

## Democracy, Dictatorship and Economic Performance in Chile

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Chile fits, and indeed may even define a caricature of the limitations and the economic dangers of democracy, and of the economically constructive possibilities of authoritarian government. But caricatures are simplistic. Chile's democratic experience is unique, and so was its dictatorship. Inferences must be drawn with care, but the Chilean experience can inform us of some *possibilities* of economic policymaking and performance under both democratic and authoritarian political institutions. I will make these points in anticipation of a comparison in the next chapter with Argentina, a country with very different experiences of both democracy and dictatorship.

Before 1973, Chile had had a long (for Latin America) though turbulent history of democratic rule, with chronic inflation and uneven economic growth.<sup>1</sup> Democratic politics were combative and polarized along a wide spectrum from left to right. However, Chilean democratic traditions command respect in their own right, as well as in comparison to other Latin American countries. Outside the North Atlantic nations, Australia and New Zealand, Chile was the only country in the world "to have consistently selected its political leaders by competitive elections throughout the 1932-1973 period" (Remmer 1984, p. 210).<sup>2</sup>

The depth of this democratic tradition made the military coup of September 11, 1973 a more dramatic break with political traditions than other Latin American military coups, such as those of 1966 or 1976 in Argentina. Moreover, the military dictatorship would leave an economic and political legacy that continues to affect politics and

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<sup>1</sup> Albert Hirschman called Chile the "locus classicus" of inflation in Latin America (1963, p. 161).

<sup>2</sup> Over the entire 20<sup>th</sup> century, Costa Rica has had a longer period of free elections, but this quote is correct because of a brief period after the results of the 1948 Costa Rican elections were annulled. Continuous democratic elections resumed in 1953. I am indebted to Mitchell Seligson for these points. See Lehoucq and Molina (2002).

economic policy in Chile to the present, more than a decade after the dictatorship gave way to a democratic regime in 1990. Now, Chile has perhaps the healthiest economy in Latin America. Economic growth between 1980 and 2000 was the highest in Latin America by a substantial margin.<sup>3</sup> Inflation is 3.8 percent as opposed to double digits for Argentina and Brazil (Economist, March 29, 2003, p. 98).

I will argue that this economic success is substantially due to the full implementation of economic reforms that were guided by considerable expertise derived from the University of Chicago's department of economics. The "Chicago School" is a distinct version of modern neoclassical economics, which dominates the economics profession. The Chicago School is highly prestigious but somewhat controversial within economics. To a non-economist, the economic policy prescriptions that would come from Chicago use the same concepts and variables as those that that would come from other leading departments, such as those of Harvard, Stanford or MIT. But the recommendations from Chicago would be generally much more predisposed to market solutions and less friendly to government, among other differences.<sup>4</sup>

Economic policy in Chile between 1973 through 1990 was made by a military dictatorship implementing the recommendations of economists trained at the University of Chicago or in that intellectual tradition. These recommendations were imposed and enforced by the authoritarian government, more or less regardless of the kinds of opposition and risk of defeat that might otherwise have come from democratic institutions. Such institutions include popular elections, which might replace a

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<sup>3</sup> Chile's annual growth averages 2.9 percent over this period, as opposed to 0.37 percent in all of Latin America (Payne et al. 2002, p. 9).

<sup>4</sup> For discussions of the Chicago School in the context of Chile, see Valdéz (1995), Barber (1995).

government with another not committed to the same program of reforms. Or democratically elected legislatures might defeat or water down government proposals.

This argument raises many questions, including difficult questions about tradeoffs. Of course there is no reason to assume that a dictatorial government is more likely than a democratic government to adopt a complex package of policies, constructive or otherwise, that are derived from academic economics of whatever school. But the Pinochet government did adopt such policies. In this they were comparable to the Argentine dictatorial governments that took power in coups in 1966 and in 1976, and to the democratically elected Argentine government that took power in 1989. But the Pinochet government was more successful than the three Argentine governments. Being an authoritarian government surely helped, but the Argentine dictatorships show that a dictatorship, with its capacity to ignore or repress opposition, is not a sufficient condition for successful implementation of economic reforms. In fact, the Argentine dictatorship that took power in 1976 was, if anything, more brutal with its perceived enemies than the Pinochet dictatorship in Chile.

The capacity of an authoritarian government to make economic plans and stick to them is related to its capacity to be insulated from the demands of groups that oppose them or their policies for whatever reason. If it were in general the case that successful implementation of economic reforms depended on authoritarian government, we would need to ask at least two kinds of questions about tradeoffs. The first is whether the results are worth the general lack of democratic political freedoms of dissent and opposition during the dictatorship. Specifically, are the results worth the loss of the political freedoms to choose another government, or to be represented in a legislature by

representatives in a position to oppose, modify or block policies? For many, the answers to these questions have to be negative.<sup>5</sup>

But it is conceivable that an authoritarian government would deny the public the kind of control over the personnel and policies of government that elections and representative legislatures provide without denying freedom of thought, speech and expression. It is also conceivable that an authoritarian government would not persecute opponents of a regime or its policies, even though it denied them the right to organize and implement their views. Such a government would not be democratic by any meaningful standard, but it could avoid some major violations of human rights that often occur under authoritarian governments.

The Chilean dictatorship of 1973-1990 did not stop short of persecuting and murdering its perceived enemies. It would take a very strong value on the results of the economic reforms to assert that they were and are worth the costs in human rights. But we can still ask whether or to what extent the terror, murder and other violations of human rights were necessary for the results.

For much of its modern history, Chile's growth experience has not been far out of line with that of other Latin American countries, but it has recently improved. Between 1952 and 1970, Chile's real GDP grew at an annual rate of 3.9 percent, which was lower than the rate in this period for Brazil (7.0), Mexico (6.5), Venezuela (6.2), Peru (5.7), Colombia (5.2) and Argentina (4.1) (Edwards and Edwards 1991, p. 24, note 6). Gallego and Loayza show that Chile lagged behind the median for Latin American countries between 1961 and 1985, but that from 1986 to 1999, real per capita GDP growth was multiples of both Latin American and world rates (2002, 420-2).

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<sup>5</sup> See for example Sen (1999).

Chronic inflation became a problem in Chile earlier than in Argentina. Indeed, Chile's experience of chronic inflation had begun in the nineteenth century. Albert Hirschman discusses the relevance of an 1860 banking law, the abandonment of the metallic standard in 1878, and its brief resumption from 1895 to 1898. Hirschman criticizes several standard explanations of inflation in this era, but does contend that the political structure in the parliamentary republic led to drift and the avoidance of decisions that might have held inflation in check (1963, 163-75).

Harberger agrees that inflation began in the nineteenth century, but says that it was contained within "moderate" limits until the 1930s, when the price level more than doubled, and the 1940s when inflation accelerated (1963, 219). Although this book will argue that democracy does not cause inflation, I will link inflation during the long democratic period from 1932-1973 to democratic institutions.

This chapter will address the following questions. To what extent were the political experiences between 1932 and 1973, and since 1990 democratic? To what extent can the uneven economic performance of the earlier period be attributed to democracy? What are the mechanisms?<sup>6</sup> To what extent can the economic improvements be attributed to the policies of the military dictatorship? To what extent can the implementation of the economic reforms of the dictatorship be attributed to the formal autonomy of authoritarian government, and to what extent did it depend on the terror? More generally, what are the lessons of the Chilean experience of democracy and dictatorship for economic policymaking? These questions will be addressed in historical

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<sup>6</sup> Among the economically perverse possibilities of democratic politics are the following. Elections might put in power radical reformers with economically unsound or unsustainable plans. Democratic institutions might also enhance the prospect of the defeat of constructive programs. Democratic governments can be replaced in midstream before their policies can be fully implemented.

sequence, but first we set the context with a section on the historical background of Chile before 1932.

### **Chilean politics before 1932**

In spite of a democratic tradition that stands out in Latin America, Chile also has some autocratic traditions. Before the military coup of 1973, Chile had been governed for 140 years by two constitutions: those of 1833 and of 1925. Brian Loveman points out that the former constitution, “and the political system it sanctioned, perfected and frequently implemented the regimes of exception that became familiar to other Spanish Americans in the nineteenth century.” These regimes of exception

included the delegation of extraordinary powers to the executive to meet political emergencies, suspension of civil liberties and rights, limitations on press freedom, government control of elections, repression of political opposition, and imposition of states of siege.

The 1833 Constitution made Chile a model for other Spanish American nations “for achieving stability through *constitutional dictatorship*” (1993, 315, emphasis added).

This constitution of 1833 codified the ideals of “law, order, organization and efficiency.” It was an autocratic document that “centralized government and concentrated power in the executive branch” (Nunn 1976, p. 45).<sup>7</sup> Under this constitution there was an “autocratic republic” from 1830-1871, and a “liberal republic” from 1871-1891. A brief civil war in 1891 led to a reinterpretation of the constitution of 1833 as precluding strong executive leadership, and from 1891 into the 1920s a “parliamentary republic” existed.

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<sup>7</sup> See also Gil 1966, 86-88, Loveman 1993, 330-351).

The Congress dominated this “parliamentary republic,” and presidential authority almost disappeared. The era was one of considerable political instability. There were 121 cabinets with 530 ministers in the 33-year period of the parliamentary republic (Gil 1966, 50). Electoral fraud and corruption were common.

The Congress was controlled by an oligarchy in this period. The electorate included only literate males, and there was no elected voice for the emerging middle classes and the increasingly organized working classes, which even at that time had Marxist links. However, even though civil liberties were respected, this parliamentary republic was less responsive and “democratic” than the executive-dominated governments that preceded it (Nunn 1976).

