social status while large segments of the population were systematically excluded from social protection or granted significantly lower benefits.

Limited, piecemeal redistributive reforms did alter the stratification system, but mostly in the middle sectors, leaving a wide gap between the extremes. Total or partial exclusion from the complex and encompassing social protection system lasted longer for the rural population, for those living in the poorest provinces, and for groups linked to the less formally organized segments of the economy, where unskilled workers, women, children, and the elderly were most heavily represented.

The concentration of wealth and the spread of precarious forms of employment increased during the years of military rule (1973-90), in which drastic economic and institutional reforms were implemented. The breakdown of democratic, populist, and statist traditions permitted the expansion of market forces into new areas of social life, including the provision of social services such as old age pensions, education, occupational training, and health care. Under the dictatorial rule of General Pinochet the economy was restructured to increase domestic and external competition; a noninterventionist, subsidiary state was established to minimize distortions in the allocation of resources; public policy decisions were decentralized; private competition was promoted to maximize efficiency and accountability; priority was given to fiscal balance and price stability; the labor market was deregulated; populist redistributive policies were replaced by market mechanisms combined with the targeting of social spending to benefit the poorest; and social benefits were linked to individual contributions and responsibilities. During this period, social policies were conceptualized as a component of macroeconomic management. As neoliberal economists expanded their influence throughout the state bureaucracy, the structural bases of class, gender, and regional stratification were increasingly neglected.

In the 1990s, Chile returned to democratic elections. The two governments of the Concertación (an alliance formed by the Christian Democratic and Socialist parties) have been more successful at reducing the percentage of people living below the poverty line than at improving income distribution. Currently, the richest 20 percent of the population receives, on average, an income that is 12 times higher than the poorest 20 percent, which has only 4.5 percent of the national income. In stark contrast with the predictatorial period, political parties have abandoned the rhetoric of state-sponsored egalitarianism. Political elites, compelled to demonstrate that democratic rule is not synonymous with fiscal irresponsibility,

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of the population between 6 and 14 years of age. In the social security system, 70 percent of the workforce was affiliated. See D. Raczynski, “Focalización de programas sociales: Lecciones de la experiencia chilena,” in C. Pizarro, D. Raczynski, and J. Vial, eds., _Políticas económicas y sociales en el Chile demócrata_ (Santiago: CIEPLAN, 1995), 224.

strive to avoid any risk of being labeled populists. Calls for fiscal largesse to promote employment and income redistribution are infrequent, coming mostly from the far left. The dominant consensus argues that in a globalized economy, equity must be pursued in conjunction with—not at the expense of—economic growth and macroeconomic equilibria. With various degrees of conviction and persuasiveness across ideological and party boundaries, politicians recognize that successful economic performance is central to political success. Adopting an almost pedagogical tone, leading political figures explain why old party traditions and symbols must be renovated. Having reached the status of “model country” within the region and beyond, Chileans are told that they cannot afford to miss a single step in the race to modernization.

The dominant paradigm in the period following the democratic transition has focused on the legitimation of a new development model in which the country’s international competitiveness is crucial. Nostalgia for the perks of state paternalism goes against the tide of modernization. The political combativeness of the labor movement (weaker than it was before the military regime) has been muted as unions are asked to moderate their demands and cooperate with business associations in the search for policy agreements. The proliferation of politically inspired community associations, which in the past addressed such collective issues as land ownership, training and housing, has ceased to be a characteristic of the Chilean political landscape. New patterns of consumerism, fueled by easier access to credit, are a powerful expression of increasingly individualistic trends. Even political abstentionism has reached historically unprecedented levels. In the past, politics was a way of life in Chile.

Despite the new access to consumer goods previously enjoyed only by the rich, Chileans continue to be acutely aware of the rigidity of class distinctions. In their everyday language, attitudes, and identities, they carefully maintain, reproduce, and deepen social distance. Conspicuous consumption is rampant, yet political discourse no longer revolves around redistributive issues. Moreover, democracy is no longer associated with an expansion of egalitarian principles. The state has ceased to be conceived as the main source and instrument of social progressiveness. Public policy tends to be conceptualized as an arena in which decisions are informed by technical expertise and depoliticized negotiations. The pressures of interest groups or the stridence of mass demonstrations have lost the level of legitimacy they had in the pre-Pinochet period.

Chile’s successful economic performance and the expansion of social programs have promoted real wage increases, poverty reduction, and a decline in overt unemployment, but income inequality remains high. So far, Chile’s new democracy has done better than others in the region. It has averted the resumption of inflation and sharp political confrontation. To avoid the risks of returning to the overideological and polarized politics of the past, or the authoritarianism of the military period, Chileans have opted for formulas that downplay voluntaristic projects and privilege efficiency in state actions. To maintain the country’s positive international ratings, a convincing image of stability and policy coherence has to be displayed in front of international investors and creditors. In the interest of governability, internal divisions must be pragmatically diminished. From this perspective, the

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9 T. Moulian, Chile actual. Anatomía de un mito (Santiago: LOM-ARCIS, 1997).

avoidance of social conflict is perceived as a fundamental economic imperative, not just an ethical one.

