

The neo liberal model in Chile: the impact of capitalistic transformation on the social structure.

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Abstract: The paper is written in the context of a major research programme aiming at consolidating a research center on changes in the social structure of contemporary Chilean society, in the University Chile. The specific objective of the paper is to explore the effects that the package of policy instruments that made possible the neo liberal turn of the development model in the country, during the seventies and early years of the eighties. The major socio economic policies of the authoritarian government that took control of Chile after the military coup of 1973, were: privatization of both the productive and service sector; elimination of subsidies in the price system; contraction of the State as employer; opening up of the national economy to maximize linkages to the international markets; deregulation of international flows of capital. Some of the major changes that are systematically shown by empirical data on the occupational structure of the country are: contraction of employment in the manufacturing sector; expansion of salaried occupations in the non manual middle class sectors; contraction of public employment occupations; sizable increase of poverty at the bottom of the social structure; drastic reduction of occupations in the rural sector. The paper is a first attempt to link the capitalist oriented policies implemented at the beginning of the military regime with the observed changes in the social structure of the country during the last decades of the XXth century.

1. Introduction.

The decisive importance of the State has been widely recognized as a key and early factor in the formation and consolidation of the social and political system of Chile since the mid XIX century. (Martínez: 1985; Cariola and Sunkel: 1982). This role was strengthened through the decade of the 1920's onwards, as the State became increasingly involved in the gradual incorporation of new social groups emerging with the transformation of the productive structure of the country. A centralized State was the main factor sustaining this social and political gradualism. A sort of golden rule for gradual incorporation into the system, in the Chilean modality, was participation through political organization. Only those groups that organize themselves had the capacity for entering in the allocation of benefits. The centralized State was the legitimate administrator of this allocation process. A sizable and efficient bureaucracy was a necessary condition for participation through political organization.

A policentric political system led by political parties acting in a framework of rather fluid alliances was a result of this process, which meant that no political party was systematically excluded from having access to the control of the management of the State. Increasing diversity of interests was an obvious outcome generated by a system like this. The political regime installed after the critical years of the 1920s, which has been labelled as "the State of compromise" made possible the articulation of the array of interests that ran alongside the social and economic transformation of Chile.

There is a more subtle way of interpreting the increasing centrality of the State along the path of the basically capitalistic economic development that has been followed by modern Chile, and it is related to the camouflage of class relations. The political action of the State, since the end of the XIXth century, particularly in the sphere of education and then in the area of public health and social security, has contributed to enhance the role of the State as an entity having the capacity of diluting the class relations.

The State in Chile appears as the great equalizer of society. This property attributed to the State has been an important factor favouring the coexistence of class-based social sectors in the democratic political arena. Latent class distinctions embedded in social relations in the country express themselves in several areas, like day to day

spoken language, educational level, body language and manners, consumption patterns, ecological segregation in major cities, non manual vs. manual criteria to differentiate workers and employees. (Núñez and Gutiérrez: 2004) The active involvement of the State in the provision of basic universal social services since the 1920 s has promoted a gradual but sustained process of middle class mobility that has softened to some degree the class barriers and has given impulse to channels of social integration that sustained the State of compromise in the political system. The strong presence of centrist political parties since the late 1930 s gave expression to the increasing mobilization and organization of the middle class sectors promoted by State

However, since the late 1950s, growing demands for incorporation were also coming from lower class sectors through their own organizations and movements, so that by the end of the following decade, practically all political parties had gone through their own internal mobilization crisis, and the complex architecture of the State of compromise was seriously weakened. Thus the historical form that had characterized the relationships between State and society in modern Chile started its own inevitable decline (Garretón and Espinoza: 1993).

This brief historical background is a required input for having a better understanding of the overwhelming impact of the neo liberal turn that was imposed on the country after the military coup of 1973. The military regime that took control of the country in 1973 with the coup that violently deposed the government of President Salvador Allende, adopted with strong force and unopposed political will, a project that was aimed at a complete recomposition of the economic, social and political foundations in Chilean society. The foundational character of the regime can be observed in the first programmatic documents of the Military Junta which addressed fundamental subjects such as the declaration of principles and the national objective.