Even though the government of the parliamentary republic was controlled by elites and run for their benefit, fiscal and monetary policy was not “responsible.” Remmer points out that government expenditure grew at about the rate of the economy as a whole, but that revenues did not, with the consequences of rapidly increasing public debt. Per capita indebtedness increased to 334 in 1924 from an index set to one hundred in 1892. Moreover, rapid depreciation of the exchange rate led to inflation of five to nine percent per year, which was high for that era. According to Remmer, this regime was very competitive in the context of an electorate that did not ever exceed ten percent of the total population. But this competition did not bring benefits to middle or working classes, though it did bring the kind of public indebtedness and inflation that some would associate with the risks of democracy with broader electorates (Remmer 1984, 140-55). This experience under the oligarchical rule of the “parliamentary republic” illustrates



that, even if more genuinely democratic institutions under some conditions risk poor, shortsighted, or even irresponsible economic policy, they have no monopoly on it.

The watershed election of Arturo Alessandri Palma as president in 1920 was considered the “revolt of the electorate.” Alessandri ran for president in that election as the candidate of a Liberal Alliance, with a platform of broad social reform legislation and a revision of the constitution to restore power to the chief executive (Nunn 1970, 20). He was considered by some to be, a “demagogue,” but the value of his appeal to the masses was attenuated by the fact that so many of them could not vote. He campaigned with incendiary speeches that “attacked the oligarchy and promised to alleviate the misery of the working classes.” This election was hotly contested, close, and “accompanied by a high level of violence and intimidation.” The Congress appointed a “tribunal of honor” to verify the credentials of electors and sort out accusations of fraud, and after several weeks the presidency was awarded to Alessandri (Loveman 2001, 179-80).<sup>8</sup> This election presaged the end of the oligarchical “parliamentary republic” that had begun in 1891, and it led to a new, more democratic constitution in 1925.

Before the 1973-1990 dictatorship, the military had not played as prominent a role in Chilean politics as it had in most Latin American countries, including Argentina and Brazil. Constable and Valenzuela assert that “From 1830 to 1973, Chile was under *direct* military control for only thirteen months: once after the civil war of 1891, and twice during the years between 1924 and 1931” (1991, 20; emphasis added). Although there is truth to this statement, especially with the word “direct”, I believe that it understates the

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<sup>8</sup> Dieter Nohlen (1993, 264) gives Borgoño 50.0 percent of the vote to 49.6 for Alessandri. See also Collier and Collier, 2002, 110-1.

role of the military in Chilean politics before 1973, particularly in the decade of the 1920s.

For example, the military became involved later in the electoral period defined by the watershed election of 1920. The legislature refused to support Alessandri's reforms, which led to the first of the two military interventions in 1924 and 1925. Oddly enough, these military interventions were to support the reform programs of the president, and involved dismissing the Congress and allowing the elected president to rule by decree. President Alessandri, with the support of some of the military, led the successful movement for a new constitution, which was ratified in 1925. This constitution ended the parliamentary democracy that had been dominated by the upper classes, and established a presidential republic. The 1925 Constitution provided for direct popular election of the president. The Congress was authorized to choose the president from among the two highest vote-getters if no candidate received an absolute majority. The new constitution provided for direct election of Senators, and a proportional representation system. The constitution of 1925 established a "very strong executive" and deprived Congress of its previous power to censure ministries and bring them down (Gil 1966, pp. 88-92).<sup>9</sup>

The 1925 document continued the constitutional provision for "regimes of exception." Specifically, the president still had the power to declare a state of siege in times of internal commotion, and a "state of assembly" in which military tribunals had jurisdiction over civilians. State of siege decrees were used "at least a dozen times between 1933 and 1958," and "sixteen separate laws imposed almost four years of these regimes of exception on the country" in the same period. Loveman argues further that in 1973 "this tradition of regimes of exception and extraordinary powers provided General

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<sup>9</sup> Note Kemmerer mission and the return to the gold standard from 1925-1932 (Hirschman 1963, 175-83).

Augusto Pinochet Ugarte with an institutional and historical tradition to justify his *golpe*.” The legal basis of such tyranny had been established in 1833 (1993; 351-3).

*An elected dictatorship of a military man (but not a military dictatorship).* The period between 1924 and 1927 experienced two interventions by the military, in September 1924 and in January 1925. After the first one, President Alessandri left the country, and after the second he resigned. In this period, Colonel Carlos Ibáñez del Campo emerged as the strongest of three military figures that came to public prominence in this era. Between 1925 and 1927, Ibáñez had had positions in government as war minister from 1925 to 1927 and interior minister in 1927 before being elected president in that year. According to Frederick Nunn,

The 1927-31 period is unique in Chilean history because it was the first time in over a century that a military man had actually occupied the presidential palace legitimately as constitutional chief executive. The Ibáñez administration was the closest thing to a military dictatorship Chileans had experienced until 1973, and *it was the first authoritarian, problem-oriented regime in modern Latin American history* (Nunn 1976, 150, emphasis added).<sup>10</sup>

The standards for legitimate occupation of the presidential palace as a constitutional chief executive seem not to have been high. Loveman says that Ibáñez “had himself elected in a carefully controlled election” (2001, p. 183). The election was not scheduled, but was specially called in May 1927. The Colonel won with 223,741 votes out of 231,372 votes, or 96.7 percent of those voting. The total vote was 77.2

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<sup>10</sup> Needless to say, the Pinochet dictatorship was an “authoritarian, problem-oriented regime.” Others would include the Argentine dictatorships of 1966-1973 and 1976-1983. The Argentine dictatorships beginning in 1930, 1943, 1955 and 1962 would not be.

percent of those registered in a registered electorate that was 7.2 percent of the total population.<sup>11</sup>

Ibáñez campaigned in such a way as to promise all things to all people. The only organized opposition to him was Communist. The Communists campaigned tenaciously in spite of police persecution, but Colonel Ibáñez was “the man of the hour,” and would have won under any electoral rules or circumstances according to Nunn (1970, 126-9). Ibáñez was a “truly national leader” who was at the beginning seen as the embodiment of the best of a wide variety of past Chilean political leaders. He had support from at least portions of almost every political party and persuasion. His rapid ascendance to the presidency was “entirely constitutional, if achieved under extraordinary circumstances” in the view of Nunn (1970, 133).<sup>12</sup>

The main reason that the Ibáñez government of 1927 – 1931 is not usually called a military dictatorship is that it was elected in a way that may have been nearly as legitimate as many other elections in Chile up to that time. Below the president himself, the military were not especially prominent in this government.<sup>13</sup> However, President Ibáñez was a military man and he governed as an authoritarian, but not as a “military dictator” according to Nunn (1970, 134). Valenzuela says that this Ibáñez administration was an elected government that relied on the tacit rather than the active support of the military (1978, 20).

Although Ibáñez achieved the presidency through an election, his administration was a return to Hispanic authoritarianism (Loveman 2001, p. 162), and in my view

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<sup>11</sup> The figures for the fraction of the electorate supporting Ibáñez is from Nohlen 1993, p. x. The participation figures come from Loveman 2001, p. 199.

<sup>12</sup> But someone has called this election fraudulent. Find source.

<sup>13</sup> Valenzuela and Constable had excluded this government from those under “direct military control” (1991, p. 20).

deserves to be called a dictatorship, as it has been called by several authors.<sup>14</sup> Vanhanen, the measurer of democracy, gives this government a zero.<sup>15</sup> Ibáñez suspended civil liberties and jailed or exiled his opponents. A leading example of the latter is that former president Alessandri was informed that “his presence in the country was a threat to the tranquility of the government” (Nunn 1970, 137). Ibáñez cancelled Congressional elections in 1930, reappointing the existing Congress with some “minor changes in personnel” (Monteón 1998, ).

In the early part of his term, Ibáñez was the beneficiary of good economic performance due to conditions outside of his control, and in the latter half he was the victim of other conditions that were also beyond his capacity to control. In the early period, Chile experienced a strengthened international demand for nitrate, a principal export since the War of the Pacific (1879-1883) gave Chile control of the major world deposits. Copper production also increased, and there was a large influx of foreign capital. Ibáñez used the revenues generated by these activities to start “the largest public works program in Chilean history” (Loveman 2001, 183).

This prosperity collapsed with the U.S. stock market crash of 1929. The Chilean experience of the Great Depression was worse than that of 39 countries representing 90 percent of world trade surveyed by the League of Nations (Gil 1966, p. 51, note 61; Loveman 2001, p. 197). More contemporary estimates by Angus Maddison have Chile’s downturn at 26.5 percent, which is considerably worse than the 13.5 percent average for Latin America, and worse than Argentina, Brazil and Mexico (Maddison 1985, cited in

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<sup>14</sup> Skidmore and Smith 1992, 123; Loveman 2001, 189, Stallings 1978, 32. Check Remmer. Hirschman calls it a “thinly veiled military dictatorship (1963, 179). Collier and Collier refer to it as authoritarian (2002, passim). Nunn says that his administration was considered a military dictatorship “until recent scholarship demonstrated otherwise” (1976, 151). He does not identify that scholarship.

<sup>15</sup> Identify Vanhanen website.