The social policy discourse of the Chilean political center and the left has been adjusted to comply with the new institutionalized conventions in public policy: they too argue for less but more effective government action, technically targeted social programs, and a more disciplined, flexible, and productive labor force. The emphasis on social justice and poverty reduction has not debunked the continuity of market reforms. In the current environment of widespread marketization, even industrialized countries are drawing lessons from the Chilean benchmark testing of new types of technocratically engineered forms of social welfare.11

THE PRINCIPLES IN CHILEAN WELFARE STATISM

In the 1920s, Chile was among the first countries in the region to introduce social insurance programs, modeled in part upon the social welfare proposals being debated and implemented in the more industrialized countries of Europe. This first set of social policies was based on projects elaborated by Catholic and Liberal intellectuals, without any consultation with organized workers, then under Communist leadership.12 The social legislation of the 1920s inaugurated a comprehensive, albeit conservative and paternalistic, system of labor relations that included the regulation of unions, labor contracts, an eight-hour working day, minimum wages, labor courts, and occupational accidents. In addition, there were measures to protect workers and their families from the loss of income due to sickness, disability, old age, and death. These measures were partially inspired by the German social insurance system.13 The level of social protection was primarily contingent upon the type of position in the labor market. Salaried, nonmanual workers typically received the best benefits.14

The conservative elites demanded assurances that labor regulations would keep leftist activism under state supervision and that basic social controls and privileges would be maintained. The exclusion of the rural population was particularly important for the hacienda system, in which employers' compliance with labor legislation went unenforced. Since rural workers were not fully incorporated into the waged labor force, social security benefits were not applicable. For those concerned with the preservation of the stratification system, the distinctions made between the protection and benefits for white- and blue-collar workers were also important. They received markedly different treatment in terms of minimum wages and social benefits, and in their rights to

11 In the 1990s, the Chilean experience in pension reform is being examined as a model not only in Latin America but throughout the world.

12 Chilean Catholic thinkers had been interested in the harmonization of class interests and had established international connections since the early part of this century. See J. O. Morris, Elites, Intellectuals, and Consensus: A Study of the Social Question and the Industrial Relations System in Chile (Ithaca: Cornell University Press, 1966), 38, 79, 104, 122; and Loveman, Chile. The Legacy of Hispanic Capitalism, 271.

13 According to Morris (idem, 170-71), Chilean legislators were aware of the International Labor Organization's recommendations on social security, but used them more as a legitimization device than as a detailed guideline, since these matters had been already debated in the country for many years.

organize. The state exercised extensive control over the unions, especially in their finances, reducing their ability to use their own funds for strike purposes.\textsuperscript{15} Public expenditures increased rapidly until the Great Depression, which devastated the country's economy.\textsuperscript{16} Chile became then an early promoter of Keynesian-type policies to stimulate economic development. Political forces on the right, center, and left divided into three competing, class-based blocks.\textsuperscript{17} In 1938 the Radicals, Socialists, and Communists formed one of only three Popular Front governments in the world. This multiclass coalition used its control of the state bureaucracy to launch state-led industrialization and social programs as part of its commitment to modernize the nation's economy, preserve political stability, and gradually achieve social mobility. Social conflict would be reduced through the expansion of political participation and a more equitable distribution of economic resources.

The smaller or better-organized occupational groups were able to pressure their political representatives in the legislature and in the state bureaucracy to maintain differences between the quality of their social benefits and the protection granted to the general population. State employees and other white-collar workers obtained special funds, better pensions, and reduced contributions. The multiplication of these funds contributed to administrative inefficiencies, high costs, and institutionalized inequality. Nonsalaried and independent workers as well as the rural population remained basically excluded. In addition, like other social insurance systems aimed at compensating for income losses in the labor market (of mostly male breadwinners), the Chilean system had an implicit gender bias. Because of differences in family situation, sex discrimination in the labor market, and more precarious conditions of employment, women had a limited access to pension benefits.\textsuperscript{18} Although in theory the system was based on principles of solidarity and redistribution, in practice the social security system had a regressive effect in terms of income distribution, for the majority of contributors and the uninsured paid for the privileges enjoyed by the better-organized groups.\textsuperscript{19}

By the late 1940s, Socialists and Communists had made significant gains in their electoral representation and in their influence over the growing urban labor movement. Mobilization expanded from the cities and mining centers to the countryside. The Radical party in office maintained a populist rhetoric and a commitment to state intervention in economic and social policies, but was tilting to the right and was increasingly reluctant to support the more progressive social and labor legislation advocated by the left.\textsuperscript{20}

The country's economic performance was


\textsuperscript{17} For almost three decades, the Radical party, an anticlerical party that represented the interests of the middle classes, occupied the center of the Chilean political space. See T. Scully, Rethinking the Center. Party Politics in Nineteenth and Twentieth Century Chile (Stanford: Stanford University Press, 1992).