Two are the central theses of this paper. The first one is that that military regime in Chile implemented in a modernizing and authoritarian action framework, a shock policy for a total reform of the State which had lasting effects on the social system at large. The second thesis sustains that the key instrument for such a comprehensive policy of reform of the State was the process of massive privatization in both the productive and service sectors of the national economy.

In this occasion the paper will focus mainly in some of the major areas related to the privatization processes and also in the policy interventions as regards the

elimination of subsidies and the deregulation (flexibilization according to current terminology) of the labour market. The move to a market oriented model necessarily had to clash in a frontal manner with the dominant role the State had come to play in the social, economic and political structure of the country.

2. Overview of occupational stratification from 1971 to 2000

An attempt to understand the effects of the neo-liberal turn in the social structure of modern Chile, can be oriented by a framework of relationships between the different policy areas in which the shift to market forces took place during the military regime after the coup of 1973, and some of the major changes that can be observed in the stratification patterns and processes during those years. In such a framework, policy areas can be understood as independent variables with respect to the changes in the social structure.

A convenient starting point for interpreting these relationships, is to look at the major changes and inflection points in the patterns of social stratification during the last three decades of the 1900s (Torche and Wormald: 2002). Data from employment surveys for selected years of said period are presented in table 1.

Table 1
Chile: Evolution of social stratification by socio-occupational categories and sectors: 1971-2000

Socio-occupational categories	1971 %	1980 %	1990 %	1995 %	2000 %	Percent variation 1971-2000
I. Agriculture, fishing, hunting	18,3	14,4	18,8	15,0	13,9	- 4,4
II. Outside agriculture	81,7	85,6	80,3	84,4	84,7	---
1. Entrepreneurs (businessmen)	1,3	1,4	3,0	2,7	2,4	+ 1,1
2. Middle sectors	26,2	33,5	31,3	36,2	37,2	+ 11,0
a) Salaried in public sector	18,4 (2)	9,0	6,9	6,8	7,4	- 1,6 (3)
b) Salaried in private sector	--	15,3	18,2	21,3	21,6	+ 6,3 (3)
c) Independent occupations	7,8	9,0	6,3	8,1	8,2	+ 0,4
3. Traditional handicrafts	6,2	5,2	5,2	5,4	5,5	- 0,7
4. Working class	34,5	20,3	28,0	28,9	28,6	- 5,9
a) Mining	1,3	1,3	1,0	0,9	0,6	- 0,8
b) Industry & construction	25,8	11,1	12,1	13,1	12,2	- 13,6
c) Trade & services	7,4	7,9	14,9	15,0	15,9	+ 8,5
5. "Marginal" groups	9,6	10,4	12,5	11,2	11,0	+ 1,4
a) Domestic employees	5,4	5,7	6,5	5,5	4,9	- 0,5
b) Marginal merchants	2,0	3,0	3,3	3,2	3,4	+ 1,4
c) Marginal workers in services	2,2	1,7	2,8	2,5	2,7	+ 0,5
III. Other (1)	3,9	14,7	1,0	0,6	1,4	--
IV. Total	100	100	100	100	100	--

Source: Data for years 1971 to 1995 were obtained from table 4 in A. León y J. Martínez (2001). Data for the year 2000 were provided directly by A. León. Original sources are the National Employment Surveys periodically raised by the National Statistics Institute (INE), october-december each year. Data for 1971 are found in the continuous manpower survey, INE.

Notes: (1) The category "other" includes respondents who are job seeking for the first time, and occupations with unclear classification. For 1980 this category includes workers enrolled in the Minimal Employment Program (PEM) which started in 1975 and was ended by 1988.

(2) Includes both public and private salaried employees.

(3) Differences between 1980 y 2000.

In the table, data clearly show the sustained decline of occupational categories in the the agriculture sector, which is wholly consistent with sustained long term trends in the economic development of the country that was rapidly moving towards a modern economy based in the secondary and, to a lesser degree, tertiary sectors (Raczinsky: 1974). With the exception of the year 1990, the figures are

consistent with this long term trend. The decline can be measured in a percent variation of -4.4 between 1971 and 2000.

Looking at data corresponding to the middle sectors, it is interesting to note that the salaried occupations in the public sector show a similar downward trend, from 9,0% in 1980 to 7,4% in 2000, which is a reversal of the growth that this category had been showing since the 1940 s. This shift is consistent with the contraction of the size of the State that took place during the second half of the 1970s, a high priority policy that was implemented by the military regime.