Monteón 1998, p. 25). The value of Chilean exports of nitrate and copper fell from 200 million pesos in 1929 to 18.1 million pesos in 1932. Unemployment rose dramatically, and opposition to the government grew until a general strike led by professional associations, white-collar workers and students demanded a return to “constitutional government” and Ibáñez was forced to resign in late July 1931 (Loveman 2001, 186-7)

This administration demonstrates dramatically how small open economies can be dependent on trends and events outside their borders, both for better and for worse. Ibáñez was a modernizer who disliked “politics” because it seemed to him messy and inherently corrupt. He expanded the capacities of the state, reformed public administration, and carried out a major program of public works. He vastly increased public expenditures and borrowed heavily. He suppressed opposition and curtailed civil liberties. However, in spite of the fact that he was forced to resign, his legacy was such that it did not deny him credentials for his successful campaign for election to the presidency in 1952 as a populist, redistributionist reformer (Gil 1966, 60-1; Ascher 1984, 69). As a dictator, Ibáñez’ policies and economic impact were very different from those of the Pinochet regime, even though both are what Nunn called “authoritarian, problem-oriented regimes.”

### **A “golden era” of democratic politics?**

For some forty years between the early thirties and the early seventies, popular elections produced the presidents and legislatures that governed Chile. This is the period that has been the main source of Chile’s unique reputation as a Latin American democracy.

From 1932 until September 1973 Chile was the only Latin American nation in which competitive party politics, uninterrupted by coups, assassinations, or revolutions, determined the occupants of the presidency, Congress and higher policymaking positions in the national bureaucracy (Loveman 2001, 196).<sup>16</sup>

This section will identify several limitations on just how democratic Chile was in this period, but it will lay the groundwork for a following section on how democratic politics may have been linked to poor economic performance.

***Formal indexes of democracy.*** The administrations between 1932 and 1973 have been designated democratic by the reliable and interpretable indexes when they begin their measurement. Specifically, Chile was considered democratic by Przeworski et al. from 1951 (the first year of their measurement) until 1973 (the year the dictatorship began), while Chile was deemed democratic by Mainwaring et al. from 1945 (the first year of their measurement) until 1973. The Vanhanen index (the product of participation and contestation) rises almost monotonically from 3.45 for succeeding administrations from 1932 (3.45) to the early 1970s (19.78). Much of this rise is driven by the monotonic increase in the size of the electorate.<sup>17</sup>

***Access to the ballot.*** Chile expanded the suffrage much more slowly and on a more piecemeal basis than Argentina, even though Chile has a much more enduring history of competitive elections. Argentina expanded access to the ballot in two main steps. It established universal male suffrage in 1912, and extended the vote to women in 1947. As Table 4.1 shows, Chile did not establish the principle of comparably universal

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<sup>16</sup> But see footnote 2 above.

<sup>17</sup> Citations. The Polity index rises monotonically from -2 to 6. For some reason, the first three years of the period that is otherwise consensually democratic is called mildly autocratic (-2). Freedom House does not begin until the early 70's.

suffrage until 1970, and did not implement it until the next presidential election, which was then expected to be in 1976.

Table 4.1 about here.

Specifically, Chile had eliminated property requirements for voting in election reforms of 1874 and 1888 (Loveman 2001, pp. 164-5). But the 1874 reform was designed to limit the power of the presidency rather than to empower those without property. “Furthermore, it had the effect of giving landowners for the first time a control over the majority of the suffrage.” (Valenzuela 1977, 189-90).<sup>18</sup>

Women’s suffrage dates to 1949. An electoral reform in 1958 introduced compulsory voting and the Australian ballot (a single official ballot instead of ballots printed by the parties). The latter change reduced the influence of landlords in Chilean politics. In particular, the Australian ballot took away their ability to oversee the votes of rural workers, whose choices could previously be identified by unique party ballots.

Universal adult suffrage was attained in principle but not in fact in 1970, with the removal of the literacy requirement and the extension of the vote to those between 18 and 21 years of age.<sup>19</sup> This expansion was part of a set of constitutional reforms advocated by President Frei since early in his term, and that the Congress finally approved in his final year. Even the right supported these reforms because they were not to go into effect until the next presidential term of office, and would not jeopardize the chances of Jorge Alessandri, whom the National Party then expected to win the 1970 election (Sigmund

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<sup>18</sup> See also Stein Rokkan. 1961. “Mass Suffrage, Secret Voting and Political Participation.” *Archives Europeenes de Sociologie*, 2: 132-152.

<sup>19</sup> Lest any North American be too shocked about the lateness of the elimination of literacy requirements in Chile, it is worth remembering that these were outlawed in the United States only by the Voting Rights Act of 1965, and then only for the n states that had very low black participation rates. There is no doubt that in the U.S. these tests were used in a discriminatory fashion to exclude blacks from the electorate. The United States extended the vote to those between 18 and 21 in 1971 with the Twenty-sixth Amendment.



1977, 87-88). No one anticipated that the next democratic election for president would be twenty years later, in 1990.

The electorate grew steadily from 9.0 percent of the population registered to vote in 1932 (with 80 percent of that actually voting) to 37.0 percent of the population registered in 1970 (with 83 percent of that actually voting). The electorate thus more than tripled between 1946 and 1964 as a fraction of the population. In absolute terms, it rose by more than a factor of five between 1946 and 1970 (Loveman 2001, p. 199).<sup>20</sup>

Thus, for the entire “golden era” of democratic politics in Chile from 1932 to 1973, the Chilean electorate was limited by a literacy requirement that ended only in 1970 (but was not to go into effect until the next presidential election). And the elimination of property requirements in 1874 was linked to a ballot system that gave local elites control over the rural labor force. Given these facts, it is surprising that there was any working class party at all, let alone two, and a significant influence for the left, in the form of both Communist and Socialist parties.

Paul Sigmund speculates that the expansion of electoral participation that occurred in the 1950s led “political leaders to promise more to the electorate than the Chilean political and economic system could deliver” (1977, 9). It is true that the programs of the presidents elected in 1964 and 1970 were for increasingly radical change, but this is to forget the Popular Front government elected in 1938. As the next section will show, a limited electorate did not seriously hinder a wide range of programs proposed by elected presidents, let alone the proposals made in the party system by candidates who did not win.

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<sup>20</sup> Karen Remmer shows that, through 1949, total votes cast never reached nine percent of the population (1984, p. 84).

*The range of choice in the party system.* With such a slowly expanding electorate, we might expect that the range of partisan choice in Chile would expand slowly as well, but this is not the case. In fact, Chile was unique for having the broadest spectrum of parties in Latin America in this period (Hartlyn and Valenzuela 1994, 144-5). These parties echoed European politics more than those of any Latin American country, and replaced the previous system of factions and personalistic groupings. There was literally everything from communism and socialism on the left to nazism on the right (Loveman 2001, p. 200-1)

The most important parties of the left were the Communists and the Socialists. The former, one of the largest Communist parties in South America, were highly disciplined and followed a line set in Moscow. The Socialists were younger, having been founded in 1933. The Center was long dominated by the Radical party, but they were later eclipsed by the Christian Democrats, founded in 1957 and who won the presidency with 56 percent in 1964. The Liberals and Conservatives were the leading parties of the right until merging into the National Party in 1966 (Valenzuela 1977, 8-9; Borzutzky 2002, 23).

Except for the outlawing of the Communist Party in 1948 by a “Law for the Permanent Defense of Democracy,” all existing parties were eligible to run in all elections between 1932 and 1973, unlike the case for Argentina (chapter 5). The law that had outlawed the Communist Party was operative in the 1952 presidential election, and was repealed in 1958 as part of an electoral reform law in the last year of the Ibáñez administration.

On the face of it, a broad range of choice is a good thing, in that it offers a partisan vehicle for many different opinions and preferences. However, such broad ranges of choice are associated with instability of governments, and with a failure to act. A broad range of choice can lead to polarized politics, which is not necessarily desirable. Kenneth Shepsle (19xx) has observed that there may be a tradeoff between representation (the accurate reflection of the range of opinions) and governance (the capacity to make policy and govern effectively). Which one is more democratic is an open question, answered in different ways with different visions of government (Powell 2000).

***Choosing the president after the votes are counted.*** There were eight presidential elections (and eleven Congressional elections) during this democratic period between 1932 and 1973.<sup>21</sup> The 1925 Constitution provided that if no candidate achieved an absolute majority, the Congress would choose from the top two finishers in a joint session by secret ballot.

Four of the eight presidential elections were won by members of centrist parties: three by Radicals and once by a Christian Democrat (1938, 1942, 1946, 1964). The election of 1952 was won by ex-president Carlos Ibáñez, an independent. The elections of 1932 and 1958 were won by conservatives, Alessandri father and son, respectively. It was the election of Salvador Allende, a Marxist, in 1970 that was to test the resilience of democratic institutions in Chile and find them wanting.

The elections of 1932 (Alessandri), 1938 (Aguirre Cerda), 1942 (Rios) and 1964 (Frei) were won by more than fifty percent, so Congress had no role to play in these

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<sup>21</sup> Presidential terms were six years, but elections took place after four years in 1942 and 1946, because of the deaths of President Aguirre Cerda (elected in 1938) and of President Rios (elected in 1942). Congressional elections took place every four years, leaving eleven between 1932 and 1973 inclusive. See Nohlen 1993 for details.

elections. But Congress had to choose from the top two in the elections of 1946, 1952, 1958 and 1970. In each of these cases it picked the candidate with the plurality, which had become a tradition. In 1958, the candidates of the left (Allende) and center (Bossay and Frei) agreed that the Congress should continue the unwritten tradition of choosing the candidate with a plurality, “even if it was by a single vote.” Alessandri, the candidate of the right, hesitated because he had such large backing in Congress. Ironically, Alessandri won the plurality with only 31.6 percent, the smallest of all the eight presidential elections, but was the beneficiary of the unwritten rule he had hesitated to endorse (see Sigmund 1977, 25).