\textsuperscript{19} See Mesa-Lago, Social Security in Latin America, 33, 54.

lagging behind the pace of sociopolitical change: the economy grew slowly, and inflation and external dependency proved intractable. The state was already heavily centralized and overburdened as it enlarged its involvement in economic management, providing credits, investment resources, employment opportunities, subsidies, and services for various social and political groups. Despite its growing influence, the increasingly interventionist government bureaucracy had brought limited changes in the class structure. Although state expenditures in the social area, especially in social security, health care and housing, more than tripled in the period from the 1930s to the mid-1950s, the sociopolitical balance between the modernizing urban areas and the stagnant rural sectors remained the same, except for the migration of an increasing number of poor people from the rural areas to the cities. Some important social security legislation was enacted in the early 1950s. Health insurance, maternity care, family allowances, unemployment compensation, retirement lump sums, and minimum wages were established for various categories of workers.

To address the growing crisis of the social security system, a high-level commission was appointed in 1959. After three years of study, this panel of experts urged the implementation of comprehensive reforms to universalize benefits and equalize contributions. These attempts were defeated by the concerted opposition of groups that feared the loss of protection and privileges. Although the Marxist parties continued to press for more radical socioeconomic changes, the acceleration of inflation in the mid-1950s stopped the increase of social expenditures for the next decade.

The so-called inward-development model entered a period of crisis with the continuous rise of public expenditures, accompanied by the stagnation of export revenues, inflation, and fiscal deficits. At the same time that external disequilibria and foreign debt increased, investments and growth were limited. The costly, fragmented, politicized, and inequitable character of the Chilean social security system became the target of growing criticism. It was viewed as a major source of inflation and fiscal deficits. In Chile and in the rest of Latin America, populist coalitions began to unravel, challenged from the right and the left. The right complained about the political and economic threats of demagogic mass mobilization and deficit spending. The left rejected the claims that reformism would reduce social inequality and pushed for revolutionary solutions to the problems of development.

**THE “REVOLUTIONARY” PUBLIC PHILOSOPHY OF MODERNIZING STATE ELITES**

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21 These programs were often financed with the creation of special taxes. Social security coverage reached 65 percent of the active population in 1955. See Mesa-Lago, *Social Security in Latin America*, and Arellano, *Políticas sociales y desarrollo*, 35, 42.

22 The most significant measures in this period were introduced in 1952, when the National Health Service was created. Preventive medicine and medical, maternity, and dental care were provided for insured blue-collar workers and their families. Uninsured indigents were also covered. Health insurance for white-collar workers was implemented in 1953. Emphasis on the medical attention of women and children, maternity subsidy, and other forms of preventive medicine had been in place since the late 1930s. See Mesa-Lago, *Social Security in Latin America*, 15, 28.

23 See Borzutzky, *Chilean Politics and Social Security Policies*.

The Cuban revolution contributed to alter the terms of the policy debate in the hemisphere and also the meaning that external actors gave to the increasingly tense political confrontations in Chile. Although the Chilean left had generally adopted a moderate approach to social and political reforms, consternation among local elites and international observers increased as the ideological polarization of Chilean politics gained momentum.

In the 1950s, both U.S. interests and the Catholic church began to strengthen anti-Marxist groups in Chile. In a climate of rising anti-communism, Catholic social reformist groups founded the Christian Democratic party in 1957, in preparation for the 1958 presidential election. The Christian Democrats replaced the Radicals as the main competitors of an increasingly combative and unified political left. In the next few years, European Christian Democratic parties, governments and foundations, as well as U.S. institutions and the church, augmented the flow of doctrinal, financial, and organizational resources aimed at increasing the electoral potential of the Christian Democrats. These resources served to reinforce the claims made by Christian Democratic intellectuals and political organizers that they, more effectively than the left, could carry out the economic and social reforms that the country needed.

After Eduardo Frei’s triumph in the 1964 presidential elections, large foreign aid and loan inflows helped non-Marxist reformers in their campaigns to implement a “revolution in liberty.” This included land redistribution, state sponsorship in the creation of rural unions, and expanded coverage of social policies to benefit larger segments of the population. However, important divisions within the governing party emerged, as some factions advocated a form of communitarian socialism, with decentralized worker-management, while others argued that business support was necessary to make growth and social reforms compatible.

The Alliance for Progress found in the Christian Democratic party a compliant partner for implementing agrarian, educational, tax, and other reforms intended to reduce both the social inequalities that retarded modernization and the spreading appeal of Cuban-style socialism. The Chilean Christian Democrats were not only active members of transnational Christian Democratic networks in Europe and Latin America, they also became an important component of the transnational technocratic elites that dominated developmentalist programs in the 1960s. The number of well-trained experts in the party increased after Chile expanded opportunities for higher education and established scholarship programs to study in European and U.S. universities. Chilean social scientists became involved in various forms of regional and third-world activism, and Santiago became a vibrant center of ideological and institutional creativity.

Under President Frei, a new form of technocratic reformist discourse was introduced to implement comprehensive economic and institutional changes. A more cosmopolitan brand of intellectual and policy elites joined the old-guard politicians, lawyers, doctors, and engineers who until then had staffed government agencies. They were economists and sociologists with graduate studies in universities abroad, inspired by the latest versions of modernization and developmental theories.