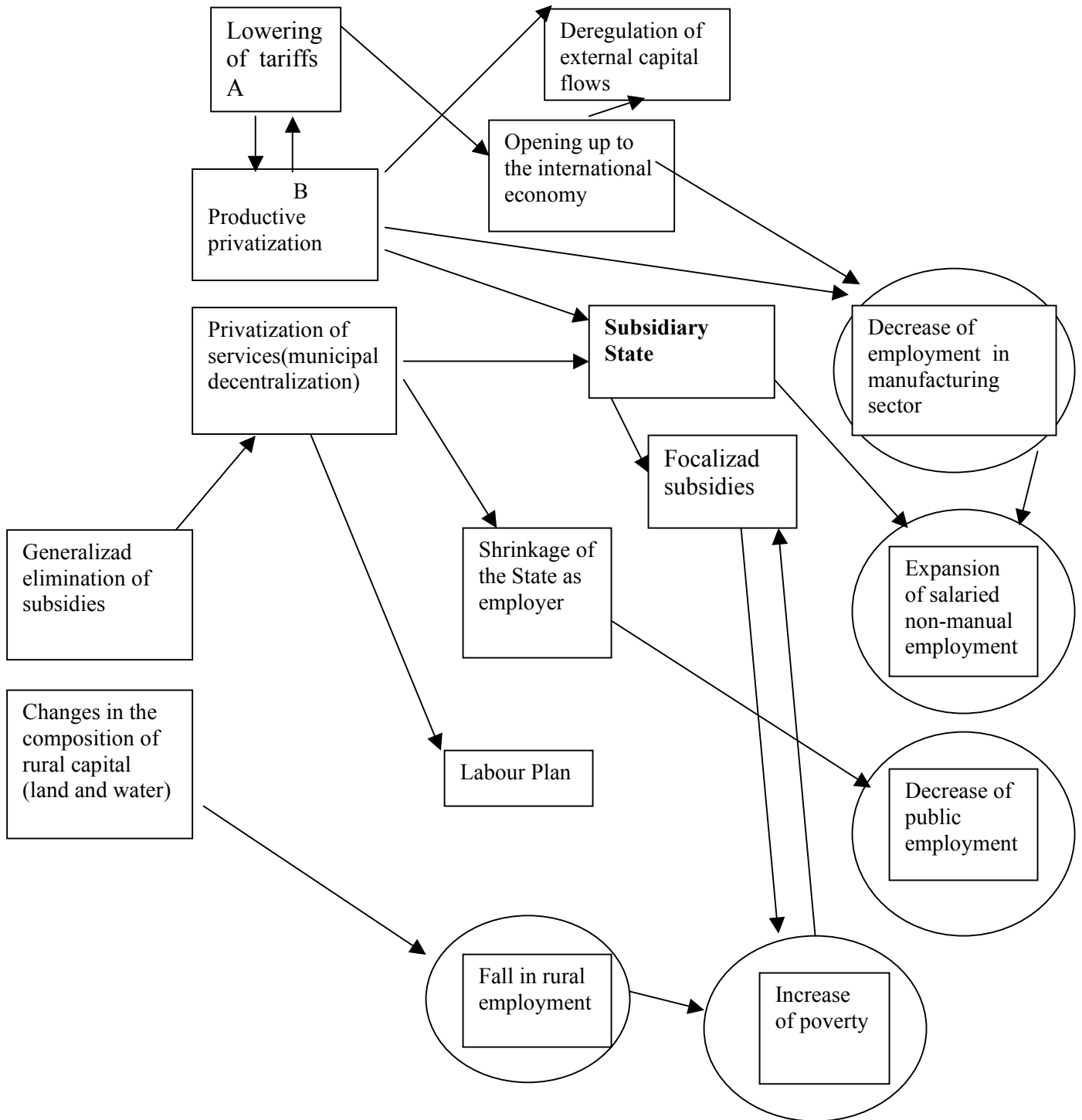
The decrease in public employment was amply compensated by the strong growth of the salaried occupations in the private sector which grew to 21,6% by the year 2000. Middle class occupations here mean employee (white collar) jobs. This is a clear indication that the leading force in job creation in the non manual labour market was no longer in the sphere of the State but in the private sector. The same shift is also present, but in a minor degree, in the independent occupations. The general picture of the middle sectors in the table, confirms that the dynamism of middle class mobility in the stratification profile of the country after the neo liberal turn, was basically sustained by the private sector. Probably, this is a major change in the historical role of the State in shaping the social relations of the country as mentioned above. (Torche: 2005; Ruiz: 2007)