Before 1970, these plurality winners were at the same time probably the most centrist or the least extreme. In 1946, Radical (centrist) Gonzalez Videla ran ahead of the Conservative candidate by 40.2 to 29.8 percent. In 1952, independent former president Ibáñez ran ahead of a Liberal (right wing) candidate by 46.8 to 27.8. In 1958, Jorge Alessandri (son of Arturo) ran as an Independent against Socialist Allende. In these cases, it is likely that the plurality winner would have won a popular runoff in the electorate, as well as in Congress.<sup>22</sup>

The reasoning follows the logic of the median voter theorem. The idea here is that when parties and voters are arrayed on a single dimension, the candidate who is closest to the median voter will win. In a party system that goes from left to right, like Chile’s, the candidate closest to the center is likely to win the popular vote in a two candidate contest. (The median voter theorem assumes that there are only two candidates.) In 1946, 1952, and 1958, the Chilean Congress simultaneously chose the

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<sup>22</sup> I am not claiming that they were Condorcet winners, i.e. able to defeat each other candidate in a pairwise comparison.

candidate who was most likely to win a two-candidate public election and the plurality winner.

However, in 1970 the narrow plurality winner was Salvador Allende, an avowed Marxist who had been running for President since 1952. His opponent was former president Jorge Alessandri. This time it is not at all likely that Allende would have defeated Alessandri in a popular runoff. Still, in one sense the fact that Marxist Allende was awarded the presidency in 1970 with little over a third of the vote was a testimony to the strength of democratic traditions in Chile. Specifically, not only the formal constitutional rules, but also the informal and unwritten rules were also followed in this election. Beginning in 1946, Congress had chosen four presidents in succession, each time overwhelmingly choosing the candidate who ran first “although there is no doubt that legally it could have chosen the runner-up in the popular vote”<sup>23</sup>

Allende’s plurality in 1970 was 36.3 percent, with Jorge Alessandri coming in second at 34.9. (Tomovic, the Christian Democratic heir to the Frei administration won 27.8 percent). As an avowed Marxist, Allende was far from the political center in Chile. He was probably the second or lower choice of 62 percent of the voting electorate, and presumably would have lost to either of the other two major alternative candidates in a popular runoff. Nonetheless, the Congress validated his election, in continuity with democratic traditions there. If it had not done so, it would have appeared to some that the electoral processes did not deal neutrally with all political views, but were rigged against the left. This validation of his election demonstrated that elections were not so rigged.

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<sup>23</sup> Gil (1966, pp. 223-8) notes that in the 1964 election, Frei said that he would not accept the presidency if he were to run second to Allende, yet be awarded the presidency legally by Congress.

However, I believe that this is a case in which national democratic traditions were at odds with more general democratic principles in which the preferences of the median voter should dominate the preferences for an extreme candidate even if supported by a plurality winner. It is unlikely that Allende was the candidate “most preferred” by the Chilean electorate, though he won the election quite legally and legitimately. And his performance in office would show clearly that the difference between Chilean political tradition and more general democratic principles was not trivial or inconsequential.

Table 4.2 about here.

***Use of emergency powers and regimes of exception.*** Many if not all of the democratically elected governments between 1932 and 1973 resorted to emergency powers, including Arturo Alessandri, Aguirre Cerda, Frei and Allende (Loveman 2001, 254). This was a limit on the quality of democracy in Chile in this era.

***The representativeness of the legislature.*** Congress had the formal power to pass or block legislation, and was another avenue for the expression of interests. However, the Congress did not fairly represent the whole country as well as presidential elections did. First, the Constitution of 1925 established a numerical basis of representation in the Chamber of Deputies, with the provision that there be a reapportionment after each census. In spite of the fact that more recent population figures were available, the 1930 census would continue to be used through 1973 for the apportionment of legislative seats. This was in spite of considerable growth and geographic redistribution of the population (Scully, 1992, 151).<sup>24</sup> Thus the Congress was increasingly unrepresentative over time. When combined with the control of landowners over the votes of their workers until the

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<sup>24</sup> See also Caviedes, 1979.

move to a secret ballot in 1958, the Congress was itself not a body that fairly represented the population.

*Strengths and limitations of democracy in the “golden era.”* Chilean democracy seems very strong when measured by the number of electoral periods ended by another election, and when measured by the range of partisan alternatives. However, its fulfillment of democratic standards is limited by the slow extension of the suffrage in a way that would resist manipulation by elites, by the outlawing of the Communist Party from 1948 to 1958, by the use of “regimes of exception,” and by the undemocratic control of Congress.

How does this all add up? Presidential elections were probably the most accurate reflections of popular preferences, especially after 1958, even though illiterates could not vote. The only presidential election in which the Communists were not allowed to run was in 1952. And ironically, the use of regimes of exception and the lack of representativeness of the Congress may have worked against each other, though they surely did not cancel each other out. The regimes of exception enhanced the power of the president, the most representative figure in the political system, and reduced the power of the Congress, a less representative aspect. However, the result was that there was not a second, *representative* branch of the government that could and would stand in the way of presidential excesses or even tyranny.

### **Democracy, policy and performance: 1932-1973.**

What is the relationship between democracy in Chile in this period and economic policy and performance? We should first reiterate and reemphasize that economic

problems preceded this period of sustained democracy. Writing in the early 1960s, Albert Hirschman observed that Chile had been the locus classicus of inflation in Latin America because of an experience of inflation that even then had lasted over eighty years (1963, 161). And of course Chile was a victim of the world depression that followed the American stock market crash of 1929.

The particular democratic system in Chile under the Constitution of 1925 did not lend itself to policy programs that took a long time to implement. The president was limited to a single six-year term, though he could run again after an intervening president. This feature took away the possibility of rewarding a president for good performance, and also of giving him another term to complete a program that might take more than six years.

In practice, with the exception of three successive elections won by coalitions led by a candidate of the Radical Party (1938, 1942, 1946), no administration was ever succeeded by a coalition of the same general direction, let alone a candidate from the incumbent party. Indeed, Barbara Stallings shows a cyclical pattern for the three administrations between 1958 and 1973 in which performance was good in the beginning of the term, but deteriorated towards the end (1978, chapter 8). These cycles were in effect the reverse of the vote-maximizing electoral cycles discussed by Nordhaus (1975) and Tufte (1978), and led to the replacement of each by election or coup. This experience suggests that elections were often simultaneously retrospective rejections of incumbents and prospective choices of an alternative that was different from the incumbent.

Furthermore, congressional elections were scheduled every four years for the entire Chamber of Deputies, and about half of the Senate. This meant, for example, that



from 1946 to 1973, every other president lived for about three years with a legislature that had been elected before he was. For example, Frei, elected in 1964, had Congresses elected in 1965 and 1969, whereas Allende, elected in 1970, had to live until 1973 with the last Congress elected under Frei. These institutional facts contributed to a stop-go pattern of frequent large shifts in the direction of public policy.

Inflation and stagnant growth were not a problem unique to democracy as represented by this forty-year period. So even if the Chilean regime between 1932 and 1973 met fairly high standards of democracy for Latin America, these democratic institutions did not initially cause poor economic performance. They inherited it. On the other hand, these institutions failed to correct these economic problems, and they did exacerbate them from time to time. This section will relate politics to policy and performance in this era.

We will first briefly consider the conservative Arturo Alessandri administration from 1932-1938, dealing with the depression, which had driven President Ibáñez out in 1931, and nine other chief executives in the intervening year.<sup>25</sup> Then we will look at the three administrations led by Radical presidents from 1938-1952. The nonpartisan government of former president Carlos Ibáñez from 1952 to 1958 is one of a kind. Then we will treat the governments of Jorge Alessandri, Eduardo Frei Montalva, and Salvador Allende, that ran from 1958 to 1973.

Chile thus experienced elections that offered real alternatives and that brought about real turnover in executive power. These four decades were not only democratic by the standards of the day, they were surely unique in the degree to which they produced

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<sup>25</sup> See Collier and Collier 2002, 776 for their names, which include General Marmaduque Grove and his twelve-day Socialist Republic.

political leaders committed to reforming the society and achieving social justice. This fact is even more remarkable because of the limited electorate and the slowness with which Chile achieved universal adult suffrage.<sup>26</sup>

Several of these administrations had used elections to gain the power and authority to actively achieve broad economic and social goals, rather than passively representing the wishes and preferences of the electorate (insofar as these could be ascertained), or just doing what was necessary to maintain themselves in power. These governments represent the promise and possibility of achieving radical change through elections, although their experience in achieving their goals in office was mixed at best, and may also demonstrate some of the limitations of achieving change through the electoral process.

The question remains to what extent was the uneven economic performance in this era due to democratic institutions and the incentives associated with them? But the apparent stability of democratic politics in which many different ideologies coexisted may have come at a self-denying price:

The “stability” of Chilean formal democracy, therefore, depended on considerable political bargaining, the use of political patronage, and shifting governing coalitions undergirded by the continuing dominance of the landowners over the votes and the political activity of their farm work force. This dominance, in turn, depended upon the maintenance of the hacienda system through the prevention of rural unionization and the exclusion of outside influences (Loveman 2001, 197).

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<sup>26</sup> Gil makes the case that (as of 1966) Chile had had three presidential elections in the past half century that had proven to be turning points in its history: those of 1920, 1938 and 1964 (1966, p. 298). Had the book been written later, surely the 1970 election would have been included as a fourth.