At the time, inadequate economic growth, failure in the control of inflation, balance of payments crises, and rising expectations for

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25 Loverman, Chile. The Legacy of Hispanic Capitalism, 278-79.

26 Fleet, The Rise and Fall of Chilean Christian Democracy, chapter 5.
social change heightened the sense that the country was in crisis. “Structural” problems were evident in the disequilibrium between the demands to increase social expenditures and the limited availability of fiscal resources. Moreover, economic decline was accompanied by the growing delegitimation of traditional political practices. Frei proposed to alter Chile’s economic and sociopolitical arrangements along the lines of social Catholic doctrines and structuralist theories of development, which at that time had great influence in the region. The Christian Democrats pledged to govern along more rational principles, rejecting the “clientelism” and interest group accommodation of the previous decades. Policies to redistribute income, reform the tax system, increase government control of export revenues, and reduce the concentration of land ownership were conceived as part of a plan for long-term development.  

State action expanded to support previously excluded groups. Government efforts to organize marginal urban workers were successful in raising expectations and expanding state networks of clients. The Frei government increased its electoral base by mobilizing the demands of these socially and politically marginal groups through a specialized state agency (Promoción Popular) and a network of base organizations that channeled state assistance in the form of credits, training programs, housing, and other benefits. The urban popular sectors, a constituency that was never sought after by the unions, were the last to be incorporated into the clientelistic practices of political parties. Consequently, they were the last to qualify for government services that better-organized groups had obtained years earlier. Unions, still largely controlled by the left, became more par- tisan. Political mobilization reached unprecedented levels as parties competed for electoral support among the newly incorporated political actors. 

Wages increased during the first two years of the Frei administration. New laws allowed the unionization of agricultural workers and expanded their social security coverage. Medical care was granted to pensioners, and improvements were made for other groups of workers (including periodic controls for children under six years of age, prenatal and postnatal care, family planning, and nutritional and sanitary programs). However, the growing demand for housing and other services had to be subordinated, especially in the second half of the administration, to the control of inflationary pressures. Although social expenditures during this period more than doubled, reaching 20 percent of GNP in 1970, many of the official promises for higher standards of living remained unfulfilled.

This was most clear in the failure to reform the social protection system. Government authorities elaborated new proposals to reform the labor relations and social security systems, but the details of these plans were actively resisted by unions and other organized interests. Anticipating legislative defeat, the executive branch was forced to introduce only partial changes.

Despite important achievements in its reformist agenda, the government fell short of its promises. In 1970 the Socialist Salvador Allende ran his fourth presidential campaign.

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27 See A. Valenzuela, Chile. The Breakdown of Democratic Regimes.


29 See Arellano, Políticas sociales y desarrollo. Chile 1924-1984, 50.

30 Borzutzky, Chilean Politics and Social Security Policies, 189.
and was elected with only 36.2 percent of the votes. Under the Popular Unity coalition, led by the Socialist and Communist parties, the international impact of Chilean reformism continued. The experimental transition to socialism promised no alterations in the country’s constitutional and policy-making framework. Despite this, Allende’s administration was perceived as a dangerous expansion of Soviet influence in the Western Hemisphere.

Transnational corporations reacted defensively when the government nationalized foreign-owned copper mines but did not provide the compensation these firms claimed. The fear that the Chilean model could be replicated in other developing countries spread rapidly among diplomatic and corporate circles, and the Nixon administration launched a comprehensive offensive against the Chilean regime. Allende’s diplomats struggled to engage the solidarity and financial support of European social democrats and socialist regimes around the world, increasing Chile’s international visibility.

The Popular Unity promised reforms to change the monopolistic and externally dependent character of the Chilean economy. Together with mass-mobilization and redistribution policies aimed at increasing popular support, the program included the socialization of the means of production. The government announced the transfer of economic assets from the private to the state sector to create an area of social property that would establish the basis for a transition to socialism. Since the Congress was controlled by opposition parties, a strategy was designed to expand popular support and legitimate structural reforms. These reforms included the nationalization of large mining companies, state control of the banking industry and large industrial conglomerates, and the acceleration of agrarian reform. A rapid change in income distribution would modify the composition of demand and change the pattern of production and investment to satisfy the basic needs of the general population. Redistribution would be financed with funds extracted from upper-income groups.

Wages were used as the main redistributive mechanism. They increased, but many self-employed, part-time, and other categories of workers were beyond the reach of wage policies. Unemployment rates dropped, in part as a result of an expansion in the number of workers employed by the state. The authorities also imposed extensive price controls and raised public expenditures. Social expenditures grew more than 50 percent over the 1970 level. Fiscal revenues, however, did not increase, for the tax system was complicated and evasion was widespread. Also, the opposition in Congress was unwilling to introduce new taxes.