The most notable changes, however, appear in the data from working class occupations. Occupations in the typical secondary sector of industry (manufacture) and construction decreased sharply from 25.8 % in 1971 to 12,2 % in 2000 (percent variation – 13,6). The real phenomenon behind these figures is that the neo liberal turn towards a leading role of market forces in the national economy was played by the service industry (financial and commercial services) and not by the manufacture sector.

The strong increase in the figures for trade and services, from 7,4% in 1971 to 15,9% in 2000, is consistente with the shift from manufacture to services. The manufacturing industry was experiencing major transformations as a consequence of the massive opening of the economy to the international markets, which was a pillar of the neo liberal policies of the regime. The new export economy moved away from the classical labour intensive protected industries oriented to the internal market, to the capital intensive production of natural resource commodities and agro-business enterprises.

In order to put the observed changes in the long term trends in the socio occupational stratification during the years of the neo liberal transformation in a wider context, it may be useful to bring forward the matrix of interrelationships of the observed changes as the effects of the major policy decisions and instruments through which the new model was being implemented without political restrictions upon the public agents that came to be in charge of the State bureaucracy in the aftermath of the military coup in 1973. The following diagram is a graphic representation of the framework of analysis that will be used in this occasion as an interpretive matrix of interrelationships.

CHILE: The neo-liberal turn (1974-1983).



A. 1974 – 1977; B. 1981 – 1983

3. The axis of the neo liberal turn: the privatization policies.

The privatization process had some noticeable waves. The first extends from 1973, the year of the military coup, up to 1981 which was a year of widespread economic crisis. In this wave there seems to be two different privatizing rounds. First, a short round extending from the end of 1973 to the entire year 1974 which includes the free devolution to former owners, of firms and capital actives that were de facto seized and controlled during the Allende government. Then, a subsequent round that ends in 1981 marked by paid privatization of actives that had been traditionally in the hands of the private sector and by the transfer of key social services to private entities.

The second wave corresponds to a recessive crisis of the national economy which is significant in itself as a transition period in terms of readjustments, including the reprivatization of firms that returned to the control of the State during the recessive crisis and new impulses of the privatization process. A third wave goes from 1985 to 1990 which was the final year of the military regime, and is characterized by the consolidation of the process.

a). First wave of privatization: 1973-1981

Towards 1970 public enterprises could be classified in two types according to their legal status: (i) stock companies that operated as branches of the State agency in charge of promoting industrial development (CORFO), and (ii) enterprises created by an Act of Congress, related to the State through a governmental ministry. From 1970 to 1973, under the Allende Government, there was a substantial increase in the number of private enterprises as the State took control of stocks in a wide range of firms that henceforth were managed as branches of CORFO. This was the scenario of the first privatization wave under the military regime, aimed at dismantling the socialist policies of the deposed regime, diminishing the “excessive” intervention of the State in the economy and reducing the fiscal deficit that was seen as a legacy of past inefficient civilian governments. This wave had two rounds:

i) First round: between 1973 and 1974, a group of 245 firms that had been taken over and managed de facto by the State, were returned to their former owners, as they had been illegally overtaken, on the condition of not suing for damage compensation for the illegal appropriation carried out by the deposed socialist

government. The present value of the group of 245 firms (Sáez: 1992) in this situation can be estimated in 1 billion US dollars. In some cases soft loans with special conditions were also included in the devolution of firms to their legal owners.

ii) Second round: between 1975 and 1981, the military regime privatized a large package of productive assets in different sectors of the economy that had been nationalized by the previous government. In the agricultural sector the Agrarian Reform initiated during the mid 1960's was stopped. Land units legally expropriated and controlled by the State were privatized and land units that had been forcibly taken over by peasants were returned to their owners. Around 1979, 30% of expropriated land had been returned to former landowners, 44% had been assigned to private agents and 17,5 % had been transferred to non-profit institutions.