In other words, there may have been a façade of a range of choices, so long as no one tried to do anything that undermined the interests of existing elites, such as the rural landowners. Even the existence of a “popular front” government that included Communists and Socialists did not threaten these interests because their initiatives were so easy to block. Only in the fifties (the Australian ballot), sixties (Frei’s “Revolution in Liberty,” and seventies (Allende’s “Unidad Popular”) did changes emerge that threatened the dominant interests. With these threats, the apparent democratic stability yielded to a military coup. I am raising the possibility that it was not just Allende that broke the fragile equilibrium, and I am also suggesting that what we think of as democracies may continue to exist in ways that depend on them not trying to do too much. Needless to say, such suggestions undermine idealistic understandings of what democracy means.<sup>27</sup>

The other major development during this long democratic period is economic. With the drying up of external markets after the world depression began, Chile had little choice but to pursue a strategy that was called import substitution industrialization, or ISI. The rationale was that, in the absence of export earnings, countries like Chile and Argentina that had exported primary products and imported industrial products, did not have the foreign exchange to continue to import. The response was to foster domestic industry to substitute for the imports. In principle and in some degree, this was a reasonable response to the external shock of the loss of markets abroad. However, in practice, the state supported industries tended to be monopolistic and inefficient, to the

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<sup>27</sup> Pick up this theme in Argentina and other chapters and address it in the conclusions.

detriment of both the consumer, who purchased inferior products, and the taxpayer, who had to foot the bill for unprofitable industries.<sup>28</sup>

**1932-1938.** The first president in the forty-year period of sustained democracy was Arturo Alessandri, elected in 1932 with a less fiery appeal than his campaign of 1920. His goals of “national unity, order, economic recovery and constitutional rule gradually pushed (him) into an ever more explicit alliance with the Right – the forces that had the most to gain from ‘law and order’” (Loveman 2001, 202). Alessandri and his finance minister Gustavo Ross faced the economic consequences of the depression, which had hit Chile harder than other Latin American countries.

Their response to the depression would be considered orthodox, at least for fiscal policy. The administration did raise government expenditures substantially, but they also raised taxes and balanced the budget within two years. There was a “sudden monetary expansion (that) created a large amount of excess liquidity which served as the monetary basis for economic recovery” (Hirschman 1963, 98).

Chile was among the “rapid recovery countries” in Latin America, according to Bulmer-Thomas (1994, 91). Monetary policy was set by the central bank, which had been founded in 1925. It is not clear how autonomous it was, or how independent from the administration. The bank apparently followed a version of the real bills doctrine that the United States Federal Reserve had used, emitting credit for the “needs of business.” Inflation averaged in single digits during this Alessandri administration, even though the rate was 26 percent in 1932, much of which should probably not be attributed to the newly elected government (Hirschman 1963, 180-3, 160).<sup>29</sup> There is not much in this

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<sup>28</sup> See Bulmer-Thomas in Bethell, Silva, Mamalakis.

<sup>29</sup> See Monteón, chapter 3, Collier and Collier 2002, Mamalakis; states of exception.

administration that would be considered poor policy that is connected to the incentives of democratic electoral politics.

*1938-1952: presidents from the Radical Party.* The elections of 1938, 1942 and 1946 were won by presidents from the Radical Party, a middle class party that ran in the first of these elections with the Communists and Socialists in a “popular front.” Though it won with an absolute majority in 1938 and 1942, the election of the popular front candidate in **1938** owed a lot to luck. First, it was fortunate in its opponent, Gustavo Ross Santa Maria, Alessandri’s finance minister, who Hirschman has said was “absolutely devoid of any interest in social progress or justice,” and who had been nominated by the parties of the right on the strength of his reputation as a financial wizard and “his assurance that he would know how to buy the required number of votes” (1963, 182, 183). Ross was quoted as having said the following in response to appeals for legislation to the benefit of the middle class: “for me there are but two classes: upper and lower. To the first belong those who have gotten ahead in life; to the latter, those who, for whatever reason, have been failures” (quoted in Loveman 2001, 208). The second but of luck was that, for reasons that are too complicated to relate here,<sup>30</sup> the popular front candidate, Pedro Aguirre Cerda, a wealthy landowner from the Radical Party, received the support of both the Chilean Nazi Party and ex-dictator Carlos Ibáñez, formerly a candidate.

Hirschman calls these Radical years “the beginning of the modern phase of Chile’s inflation.” It is possible to link inflation in this period to the incentives of

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<sup>30</sup> Briefly, the Nazis had tried to overthrow the Alessandri government with a coup that failed. Alessandri jailed them, and the most effective way for the Nazis to punish him was to support the Popular Front, (the rationale of which was an anti-Nazi coalition).

electoral politics. Inflation averaged 18 percent per year in this period, which he traces to various combinations of the following factors:

Fiscal deficits, monetization of balance of payments surpluses, massive wage and salary increases in excess not only of productivity gains but often of price increases as well, bank credit expansion, war-induced international price booms, Central Bank credit to state-sponsored development agencies – at any one time at least one and usually a combination of several among these forces were in operation. Perhaps the only common thread running through all the successive stages was the extreme weakness of anything that we would today call meaningful anti-inflationary action (1963, 183).

Several of the factors named (with the exception of war-induced international price booms) could be traced the incentives of electoral politics. For example, fiscal deficits result when popular public expenditures are not matched by unpopular taxes.<sup>31</sup> Legislated wage and salary increases are popular, and once the precedent is established, they may be difficult to avoid.

This period also saw the beginning of efforts to dampen the effects of inflation by making it bearable. Specifically, annual adjustments in the state-mandated minimum salary were designed to compensate for inflation, but sometimes went beyond. These adjustments, of course, fed inflationary expectations, and therefore helped keep it going (Hirschman 1963, 185-7).<sup>32</sup>

***1952-1958: a dictator returns as a populist independent.*** Former president Carlos Ibáñez, now retired from the army, was elected for the 1952-1958 period as anti-

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<sup>31</sup> Buchanan and Wagner, 1977, is the canonical source.

<sup>32</sup> See also Drake, Monteon, ch. 6-7, Colliers 360-402, esp. 383-4, Loveman. Harberger in Christ, ed..ISI (Silva).

party, populist, redistributionist reformer. One of his advantages was that he had no party affiliations and could credibly present himself as being “above politics.” This played into a (not unreasonable) perception that inflation was due to “politics,” and a perception that a strong authoritarian leader would defeat inflation. In this sense, his dictatorship in 1927-1931 may have worked in his favor. However, these hopes would be dashed. The Ibáñez coalition was very heterogeneous and did not provide a stable basis for governing. There were seven separate and distinct cabinets (Collier and Collier 2002, 528-20)

There were two phases to the Ibáñez presidency: a first phase in which clumsy efforts to deal with inflation with “shared sacrifices” failed, and a second phase in which another “money doctor” was invited to come in from abroad and give advice. In the first phase, inflation took off into uncharted territory, with rates of 56, 71 and 84 percent in 1953, 1954 and 1955. Some of this was due to the last automatic adjustment mechanism that had been passed in 1952, the last year of the Gonzales Videla administration. Some of Ibáñez’ difficulties may, ironically, have been related to his newfound respect for the Constitution, which he had virtually ignored in his previous presidency. He refused to assume dictatorial powers, which left him at the mercy of a Congress dominated by his opponents.

Yet Ibáñez was given special powers by Congress in the first part of his administration, and some of the proposals of his series of finance made some sense, but were not implemented successfully. One basic problem was that a large public sector deficit was financed with monetary emission. And Congress refused to pass a tax reform (Behrman, 1977, 22-42).

In July of 1955, the president engaged the U.S. firm of Klein and Saks to give advice. The orthodox advice the Klein-Saks mission gave was similar to proposals that had been made earlier in the administration by finance ministers and the Central Bank. However, the external source gave them a kind of legitimacy and force that they had lacked when introduced by Chileans who had political associations and baggage. Congress cooperated, for example, by repealing the law for automatic wage adjustments, and making current adjustments much more modest (Behrman 1977, 34-6, Hirschman 1963, xx-y). Inflation came down as a result of reducing inflationary expectations.<sup>33</sup>

By the end of the Ibáñez administration, Chile had the broadest spectrum of parties in Latin America, and substantial polarization. Especially after the Cuban revolution in 1958-59, it became even more deeply polarized among left, center and right (Hartlyn and Valenzuela 1994, p. 144). Although Chilean democratic traditions had been strong, Chilean politics was combative and polarized by class. One of the final acts of the Ibáñez administration was to re-legalize the Communist party and to institute the Australian ballot, which took away the power of the landowners to control the votes of their workers.

*From 1958 to 1973: movement from right to center to left.* The **1958** election was fought between the three men who would be the next three presidents of Chile, and who represented three increasingly coalesced class-based coalitions. Salvador Allende, a Socialist, was running for the second of his four tries for the highest office. Eduardo Frei

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<sup>33</sup> Another view of this is that by 1958, any economic benefits of this administration's reforms were negated by inflation and the conservative economic policies designed to combat it (Ascher 1984, pp. 69-70).



was the candidate of the recently formed centrist Christian Democratic Party. And Jorge Alessandri, the son of the previous president, ran as an “independent,” but with the support of the Liberal and Conservative parties of the right. The victors in the three presidential elections moved from right to center to left, each having tried without success to reform the Chilean economy.

Alessandri was elected in **1958** with 31.6 percent of the vote. This was the smallest plurality of the forty year period from 1932 to 1973. Allende ran second with 28.9 percent, while Frei came in third with 20.7 percent. Stallings (1978) and others suggest that if a fifth candidate had not run, Allende might have won the plurality in 1958. Antonio Zamorano, a member of the Chamber of Deputies from FRAP, the same coalition that Allende led, received 41,000 votes, while Alessandri’s margin over Allende was only 33,500 (1978, 79-80).