Once again, the official commitment to expand social security and health coverage to the entire population and to equalize benefits was not met. Except for the incorporation of independent workers into a new fund and the improvement of minimum pensions, the Allende administration maintained the stratified access to social benefits. The government had originally intended to unify the social security system, but later desisted, in part to avoid protests on the part of the labor unions. Proposals to unify health services were also


33 See Mesa-Lago, Social Security in Latin America, 29; and Borzutzky, Chilean Politics and Social Security Policies, 214.
unsuccessful.\textsuperscript{33} The expansionary economic policies succeeded in reducing income inequality, but only for a short period. After the first year, shortages and black markets spread. Inflation grew out of control, reaching over 500 percent. Real wages began to decline. In 1972 and 1973 it became clear that the use of nominal wage adjustments could not protect the income of the poorer groups. Organized workers obtained wage increases that were greater than those received by less organized workers, who were the most affected by inflation. The government would have rations basic goods, but it did not have the organizational capability to guarantee adequate distribution.\textsuperscript{34}

Organized labor militancy increased under Allende. Tensions between unions and the government grew as the need to manage an increasingly troubled economy came into conflict with efforts to reward traditional constituencies through special services. The government faced the dilemma of assisting and encouraging grassroots organizations in order to expand its electoral support, but at the risk of losing control over them, especially if demands were not satisfied. In the year before the military coup, the growing scarcity of patronage resources coincided with the deterioration of the country's economy, spiraling price inflation, and political polarization.\textsuperscript{35} As Drake has said, on the brink of the coup, labor organizations appeared more formidable and radical than they were.\textsuperscript{36} Ironically, while the left in power was resisting the demands of workers, the political right and the center supported them as part of their strategy to weaken and delegitimize the government. The socialist experiment collapsed in 1973 when political elites found themselves unable to manage the mounting constitutional and economic crises and the armed forces took power.

**Authoritarian Neoliberal Reforms and the Retreat of Welfarism**

The military government closed the Congress, outlawed political parties, forced dissenters into exile, and repressed organized social groups. It also imposed drastic market-oriented reforms and put an end to the decades-old system of social protection. A new brand of internationalized technocrats orchestrated a radical neoliberal attack on the traditional conceptions of liberal democracy and the welfare state. The Chicago Boys, a group of economists trained at U.S. universities, gained the support of General Pinochet and gradually extended their control from the economic to the social and other policy areas. They claimed that the country's institutional and cultural traditions had to be transformed and promised to employ a "scientific," apolitical approach to government.\textsuperscript{37} Anticipating Thatcherism and Reaganomics, Chilean policymakers began to dismantle the product of five decades of state interventionism. They were praised by foreign observers as nothing short of revolutionaries who were finally bringing "good economics" to Latin America.\textsuperscript{38}

The sphere of the market was enlarged and the private sector strengthened. The state's economic powers and social responsibilities were reduced to control the fiscal

\textsuperscript{34} Larrain and Meller, "The Socialist-Populist Experience: 1970-73," 204-05.

\textsuperscript{35} Othorn, *Organizing Civil Society: The Popular Sectors and the Struggle for Democracy in Chile*, 63.

\textsuperscript{36} Drake, *Labor Movements and Dictatorships*, 28.


deficit and inflation. Social policies focused on programs for the poor, small children, and expectant mothers and on programs that represented an investment in human capital (health, primary education, and nutrition). The principles of solidarity and income redistribution, which had informed previous social policies, were replaced by the concepts of state subsidiarity, individual responsibility, and freedom of choice. Social mobility was defined as a matter of personal achievement, and increasing the levels of mass consumption became a crucial mechanism of political legitimation.\(^{39}\)

Competition among private service providers was expected to increase the quality and reduce the cost of education, health care, and other social services. Along with targeting subsidies and social programs to the extremely poor, the government promoted inflation control, administrative decentralization, and privatization. This strategy, it was argued, would be more efficient and more equitable than nominally universalistic social programs.

The impact of two major economic recessions (in the first half of the 1970s and early 1980s) and the consequences of policies aimed at opening the economy to foreign competition led to bankruptcies and a marked increase in unemployment. The growing rates of unemployment (over 30 percent of the labor force in the early 1980s) forced the government to create emergency employment programs in which workers received less than the minimum wage. Sectoral changes in employment composition (especially declines in industrial employment) and measures to make the labor market more flexible weakened the labor movement, which was also affected by the political persecution of union and party leaders. The labor legislation (Labor Plan) of 1979, introduced under the threat of an international boycott organized by the AFL-CIO, limited collective bargaining, reduced labor rights, imposed restriction on strikes and unionization, and eliminated the labor courts.

Although the transition to a free market economy was initiated soon after the coup, the overthrow of the traditional social security system was launched after years of internal debates within the regime.\(^{40}\) The privatization of pensions encountered some resistance among social security experts (mostly lawyers) and among the more corporatist and populist factions within the military, who expressed concerns about the future profitability of pension funds and worried that financial institutions would benefit more than the workers. As expenditures in social security alone had come to represent 18 percent of the national product, the system was finally reformed. In 1973-74, minimum pensions and family allowances were equalized. In 1979, an executive decree equalized the retirement age for all occupational categories, the minimum contributions, and the monetary readjustment of benefits. Although the armed forces maintained their privileged pension schemes intact, these measures eliminated fundamental sources of inequality and privilege. The privatization of pensions was approved in 1980. The old pay-as-you-go pension system was replaced with a mandatory, privately managed system in which pensions are directly related to individual contributions and levels of risks. The privatized pension funds were expected to increase savings and develop


\(^{40}\) See Borzutzky, Chilean Politics and Social Security Policies; and J. Piñera, El cascabel al gato. La batalla por la reforma previsional (Santiago: Empresa Editora Zeg-Zag, 1991).
the capital market.