The procedures for effecting the transfer of public enterprises to the private sector during the first wave were: liquidation, direct sale and sale through bidding.

(i) The first procedure involved the termination of the enterprises and the sale in auction of their capital goods and was applied in those cases where the economic sustainability of the public enterprise in a market economy was no longer possible because of the strong protective arrangements they enjoyed since their creation (tariffs, subsidies, relative prices, preferential rates of exchange, and so).

(ii) Direct sale was mostly used in the case of small enterprises due to the high cost of organizing a bidding process. Some assets of enterprises that were terminated, were also subject to direct sale.

(iii) Public bidding was extensively used during the second round of the first wave. To that end the authorities tried to transfer controlling packages of shares to private investors in order to ensure concentration of property. In the case of financial institutions the declared objective was to disseminate property, but in fact property of these firms became also concentrated as the bidders were mostly huge financial holdings. In addition the authorities were inclined to sell in long term plans to be financed with long term public credit to bidders, justifying this decision on the lack of foreign investment and the low liquidity of the national economy during the initial years of the military regime. Private groups took control of the former public

financial enterprises that were highly in debt, resulting in a rather risky transfer of property, as the ensuing crisis put in evidence in 1981.

The analysis of economic results of the first wave of privatization, shows that between 1974 and 1978 the net yield of the sale of CORFO branch enterprises and the sale of stock of commercial banks, amounted to 730 million and 450 million US dollars (in dollars of 1991) respectively. The impact of this massive transfer of property reduced the participation of the public sector in the GNP from 39% in 1973, to 24,1 % in 1981. At the same time, property of privatized productive firms and banks was concentrated in the hands of a small number of economic groups which is a logical outcome when a privatizing program is implemented in an economy with an incipient capital market, selective access to internal financing controlled by a small number of private holdings, and a negligible presence of foreign investors

b). Second wave of privatization: 1981-1983

After five years of sustained growth, an acute crisis took place in the Chilean economy in 1981, caused by a sharp increase of the deficit in the current account, a huge raise in real interest rates and a deceleration of economic growth. The peak of the crisis was reached in 1982 and in this context a significant number of productive firms and banks returned to the control of the State. Around 70% of all firms privatized in the previous years returned to the control of the State. The first impact of the crisis was then a reversal of privatization.

During the darkest years of the crisis (1982-1984) when real interest rates increased drastically, external flows of capital came to a stop, and the prices of the export commodities of the country were falling down, a sizable number of firms were intervened by the State, either because they were technically broken or because they were too important to let them go broke or because they were broadly intertwined to financial institution in problems. For these reasons 60% of the assets of the private banking system were put under State control through the intervention of 14 banks of the 19 that were privatized in the first wave (including the two largest banks: the Bank of Santiago and the Bank of Chile).

State control was extended to 68% of the pension funds accumulated by the new private social security system that was in existence since 1981, and was mostly capitalized by two of the largest Administrators of Pension Funds (Provida and

Santa María). Some of the largest firms that were part of holdings related to private banks, such as the Chilean Petroleum Company (Compañía de Petróleos de Chile (COPEC)) the Arauco Forest and the Forest Industry Inc. (INFORSA), were also intervened. The scope of this public intervention was so great that towards 1985, the new Chilean market economy had been socialized to a degree comparable to the period of the Allende socialist government.

In the following years (1984-1985) all these firms were privatized again through various procedures. Firms in the productive sector were brought into public bidding opened to both national and foreign investors. Financial institutions were privatized by an operation that authorities of the time called “popular capitalism”, consisting in the issuing of stocks that were offered on sale to private individuals who received long term subsidized loans from the socialized banks in order to buy a predetermined package of newly issued shares at nominal price. Interested buyers received in addition a generous tax exemption to compensate for the practically inexistent market value of the intervened banks. There were limits to these direct stock transactions, referred to taxes effectively paid by the prospective individual buyers.