The Alessandri administration focused on inflation stabilization, with the assumption that when prices are stable, growth and distribution issues will take care of themselves (Larrain and Meller 1991, p. 176). This program had a lot in common with the neo-liberal and Washington Consensus programs that would be formulated later, but it did not succeed, mostly because of a balance of payments crisis. Specifically, it centered around four policies: wage increases in line with productivity gains, eliminating the government budget deficit, a single fixed exchange rate and a freeing of government controls on foreign and domestic capital (Stallings 1978, 82).

Inflation did drop into single digits in the first three years of this government, but labor opposition to bearing the main costs of the anti-inflation program led to a rise in strikes, and a very successful general strike. Both the strikes and Congressional politics

led the government to back down on its effort to break inflationary expectations by ending the automatic readjustment mechanisms. I consider both the strikes and the congressional opposition to be manifestations of perfectly legitimate democratic politics. In the short run, they may well have been to the advantage of the workers and other beneficiaries of the cost of living adjustments. But in the longer run, I consider them examples of ways in which democratic institutions obstruct constructive policies that would have been to the benefit of all classes, including workers.

These events were not the only ones to make the Alessandri administration a failure. The other major problem was a balance of payments crisis. Alessandri had lifted import restrictions in order to make Chilean industry more competitive. Not surprisingly, this led to a substantial increase in imports, and a reversal of a positive trade balance. Because international reserves were depleted, there was a devaluation in 1962, which fueled further inflation. French-Davis contends that the Alessandri administration's policy failure "stemmed from a lack of understanding of short-term stabilization mechanisms and their medium term repercussions (2002, 5)."<sup>34</sup>

The right had had its chance with the Alessandri administration, which was not considered a success by its own supporters. Also, there was enough fear on the right of an Allende victory in the **1964** election, that the right supported the centrist candidacy of Eduardo Frei Montalva, a Christian Democrat who won the essentially two candidate election with an absolute majority of 56.1 percent.

Frei, with his "Revolution in Liberty," offered a reformist and communitarian third way, rejecting both Marxism and liberalism, both communism and unfettered capitalism. In this way it represented an explicit

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<sup>34</sup> This section derives from Stallings, 1978, Behrman 1977, 42-55, and French-Davis 2002.

recognition of, and response to the political polarization that was occurring in Chile. Rejecting class conflict, the party sought to achieve social justice through a vision of a harmonious society modeled on the family (Collier and Collier 2002, 533).

This vision manifested itself in programs for industrial development and agrarian reform, and a fifty percent government participation in the copper industry, which was theretofore privately owned by American firms.

Although inflation had come down from the forty percent range inherited from the Alessandri administration, economic output had come down too. More importantly, labor and capital did not cooperate in being part of a communitarian political solution. By the last three years of the Frei administration, the government had aligned itself with the right. But the Chilean right felt betrayed for having supported Frei against Allende in 1964, and ran their own candidate, former president Jorge Alessandri, in the 1970 election.

***Term length and timing.*** Each of the six-year governments from 1952 through 1970 had had two phases. The Ibáñez administration came in without much of a plan, frittered away initial opportunities, and became dependent on foreign advice for an orthodox stabilization plan that reduced inflation at the cost of a recession. The Alessandri and Frei administrations had the reverse kind of experience. They came in with coherent plans that were implemented with success initially, but subsequently yielded to drift after adverse consequences of the initial successes became apparent, and after the legislative and public opposition interfered with their programs.

*Macroeconomic populism: La Unidad Popular.* Salvador Allende Gossens won the Chilean presidency on his fourth try, with a tiny plurality and a program that projected even more extreme changes than those of the Popular Front government of Aguirre Cerda in 1938 or of Frei's 1964 "revolution in liberty." Both of those presidents had been elected by absolute majorities (50.5 and 56.1 percent respectively). Allende's plurality was hardly a mandate, since a majority of the voters had supported other candidates and presumably policies that were much less radical.

But, as I have argued above, Allende's victory was legitimate. His plurality of 36.6 percent was not the smallest to produce a president. Jorge Alessandri had won the presidency in 1958 with 31.6 percent, but Allende's plurality vote fraction was the second smallest of the eight presidential elections since 1932. But as we have seen, by the standards used in Chilean elections, it was usual and legitimate for the Congress to choose the plurality winner, as it had done each of the other three times since 1932.

Allende had campaigned as a Marxist who wanted to replace capitalism with socialism. If the conventional democracy before the election of Allende illustrated several of the potential costs or even pathologies of democracy, the Unidad Popular government under him illustrated the even greater risks of unbridled macroeconomic populism, which was driven more by ideology and beliefs than by popular demands.

But Allende did represent the hopes and aspirations of many of the poor and of the political left for a better life for those on the lower levels of the society and economy. As the first Marxist to be elected as chief executive in a democracy, his program was to define "a Chilean road to socialism." The experience of his three-year administration represents for many the limitations of democratic institutions for achieving redistribution

and social justice. For others, it represents the risks of populism. I believe that both views are correct. There are substantial adverse consequences of macroeconomic populism, and there are real limitations on how much redistribution can be achieved under democratic institutions. For some, this may be a disadvantage of democracy, and for others one of its strengths.

The economic program of the Allende government was based on a “structuralist” theory, which saw economic inequality as related to a monopolistic system of production that was oriented to the preferences of the wealthy rather than to basic goods. Inflation was seen as created by bottlenecks. Correction of this system demanded a major change in ownership patterns.<sup>35</sup> President Allende’s policies included nationalization of industries, large increases in government spending, price controls and a fixed exchange rate. Public ownership of industry rose to 39 percent in 1973 (from 14 in 1965) (Bruno 1993, p. 161; see also Larrain and Meller, 1991.).

The macroeconomic results of these policies were favorable in the first year. Real growth of GDP went from two to nine percent while inflation was steady. Real wages increased fifteen percent. The only danger sign was that the government’s fiscal deficit went from under three to over ten percent of GDP.<sup>36</sup>

But the deficit continued to rise to nearly a quarter of GDP, and inflation jumped to over six hundred percent. Growth of GDP turned negative, and real wages dropped to 70 percent of what they had been when Allende took office. The policies of stimulating

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<sup>35</sup> See Bruno 1993, p. 159, note 7.

<sup>36</sup> From Agenor and Monteil p. 268, or Dornbusch and Edwards, p. 260.

aggregate demand with government expenditures and money creation had early short-term benefits, but they were not sustainable.<sup>37</sup>

The economic performance of the short Allende administration was catastrophic, and makes the previous decades of Chilean democracy look good by comparison. Since 1932, inflation had been considered an endemic problem, but it had never gone beyond fifty percent except in three years in the mid-1950s under Ibáñez, before the Klein-Saks mission came in to correct it. Under Allende, it reached 75 percent in 1972, 362 in 1973 and carried on to 505 in 1975. Chile had had endemic inflation, but Allende brought hyperinflation. Similarly on GDP growth, after reaching an unsustainable nearly nine percent growth in 1971, growth became negative in the following year, and was more negative in 1973 than at any other time since 1947.

These are the consequences of macroeconomic populism. To what extent can we consider the election of a macroeconomic populist leader a consequence of democracy? The first point is, to repeat, that Allende was a legitimate winner of the presidential election under existing rules in Chile. Insofar as Chile was democratic in its presidential election system (and this was probably the most democratic feature of the Chilean political system), Allende should be attributed to democracy. We have seen that there were real limitations on how democratic Chile was, but most of these should not be held against Allende.

Allende's election was a reflection of the risks of plurality election in a divided and polarized electorate. As is well known, plurality election in multi-candidate elections is the system least likely to select Condorcet winners and other candidates who have a

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<sup>37</sup> Sources: Agenor and Monteil 1996, 267-9, Bruno 1993, 158-62. See also Bitar, Stallings, Larrain & Meller in D&E; Loveman 2001, Bruno.

claim on breadth of support (Merrill, 1988). It was the combination of a tradition of selecting plurality winners and an increasingly polarized multi-party system that produced Salvador Allende as president.

### **The Pinochet Dictatorship**

This long experience with democratic institutions was broken on September 11, 1973 by a military coup. The military dictatorship, which governed for seventeen years from 1973 through 1990, brutally repressed or killed what it saw as the opposition, but also dramatically reformed the economy. This was by far Chile's most sustained military dictatorship since independence in 1810<sup>38</sup>.

I have emphasized how this coup was a break in a uniquely democratic history for Latin America, but there are continuities with Chilean traditions. Brian Loveman contends that Chile's "tradition of regimes of exception and extraordinary powers" noted above "provided General Augusto Pinochet Ugarte with an institutional and historical tradition to justify his *golpe*." There is no doubt that the Pinochet government violated many features of the 1925 Constitution. And in its 1980 Constitution the dictatorship "greatly expanded the types of regimes of exception and the constitutional role of the armed forces." However, according to Loveman, the dictatorship "added little to, and borrowed much from, Chile's juridical foundations for constitutional dictatorship" (1993, 352-3).

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<sup>38</sup> It has become well known that the Nixon administration undermined the Allende administration and aided the coup. In the context of trying to secure Chile's support for a second U.N. Security Council resolution against Iraq in 2003, Secretary of State Powell said that encouraging the coup "was not a part of American history that we are proud of." The Chilean government said it was glad that the US "now considers that it was an error" (New York Times web edition, February 25, 2003).

Along with the economic reforms that make the authoritarian Pinochet regime of interest to this book, the massive repression and violation of human rights unleashed immediately after September 11 is one of the hallmarks of this regime. I will address below the relationship between this terror and the implementation of the economic policies.

*Institutions of the Pinochet Regime.* Although the dictatorship of 1973-1990 is identified with one man, General Augusto Pinochet, it was really ruled by a junta composed of the heads of the army, air force, navy and carabineros (the national police). This junta operated by unanimity rule, and assigned General Pinochet (the head of the army) executive responsibilities, while the remaining three members acted as a legislative branch (Barros 2002, chapter 2, especially 68-83). Still, there is no doubt that this regime was a dictatorship, and its capacity to impose its will on policy was central to its economic performance.