This time, the reforms were justified not only on the basis of the accumulation of privileges, inefficiencies, and financial imbalances, but also with reference to the negative effects that employers’ contributions had on labor costs and employment. Reformers characterized the public social security system as the largest state monopoly, in which the avowed principle of solidarity masked a major fraud induced by a statist mentality, demagoguery, favoritism, administrative inertia, distrust of private entrepreneurship, and corruption.

Advocates of the individual, fully funded capitalization system argued that the pay-as-you-go collective system was inadequate not only because of economic, political, and demographic factors (increases in life expectancy and the declining rate of active contributors per retiree), but also for moral reasons. In their view, even under a more efficient management, the old pension system ignored personal preferences and incorrectly attempted to address an entirely separate function, namely, redistribution, for which other mechanisms were more appropriate. By contrast, the designers of the new system did not foster imprudent illusions of early retirement, which in Chile had become a “national obsession.” The principle of individual freedom, they said, would invite personal responsibility and discipline, and would discourage “social parasitism.” When each worker attends to his or her own retirement fund, pensions are higher for those who work longer, save more, and invest rationally. The new system established minimum benefits provided by the state, but was based on the principles of competition and efficiency, which, reformers said, are best served by private administration.

Under the current privatized system, employer contributions were eliminated and workers began to contribute 10 percent of their gross wages to individual retirement accounts. The private corporations (AFPs) that administer and invest the pension funds are regulated by the state. The state guarantees minimum pensions for workers with 20 years in the system but with insufficient contributions, and welfare pensions for the elderly poor. Although welfare pensions existed before, many who never had access to social security began to qualify for some benefits. Children of families without social security coverage received family allowances for the first time.

The privatized system has been praised in international policy circles for its strict regulations and its potential contribution to capital formation, savings, and economic growth. Privatized pension funds helped develop capital markets, but there is no clear evidence that the reform increased savings. The average annual return on investments has been high thanks to the economy’s extraordinarily positive performance over the past decade. Critics, however, point to the risks of future economic downturns as well as of individual decisions based on misinformation or inexperience. Also, the pension reform involved high fiscal costs (it interrupted contributions to the government but not payment by the government of minimum pensions, recognition bonds to those who transferred to the new system, and pensions to those who remained affiliated to the old system) and had a negative impact on other social programs, most notably spending cuts in education and health care in the 1980s. The costs of private administration are high. In particular, workers pay high fixed commissions to the private firms that administer their funds. Currently, only three firms control 68 percent of the

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41 See Piñera, El casabel al gato, 40.
accounts, and the competition has led to expensive marketing campaigns trying to attract affiliates (30 percent of affiliates switched pension funds in 1994).

The new system has a low coverage of poor and self-employed workers (for the latter, affiliation is voluntary). Moreover, in the new system women receive lower pensions than in the previous pay-as-you-go system, and their benefits are lower than those of men, even when their contributions are similar. Women’s benefits are lower because of their segregated and more unstable participation in the labor force, their lower income, and their higher life expectancy (women and men are placed in separate actuarial categories).

During this period, health care spending was transferred to the primary-care level, with an emphasis on the health and medical needs of mothers and small children. The free public health care system was replaced by a system of copayment for those who had the ability to pay. In addition to the public sector (FONASA), which serves the low-income and high-risk population, a private health care sector was developed. In the latter, affiliates place their 7 percent mandatory health contributions in private health insurance associations (ISAPRES), which offer benefits depending on risks tables (that consider age, sex, pre-existing conditions). In the mid-1990s, the regressive nature of the two-tier system was obvious, as the private ISAPRES collected more than 65 percent of the contributions and provided care to only 27 percent of the population.

Although during this period the traditionally extensive network of social programs was maintained, and in some areas reinforced (welfare pensions, child subsidies, child care), social expenditures dropped for the first time since the 1920s. The value of pensions and family allowances declined. Educational subsidies and school lunches were cut back. Social security affiliation dropped because of unemployment and the higher incidence of employer evasion. The poverty level increased from less than 20 percent of households in 1970 to 45 percent in the late 1980s. Income distribution deteriorated markedly.

Analysts, however, point to some significant improvements, especially the reduction in maternal and infant mortality and malnutrition among small children. Although social programs targeted at the poor did effect some improvements and are expected to be maintained as a guiding policy principle, on balance, the military government’s social programs are evaluated negatively. Resources were reoriented to the poorest, or to the malnourished, at the expense of preventive programs favoring the majority of the population. There was a deter-

42 In the early 1990s, only 54 percent of affiliates were making contributions, and the evasion rate was higher in funds that covered lower-paid workers.