The objective of this policy was to spread as much as possible the property of the banks. The two largest banks attracted 41.000 new “popular” shareholders, while the largest Administrators of pension funds did the same with 14.000 new shareholders. Other banking institutions were sold across the board to several regional or immigrant investors groups. In general, foreign investors became owners of the reprivatized firms by means of capital conversion of debt bonds. The yield of this conversion operation was estimated at US\$ 785 million at present value.

c). Third wave of privatization: 1985 – 1990

In 1985 the government launched a new privatization programme including the large public enterprises that had been created by the State during previous decades. The original goals were set at privatizing 30% of the capital stock of a limited numbers of State companies, and 49% of just two of these companies, but these goals were largely surpassed.

The third wave of privatization was publicized with a new ideological slant. In a communiqué issued by the Minister of Finance, stated that in addition to improving the efficient use of natural resources, “privatization is the foundation of both the free society and the market economy”. For political reasons, the authorities were committed to a gradual implementation of the programme.

Traditional State companies were in the public services utilities sector (electricity, water, gas and telecommunications) but also in key productive areas (sugarbeet industry, coal, steel, transport) and in the financial sector (State Bank). Accordingly, 33 State enterprises were to be privatized during the 1985-89 period (see Hachette and Lüders: 1992 table III.1), but the real programme was somehow under that goal. During the said period 18 State enterprises were fully privatized while 9 were partially sold to private investors.¹ The total yield of income amounted to US\$ 1,500 million (in 1997 prices), estimated at US\$ 2,394 million at present value, which means 3,4% of the GNP.

In order to obtain the support of the workers in the State enterprises included in the privatization process, the government set up incentives for buying shares (labour capitalism), offered shares to the public at large (popular capitalism) Small share holders, institutional investors (basically the private pension funds), market investors (bidding and Stock Exchange operations) and subsidized sale of shares to workers of the State companies, were the policy instruments used in the process. Workers could buy a range of 5 to 10% of shares. They received an advanced payment of the retirement bonus for years of service, they could buy shares at a preferred price, and their operations were covered with an insurance to cover the eventual fall of the prices of shares.

To attract foreign investors, shares could be paid with external public debt bonds issued by the Government, which had a real value of around 65% of their nominal value in the New York financial market, but were redeemed by the Chilean Central Bank at 93% of their nominal value, when they were used for buying shares of the public firms on sale. Internally, the private Administrators of pension funds were authorized by the governmental regulators to buy shares of these enterprises and thus they became major agents in the last wave of the privatization process that was a key factor for the consolidation of the new neo liberal model.

¹ Some cases were Compañía de Teléfonos de Chile (CTC), 86%; Empresa Nacional de Electricidad (ENDESA) y Empresa Nacional de Telecomunicaciones (ENTEL), 90%; Lota-Schwager, (coal mining) 95%; LAN Chile, 76%. All of these are fully private at present.

The most significant effects of the advanced privatization programme of the third wave, are related to the composition and volume of employment. These effects must be understood in the wider context of other major components of the move towards the capitalist neo liberal model, that was being implement in parallel, such as the opening of the economy, the deregulation and liberalization of external

capital flows, and the emergence of a subsidiary State. The direct impact of privatization, particularly of the traditional State enterprises, was a sharp decline of employment in the public sector, a significant pillar of the advancemente of the middle classes in modern Chile. Public employment went down 50% en the period 1973- 1986 considering all privatized firms.

4. Intervention of the labour market.

As regards labour and trade unions, the military government adopted a radical policy aimed at dismantling the organizations of workers, and liberalizing the labour market. The immediate decision was the dissolution in 1973 of the Central Unica de Trabajadores representing close to 30% of the national labour force.. Other measures quickly followed like the elimination of hiring norms, the regulation of labour conflicts, the creation of new norms for the designation of workers representatives in trade unions on the basis of seniority, new legal procedures for termination of labour contracts, special courts for the resolution of labour conflicts, new procedure to terminate contracts by the unilateral will of one party, and the limitation of indemnities. (Quevedo and Tapia: 1989).

Unemployment was a recurrent problem in the implementation of the market led model. Some figures from reliable sources², show that between 1980 and 1988, the real rate of unemployment, including the oficial minimun employment programme (PEM) which was in fact disguised unemployment, varied in a range with a floor of 12% in 1988 and a ceiling of 35% in 1983, the crucial year of the economic and financial crisis of the 1980's (30,7% in 1982, 26,2% in 1984 1984). (Quevedo and Tapia:1989).