There was attention to legality in the dictatorship, and the junta agreed to promulgate a new constitution. This Constitution, which was approved in a plebiscite on September 11, 1980, contained two parts, one permanent and one transitory. The permanent part established a republican government with an elected bicameral legislature and an elected president. Unlike previous constitutions, this one outlawed Marxist parties, provided some unelected members of the Senate and elevated the military to being “guarantors of the institutional order” (Barros 2002, 169).

This permanent part was to be inoperative during the dictatorship, which was governed by rules laid out in 29 “transitory dispositions” to be operative during a first presidential term. These transitory dispositions essentially duplicated the



institutionalizations of military rule that had been established in the first years of the regime. General Pinochet would be president for eight years from a date six months after the passage of the Constitutional plebiscite, or from March 11, 1981 through March 11, 1989. The Constitution set up another plebiscite whereby the people would say whether they wanted General Pinochet to continue as president after his first term ended in 1989. Further steps were laid out for elections and a move to the permanent constitution in the event that the General lost the plebiscite.

*Economic policies of the Pinochet regime.* The new regime immediately set about undoing the economic reforms of the Allende government and reversing the hyperinflation that had resulted. Although its policies were to be strongly influenced by the “Chicago Boys,” a monetarist-oriented group of scholars in the economics department of Catholic University of Chile, in many respects, its policies were comparable to those of the Klein-Saks mission that had advised the Ibáñez government in 1955 to 1958, and in general to the policies of the Jorge Alessandri government that succeeded that one. Yet because the regime was authoritarian and did not depend on elections for its office and on Congress for legislation, it could continue the policies after more democratic regimes might have been forced to abandon them or water them down.

The military regime that succeeded Allende was remarkable in the coherence and consistency of its economic policies, as well as in the character of its institutions noted above. Although the dictatorship has become deeply identified with neo-liberal, monetarist economics, it came to office without a clear long-run economic plan (Edwards and Edwards 1991, pp. 9-11; Valdez 1995, chapter 1). But it soon would be deeply identified with a school of economists associated with the Universidad Católica de Chile.

This university had made a formal agreement with the University of Chicago in the years 1955 and 1956 to establish a cooperative program in graduate training in economics. This agreement had been brokered by the International Cooperation Administration (later the Agency for International Development), and, with extensions, lasted about eight years. During this period, 26 Chilean economists were trained at the University of Chicago. Many became full professors at the Catholic University of Chile, and, with the guidance of Chicago economics faculty, completely transformed the Faculty of Economics at Católica. The influence of Chicago school economics in this department then took on a life of its own (Valdez 1995, ch. 5-6, esp. pp. 126-7).

Immediately after the coup, all the main ministries were headed by military figures, but by late 1974, civilians had taken over the main economic ministries. By late 1976, when the Finance ministry was taken over by Economics minister Sergio de Castro, Chicago Boys were in charge of almost every major economic policy-making agency (Edwards and Edwards 1991, 94). De Castro had been a student at Catholic University, who was selected for a year at Chicago, and later became dean of the economics faculty at Catholic. De Castro would be one of Arnold Harberger's "handful of heroes" whose efforts were central to successful economic policies (1993).

The Pinochet regime did not meet with unambiguous or immediate success. There were two main phases to the dictatorship that lasted from 1973 to 1990. The first one lasted through 1983, and the other through the remainder. The first one is known as more doctrinaire, and the second as more pragmatic. Actually one of the things that led to the demise of the first phase was a policy that was not especially free market: fixed

exchange rates. Inflation came down very slowly, having declined to the thirties only by 1979.

This dictatorial reform experience suggests that the time it takes for serious reforms to take hold may be very long indeed, and far longer than known electoral terms that would provide an opportunity to reject incumbent officials. “Chile, which has made the turn to sustained high growth, took fifteen years to get there” (Dornbusch 1995, 237). An authoritative book that was first published in 1987, fourteen years after the coup, considered the experiment a failure, and took on the task of explaining “what went wrong?” (Edwards and Edwards 1991, pp. 2-3).

***The transition to democracy.*** The Constitution of 1980 had provided for a referendum in 1988 on whether President Pinochet should continue in office. Plebiscites in dictatorships are notorious for being sham elections, the results of which do not really provide an opportunity for a genuine expression of opinion. The idea of a dictator losing such a referendum was unheard of before that of 1988 in Chile. But Pinochet had begun in the mid-eighties to allow more press freedom and more party activity. By 1988 there was a genuine opposition, called the Concertación for Democracy, which mobilized the no votes into a 55 to 43 percent victory on October 5, 1988 (Drake 1998, pp. 86-91). As is well known, Pinochet accepted the results of that referendum and left office peacefully. There was a referendum on July 30, 1989 regarding constitutional reforms.

***State terror and repression.*** More than 2,279 persons were killed between September 11, 1973 and March 11, 1990. More than half of these (1,261) were killed in less than four months, and more than two thirds were killed in 1973 and 1974. Well over

half were between the ages of 16 and 30.<sup>39</sup> There was so much evidence of torture that the Commission included a special section on that in its report, even though torture had not been part of its charge (Oppenheim 199x, 216-7).

Like President Patricio Aylwin, who appointed the Commission on Truth and Reconciliation, I believe that there can be no justification under any circumstances for the kinds of terror carried out by the Pinochet regime, but this government did not even have the excuses that are often used. For example, unlike Argentina and Uruguay prior to their military coups of the 1970s, there was no substantial guerrilla activity, nor was there amidst the social and economic chaos of the late Allende period anything like an internal state of war. Furthermore,

by the standards of Chilean law, there was no material justification for ... military operations of anywhere near the magnitude and fury that ensued. ... (T)he postcoup repression was driven more by perceptions of what was necessary to successfully overthrow the Allende government and disorganize potential loci of opposition to de facto military power than by any demonstrable need for military action against organized, illicit armed associations engaging in acts against internal state security (Barros 2002, 120).

Steve Stern of the University of Wisconsin has asserted that the violation of human rights was “necessary for economic reform.” There was “political genocide” against three left parties. The goal was to induce fear and fragmentation among potential opponents of the dismantling of social and economic programs of the previous regime.<sup>40</sup>

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<sup>39</sup> The *Report of the Chilean National Commission on Truth and Reconciliation* counts 2,115 victims of human rights violations, and 164 victims of political violence, for a total of 2,279 (1991, 899, 902-3).

<sup>40</sup> Steve Stern, talk at FLACSO, Santiago, June 12, 1997.

Stern may be right. However, the fact that so many of the killings were early in the regime, before serious structural reforms got underway suggests to me that they were not directed against the opponents of specific reforms such as privatization, or trade liberalization. They surely were intended to intimidate and suppress opposition to the military regime in general, and the supporters of the Allende regime in particular.

Still, I do not feel that the case has been made that human rights violations, political violence, and terror were necessary for implementing the economic reforms of the Pinochet government. The fact that the government was authoritarian and could not be opposed in elections by an opposing candidate, or by a freely elected legislature did surely have much to do with the fact that the programs were ultimately successful. As I see it, there is a tradeoff between authoritarianism and the successful implementation of a package of monetarist reforms in Chile, but not a clear tradeoff between killing thousands of people and the (long delayed) success of these reforms. In a similar vein, Martínez and Díaz argue that

it was not so much the regime's use of force, but rather its autonomy from the immediate interests of the social groups that had brought it to power, that enabled the Pinochet government to carry out a complete restructuring of Chilean capitalism (1996, 3)

### **Contemporary Chilean Democracy**

The constitution that Chile now uses is the “permanent” part of the constitution that was passed in the 1980 referendum in the seventh year of the dictatorship. It has been amended since then, but has the same basic features defined by the military regime.

There have been three presidential administrations since 1989, those of Presidents Patricio Aylwin, Eduardo Frei Ruiz-Tagle (son of former president Eduardo Frei Montalva) and Ricardo Lagos. Each has been a representative of the “Concertación,” the coalition of democratically oriented parties that combined their efforts to defeat General Pinochet in the referendum of 1988.<sup>41</sup>

Formally there are several limits on full democracy in a constitution that was set by the dictatorship in 1980. There are several Senate seats that are reserved for the military, including a lifetime seat for General Pinochet, and the military controls its own budget. Mainwaring et al. call this Chilean regime democratic, as they did the 1932-1973 period. Vanhanen gives this regime high marks for democracy, and Mainwaring et al. call it democratic.

These administrations have continued the basic economic policies of the dictatorship into the 1990s. They have given rise to “a period of the greatest prosperity in Chilean economic history” (Ffrench-Davis 2002, 16). Inflation has been low, and the budget kept basically near balance. They have given more attention to income distribution and the needs of the poor than the military regime, but without reducing the overall performance of the economy as measured by inflation and growth.

## **Conclusions**

Chile offers a clear setting for a natural experiment in which to investigate the effects of democracy and dictatorship on economic policy and performance. The period between 1932 and 1973 was certainly democratic in the fundamental sense that top

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<sup>41</sup> See Heller, Keefer and McCubbins, pp. 160-3, in Drake and McCubbins 1998 for an analysis of how reforms were maintained in post dictatorship era. See Oppenheim, Siaveles, Ffrench-Davis

executive and legislative offices were filled by popular elections over a forty year period. There were limitations on how democratic Chile was, in that the suffrage was quite limited for most of the period, in that emergency laws were repeatedly used to enhance executive authority, and in that the Congress was selected in a way that made it very unrepresentative.