45 Arellano, Políticas sociales y desarrollo, Chile 1924-1988, 45.

46 See P. Vergara, Políticas hacia la extrema pobreza en Chile 1973-1988 (Santiago: FLACSO, 1990); D. Raczynski and
oration of services for other needy groups. In the case of health care, there was a decline in the quality of secondary and tertiary care. Targeting was not necessarily efficient or more equitable. The administrative costs associated with the selection of beneficiaries were high. Many beneficiaries were encouraged to remain poor (or inactive) in order to qualify for assistance. Other questions regarding the unintended consequences of targeting refer to the stigmatization of the poor and the mobilization of the more affluent groups against programs that consistently exclude them. Finally, although the transfer of social policies to the municipal level is considered a positive trend, local governments in this period had more responsibilities but few additional material and personnel resources. Policy decisions continued to be made by the central government with little input from the community.

Popular sector organizations experienced a resurgence under the authoritarian period, growing in number, initiative, organizational creativity, and autonomy from the faltering and embattled party structures. New social actors, women, youth, and “pobladores” founded innovative forms of collective expression as they dealt with the hardships of unemployment, rising poverty, and political repression. Thus, during this time, the traditional state-centered, paternalistic, and patriarchal approach to social protection was challenged not only by Pinochet’s neoliberal technocrats but also by the local, small-scale search for survival at the base of the social structure. Within the political opposition, especially since the mid-1980s, many economists and intellectuals at the center and on the left also began to deviate from the traditional forms of social and economic thought. In preparation for the democratic transition, they pressed for a change in the pattern of political alliances, the renewal of party platforms, and a greater understanding of the role of the market.

**Democracy Challenged: Social Justice and the Market**

The election of President Patricio Aylwin in 1989 carried a clear mandate to restore democratic practices. However, the new government faced important political and economic constraints. The authorities placed social equity at the center of the policy agenda and pledged to reduce poverty. However, they made clear that redistribution programs would be contingent upon maintaining the successful economic performance.

The government was intent on reducing uncertainty among entrepreneurial groups suspicious of the center-left return to power. It was argued that efficient and competitive mar-

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47 Raczynski, 220-23.


50 One of the most powerful symbols of the political limits imposed on the new government was that, according to constitutional rules, General Pinochet remained as commander-in-chief of the army for eight additional years, until March of 1998. Economic constraints were also apparent: inflationary pressures and foreign debt payments had accumulated in the pretransition period, and the levels of investment and savings remained inadequate.
kets, rising investment levels, and an open economy would provide the resources to advance the cause of social equality. The kind of “populist,” expansionary, inflationary, and confrontational approaches that had been used in the past to redistribute income were rejected. The government favored consensual agreements among social and political actors over carefully managed policy goals. It was recognized that the state had lost its capacity to intervene in collective bargaining through foreign trade and price policies, and that within a fully funded individual pension system, it was more difficult to effect changes in income distribution. Instead of protecting workers from unemployment through high severance payments or administrative mechanisms, it was preferable to protect them by employment creation, occupational training, and unemployment insurance.\(^{51}\)

A broad range of economic and social policy decisions were left in the hands of technically competent, like-minded government experts, who addressed potentially volatile issues in a nonpartisan, technocratic way. To increase its credibility, the government emphasized that in the new democracy, social demands would be “disciplined.” On the other hand, it was expected that the increase in social expenditures would provide popular support for the continuation of free-market economic policies.

Changes were made in labor legislation (to facilitate unionization and more equitable collective bargaining) and a tax reform was approved by Congress to finance an increase in social expenditures without affecting fiscal balances. Since 1990, the privatized pension system has been subjected to marginal adjustments, mainly designed to make more information available to contributors and to authorize pension fund investments abroad. The privatized health care system continues to serve the more affluent and lower-risk groups, while the majority of the population is served through the state system. However, fiscal expenditures have increased significantly to reverse the deterioration in medical equipment and the shortage of personnel. Also, there have been efforts to control abuses and prevent discrimination in the private system against the elderly, women of childbearing age, and the terminally ill.\(^{52}\)

The government sought to continue innovations in the methodology used to select beneficiaries and implement social programs. The methods used under Pinochet to measure the extent of social needs and to identify the main beneficiaries have been maintained with small modifications. The municipalities remain the preferred institution for identifying needs and implementing social programs. Although there were significant improvements in the minimum wage, welfare pensions, and family allowances, the government did not return to universal entitlements but implemented a combination of universality and targeting. Targeting was recognized as an important dimension of social policy, but the focus changed from assistance to individuals to the generation of employment and income among families and groups with special vulnerabilities.