Unemployment problems were indeed a general situation throughout Latin America. According to the analysis carried out by a regional international institution the main

² The Department of Economics of the University of Chile

changes in the structure of salaried employment in the region during the 1980's, were: (i) decrease of salaried occupations in overall employment, (ii) loss of importance of industrial occupations and increase in the proportion of salaried jobs in the tertiary sector, (iii) decrease of employment in the public sector, (iv) increase of occupations in the micro and small enterprises sector (v) fall of domestic service occupations in the employment total.(CEPAL:1993, p.7).

In the case of Chile which followed in general the regional trend, there was a net growth of salaried occupations in spite of the reduction of public employment and the fall of domestic occupations. This trend was reinforced since 1985. Between 1986 and 1990 the economy created 700 thousand new jobs in the urban areas, 68% of them in the private sector and 3% in the public sector. At the end of the 1990's urban salaried occupations amounted to a total of 72% of total employment. (CEPAL:1993, p.8).

During the second half of the 1980's decade, increases in the participation of the 25% and the 40% of the poorest households with the corresponding decrease in the Gini coefficients, show that inequality was slightly reduced in the urban areas of Chile and other countries in Latin America, such as Costa Rica and Colombia. These improvements however did not compensate for the serious deterioration in the previous years of the same decade. In the case of Chile the worsening of inequality in the rural areas coincided with the rapid growth of household incomes in the average which reached 47% between 1987 and 1990.

This aggregate improvement was the cause that the poor sectors did not suffer an absolute deterioration of their income levels. Actually the first quartile reduced its participation in the income distribution from 10, 7% to 7,1% during those years, but maintained its average income. At the bottom, 40% of the poor households obtained an income increase of 9%, but the richest 10% on top, gained almost 90% in the distribution of income, that is, they almost doubled their rel income level. (CEPAL: 1993, p.22). Thus, the moderate gain of the poorest groups made it more tolerable the growing gap with respect to the highest strata in the social structure.

5. Privatization of public services through decentralization

A fundamental component of the sweeping reform of the State implemented by the military regime, was the process of regionalization with reached practically all

sectors of the public administrative system. Probably, the leading role played by the authoritarian government was a mean to gain a significant level of social legitimacy as this process of decentralization represented a potential improvement in the efficiency of the public sector that cut across diverse social actors in the country. The process took shape rather early in 1974, with the division of the national territory into 13 regions and the adoption of basic norms for the internal government and administration of the country.

The programmatic tenets of decentralization through regionalization were: (i) deconcentration of the overall economic and social structures; (ii) rationalization of the administrative functions; (iii) citizens' participation in collegiate organs for the designation of regional authorities; (iv) financial autonomy. A National Regional Development Fund up as a policy instrument to redistribute resources from the richer to the poorer municipalities was set up much later in 1991 during the first year of the democratic regime that took power after the military government. (Baeza: 1994).

Within the constitutional framework designed by the military government,³ public services were understood as administrative entities in charge of satisfying needs in a regular and continuous manner and they could be centralized or decentralized. The first ones fall under the direct political and administrative control of the Presidency through the corresponding central ministry. Decentralized services have legal and patrimonial autonomy, under the supervision of the Presidency, again through the corresponding ministry. They can be national, regional or local in scope. The last two are subject to the supervision of the designated regional authorities and follow the technical norms of the sectoral central ministries (Baeza: 1994).

Decentralization of public services was implemented by transfers of public goods they produce to the local municipalities and had two major streams: education and health services

a). Education

Several documents issued by the Military Junta Documentos del Gobierno Militar, during the period from 1974 to 1981,⁴ established the bases of the

³ It must be taken into account that most of the constitutional architecture that was created by the authoritarian military regime in 1980, is still in full application. The constitution itself has been practically untouched.

⁴ These documents are: Declaration of Principles of the Junta Government, 11 march 1974; National Objective and General Policies of the Chilean Government, 11 march 1981; Educational

municipalization of education on the following principles: (i) subsidiary role of the State vis-a-vis the private initiative; (ii) strengthening of intermediary bodies of the civil society; (iii) de-bureaucratization of the service; (iv) recognition of the importance of private education.