But these limitations did not keep Chile from twice having the most leftist governments in the hemisphere: from 1938-1942 and from 1970-1973. It is widely assumed that broad or universal suffrage is important to the capacity of the left to take power, but the Popular Front was elected in 1938 with a (barely) absolute majority of nine percent of the total population. And an avowedly Marxist Socialist candidate was elected with a plurality in 1970.

How then did democracy affect economic policy and performance in the long democratic period? It certainly did not hinder the possibility that radical changes would not only be proposed in electoral campaigns, but also be carried out by elected presidents. In particular, the governments elected in 1938, 1964 and 1970 each made at least an initial effort for very substantial change in policy.

This chapter has shown that timing makes a difference in at least two ways. First, different programs of succeeding administrations can create a stop-go phenomenon that allows no package of policies to have a lasting effect. Secondly, effective reforms may take more than one or two electoral periods to have their effect. Regarding the first point, Jere Behrman, in reviewing three major Chilean stabilization attempts in the 1950s and 1960s, says:

(E)fforts at gradual change are liable to fail because political momentum probably will not last long enough for the benefits to be perceived. The ‘stop-and-go’ history of stabilization policies in the last two decades has created a real cynicism about the maintenance of any economic program (1977, 14)

Some of the problem may have to do with the fact that democratic elections produced such a wide variety of proposals, and directions. Another part of the problem is that elected governments were forced to compromise their programs because democratic institutions protected the rights to oppose them. The use of “states of exception” and emergency powers limited this only slightly.

The Pinochet authoritarian government did not have this problem. It could impose its policies, and could ignore or suppress opposition. But it is telling that more than ten years after the neo-liberal experiment of the Pinochet military dictatorship, a careful analysis called the experiment a failure. When reforms take a very long time, democratic institutions are probably not well suited to implement them. In fact, not all authoritarian governments are well suited to follow through, as we will see in the next chapter on Argentina.

Chile’s economic performance during the first ten or twelve years of the Pinochet dictatorship was decidedly mixed, and its outstanding growth performance is a post 1985 phenomenon, and has been attributed in part to “policy complementarities” of several of the sustained changes imposed on the Chilean economy.

The experience under democratically elected governments since the dictatorship shows that democratic institutions can *maintain* policies that bring prosperity with low inflation. If anything, macroeconomic performance in the post dictatorship democratic



era has been better than that of the dictatorship. But economic performance is good because it builds on the structural reforms of the economy under the dictatorship.

When economic conditions are not initially favorable, Chilean democratic institutions did not create the positive conditions for growth and low inflation. There was no lack of proposals and plans, some misguided and others not, but democratic institutions were available for opponents to block the passage or implementation of programs, whether they were constructive or not. This contrast between two periods of democracy in Chile, before and after the dictatorship, shows that democracy may be better at maintaining than creating a favorable economic situation. Democracy cannot be counted on to carry out structural reforms. Dictatorship may be necessary for sustained and complementary structural reforms, but the Argentine experience in the next chapter will make it clear that brutal military dictatorship is not sufficient.

Table 4.1

Election law developments in Chile

1833	Secret ballot
1874	End of property requirements <sup>42</sup>
1948	Communist party outlawed
1949	Woman suffrage <sup>43</sup>
1958	Australian ballot <sup>44</sup>
	Re-legalization of Communist Party
1970 <sup>45</sup>	End of literacy requirements
	Vote extended to 18 year olds

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<sup>42</sup> Loveman 2001, pp. 164-5. (1988, pp. 261-2?) Valenzuela 1977, pp. 189-90). See also Mariscal and Sokoloff 2000, pp. 200-2.

<sup>43</sup> Hartlyn and Valenzuela 1994, p. 132.

<sup>44</sup> See Borzutzky, p. 22

<sup>45</sup> These changes were part of a constitutional reform at the end of the Frei administration, and were not to go into effect until the next presidential term of office. See text.

Table 4.2

## Presidential elections in Chile, 1932-1973

<u>Year</u>	<u>Winner</u>	<u>Party or tendency</u>	<u>Vote percentage</u>
1932	Arturo <i>Alessandri</i> Palma	Doctrinaire Liberal	55.1
1938	Pedro <i>Aguirre Cerda</i>	Radical	50.5
1942	Gustavo <i>Rios</i>	Radical	56.0
1946	<i>Gonzalez Videla</i>	Radical	40.2
1952	Carlos <i>Ibáñez</i> del Campo	Independent	46.4
1958	Jorge <i>Alessandri</i> Palma	Conservative	31.6
1964	Eduardo <i>Frei</i> Montalva	Christian Democrat	56.1
1970	Allende	FRAP	36.6

Table 4.3

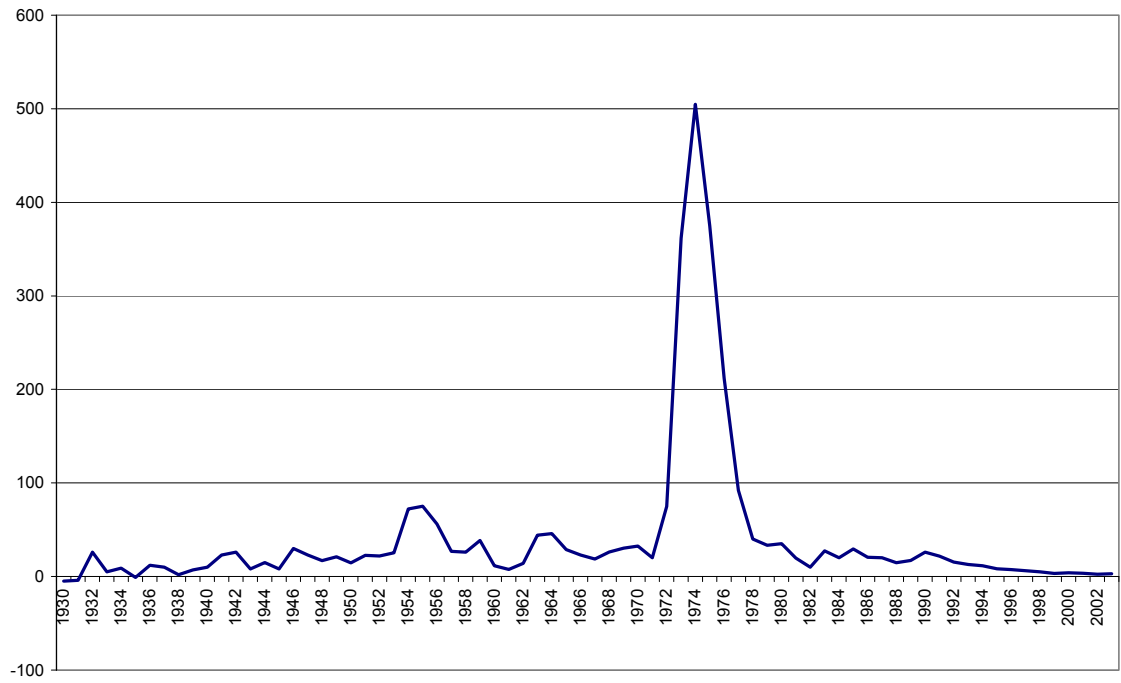
## Indexes of democracy for Chile

**Chile****Vanhanen: share of vote won by parties other than the largest single party****Polity: -10 to 10, from full autocracy to full democracy****MBPL: D = democratic; S = semi-democratic; A = authoritarian****ACLP: Dummy for dictatorship (1) and democracy (0)**

year	Vanhanen	Polity	MBPL	ACLP
2001		9		
2000		9		
1999		8	D	
1998	21.5	8	D	
1997	21.5	8	D	
1996	21.5	8	D	
1995	21.5	8	D	
1994	21.5	8	D	
1993	21.5	8	D	
1992	24.21	8	D	
1991	24.21	8	D	
1990	24.21	8	D	0
1989	24.21	8	A	1
1988	0	-1	A	1
1987	0	-6	A	1
1986	0	-6	A	1
1985	0	-6	A	1
1984	0	-6	A	1
1983	0	-6	A	1
1982	0	-7	A	1
1981	0	-7	A	1
1980	0	-7	A	1
1979	0	-7	A	1
1978	0	-7	A	1
1977	0	-7	A	1
1976	0	-7	A	1
1975	0	-7	A	1
1974	0	-7	A	1
1973	19.78	-7	A	1
1972	19.78	6	D	0
1971	19.78	6	D	0
1970	19.78	6	D	0
1969	12.99	6	D	0
1968	12.99	6	D	0
1967	12.99	6	D	0
1966	12.99	6	D	0

1965	12.99	6	D	0
1964	12.99	6	D	0
1963	11.56	5	D	0
1962	11.56	5	D	0
1961	11.56	5	D	0
1960	11.56	5	D	0
1959	11.56	5	D	0
1958	11.56	5	D	0
1957	8.03	5	D	0
1956	8.03	5	D	0
1955	8.03	5	D	0
1954	8.03	2	D	0
1953	8.03	2	D	0
1952	8.03	2	D	0
1951	5.08	2	D	0
1950	5.08	2	D	
1949	5.08	2	D	
1948	5.08	2	D	
1947	5.08	2	D	
1946	5.08	2	D	
1945	3.87	2	D	
1944	3.87	2		
1943	3.87	2		
1942	3.87	2		
1941	4.46	2		
1940	4.46	2		
1939	4.46	2		
1938	4.46	2		
1937	3.45	2		
1936	3.45	2		
1935	3.45	2		
1934	3.45	-2		
1933	3.45	-2		
1932	3.45	-2		

inflation rate 1930-2003 (%)



**gdp growth rate 1901-1994 (%)**