The private sector, including NGOs and community organizations, has been encouraged to participate in social-service provision, complementing the role of the state. After the tran-

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tion to democracy, grassroots activism slowed down. Some have argued that the government co-opted these organizations in order to reduce the risk of excessive mobilization and maintain investor confidence.\textsuperscript{53} In the more optimistic accounts, the weakening of autonomous organizations among the poor is seen as a response to official anti-poverty programs and the new willingness on the part of organized labor to incorporate the demands of the poor in their claims.\textsuperscript{54}

Investment in human capital has been given high priority. Since education coverage is adequate, the emphasis has been on improving quality, especially among the poorest schools. The accumulated deficit in health care facilities and personnel has been reduced. In addition, public support has gone to small-scale productive enterprises, training, and the organization of poor communities. Decentralization, initiated under the previous administration, has continued during this period. Efforts have been made to improve coordination among various public agencies. For example, an Economic and Social Interministerial Committee was created, but evaluations of its performance have found it unsatisfactory.\textsuperscript{55}

After a 1990 study concluded that poverty was concentrated among children (over 50 percent of the children were living in poverty), the young, women, and the elderly, it has been argued that these groups should be at the center of social policies. Several experimental programs have been introduced to equalize opportunities. Among them are legal and labor reforms to reduce discrimination against women. Housing, health, and occupational training programs have been directed to improve the conditions of female heads of household in low-income groups. Also, new labor training, drug prevention and rehabilitation, school attendance, and pregnancy prevention programs have been designed to benefit the young. A national plan was initiated to improve children’s health and education and to protect them from abuse.\textsuperscript{56} Some analysts have suggested that the existing bureaucratic structure should be transformed, because its sectoral segmentation is ill suited to address the needs of specific groups.\textsuperscript{57}

Governments in the 1990s have successfully managed the economy, maintaining low levels of inflation, fiscal surplus, and higher levels of exports, investments, and savings. However, the decline in poverty and unemployment has not been accompanied by improvements in income distribution. The challenges for the future include establishing better coordination between the private and the public sectors in social service provision, expanding opportunities for vulnerable groups, and achieving greater efficiency and more beneficial targeting in programs that have universal coverage.\textsuperscript{58}

\textsuperscript{54} Weyland, “‘Growth with Equity’ in Chile’s New Democracy.”

\textsuperscript{55} S. Molina, “Una institucionalidad pública para la política social,” in Pizarro, Raczynski, and Vial, eds., \textit{Políticas económicas y sociales en el Chile democrático}.

\textsuperscript{56} In 1992, President Aylwin requested the elaboration of a coherent plan before attending the World Summit on Children. The plan and subsequent public campaigns on children’s rights are said to have raised awareness but there is still relatively little attention to the needs of this group. See J. Rodríguez Grossi, “El plan en favor la infancia: El caso de Chile,” in Pizarro, Raczynski, and Vial, eds., \textit{Políticas económicas y sociales en el Chile democrático}.

\textsuperscript{57} M. Schkolnik, “Políticas sociales para grupos de riesgo: Un nuevo enfoque,” in Pizarro, Raczynski, and Vial, eds., \textit{Políticas económicas y sociales en el Chile democrático}.

\textsuperscript{58} A. García and M. Schkolnik, “Superación de la pobreza: Balance y propuestas,” in Pizarro, Raczynski, and Vial, eds., \textit{Políticas económicas y sociales en el Chile democrático}.
Critics argue that most social policies continue to benefit organized workers more than the self-employed and workers in the less productive segments of the economy. Social services and subsidies for the poor continue to be insufficient, and the “dual welfare system” has not been replaced by a new welfare model in the several years that have passed since the transition to democracy. Despite official claims that the strategy of “growth with equity” differs from the “trickle-down” approach applied under the military government, poverty policies have not yet attacked the roots of inequality.\textsuperscript{59}

**Conclusion**

Chile’s centennial record of progressive and innovative social policies is surprising, especially considering its small and frequently troubled economy. This country’s pioneering trends in social welfare correspond less to changes in its economic base than to the shifting dynamics between two institutional features: a highly competitive, class-based party system, and a public bureaucracy with a growing proclivity towards technocratic decision making. For several decades, political and technocratic elites cooperated to keep up with, or even to influence and anticipate, international ideological and policy currents, trying to balance the demands for economic and social development. This led to pragmatic and highly ritualized negotiations over the expansion of benefits to politically relevant constituencies. Gradual inclusionism coexisted with the systematic marginalization of some groups and with the preservation of exclusionary privileges.

The limits of this arrangement appeared more explicitly in the late 1960s as larger groups became politically mobilized, demanding more state protection and greater equality. The tensions between ideological and technocratic discourses intensified, because comprehensive structural reforms were not only increasingly expensive but also politically destabilizing.

In a dramatic historical swing, a repressive military regime replaced the deepening state involvement in social welfare with far-reaching marketization. Political parties, unions, and other organized groups lost access to policy making, while an extreme form of technocratic governance imposed structural reforms with high social costs. The economy was opened to foreign competition, and the state withdrew from its traditional commitment to egalitarianism. Social expenditures were curtailed, pensions and services were privatized, and local governments were charged with the administration of a safety net for the poor.

Social equity returned to the top of the government agenda after the transition to democracy. However, political and technical elites have arrived at a new understanding of the dual goal of development. The old politicized game of state subsidies and redistribution to favored clients has been rebuffed. The resources for greater social welfare are expected to come from increasing investments, productivity, and competitiveness in the world economy. The main challenge confronting the center-left coalition governing Chile in the 1990s has been to consolidate democracy while narrowing the chasm between the processes (government programs, party platforms, data gathering) aimed at reducing social inequality and the outcome of equity-enhancing measures.