The decision to transfer public education to municipalities was adopted in 1980. Transfer of the service was done through an agreement between the Ministry and the Municipality⁵ covering all the operational aspects of the transfer (schools which are passed on; change of property of actives and installations; financial resources allotted to the municipality; and the list of transferred personnel who were no longer public officials of the central State.

Teachers and school administrative personnel were thus “privatized” and the municipalities, as new owners, had to take care of the payroll. Schools were transferred with a subsidy per student. Towards the end of 1982, a total of 5,989 public schools until then under the direct dependency of the Ministry of Education, had been transferred to municipalities in all the regions of the country, with a total of 63,038 school teachers and 4,065 administrative staff. The Ministry of Education was still keeping 913 schools with 9,067 teachers. The process was completed in 1986. (Torche:2005)

With regard to the subsidies for the privately owned and managed sector in education, the number of subsidized schools increased from 1,674 to 2,663 between 1980 and 1986. A significant proportion of these private subsidized school were owned directly by the Catholic Church or by agents linked to the Church.

b). Health care services

Transfer of health care services to the municipalities was started in 1981. The procedure was similar to that for education. The Ministry of Health passed on to the municipalities the primary health medical services with their physical and human resources, through a 5-year agreement between the regional health services of the

Policies of the Government, 1975; Presidential Guideline on Education , 1979; and the 1980 Political Constitution. They constitute the pillars of the legal regulation of public (municipal) and subsidized private education, a distinction which has remained up to the present.

⁵ There were around 345 municipalities throughout the country. All of them were recipients of public schools formerly administered by the Ministry of Education. Then municipality was treated as a public entity intermediary between the State and the private persons. (Prieto: 1983).

Ministry and the municipality, stipulating that the latter had to manage personnel and goods, deliver the health care attention to a beneficiary population according to rules and regulations established by the Ministry. Regional services had to supervise and provide guidelines for medical diagnosis and treatment. Financing was transferred through invoicing the health attentions to individual patients (Jiménez y Gili, 1989).

Primary health care services were transferred first in the rural areas between 1981 and 1986. In 1987 the process was completed with urban services so that the following year all rural services and 92% of general outpatient primary attention services were under management by municipalities. At the beginning of 1988, 993 rural posts, 117 outpatient rural services and 178 urban outpatient services had been transferred. The process did not include specialty clinics, emergency services and hospitals.

c). Social security

Privatization of social security was another reform process of great proportions. Starting in 1981 the government gradually discontinued the previous social security system that was based on collective welfare covering 75% of the labour force by means of a variety of retirement plans and institutions. With the new system social security contributions were channeled to private administrators of pension funds on an individual capitalization retirement basis. Investment of retirement funds were tightly regulated by a supervisory governmental agency in order to ensure investment returns.

Retirement claims accumulated in the former system were converted in bonds redeemable at the time of retirement. Social security contributions under the new privately managed system amounted to 13,5% of gross salaries (10% for a basal premium, plus a premium for labour accidents and handicap insurance). As contributions under the previous system amounted to 17% of gross salaries, there was a massive displacement of contributors to the new privatized system.

For employers the private system of pension funds administrators was clearly attractive because compulsory employers' contributions were eliminated in the new system. As Sigmund has said, with the kind of incentives brought forward by the new privatized social security system, the Government had made to both employers and employees an offer they could not reject. (Sigmund: 1989).

6. The social ideology of the neo liberal model

The neo liberal model that started in 1973 assumes that the State is extremely inefficient as regards distributive functions. As extreme poverty alleviation became a major objective of social policies at the time, focalization for the distribution of State aid became a crucial aspect of social policies. State intervention in this respect was to be reduced to a minimum, and only for cases of extreme distress, when adequate responses were unavailable from both individual persons and intermediate civil society organizations. Economic growth was considered the only way for attaining a generalized improvement in living conditions. The subsidiary nature of the State, became one of the major principles orienting public action. The ideological foundation of the political regime in the view of the military government, was the subsidiary nature of the State. Individual liberty and equality of opportunities had to be based upon this principle.

In the case of individual liberty, the key in the vision of the authoritarian regime, is “the capacity to choose in the market the goods and services as wished, including the provision of basic social goods and services and the appropriate labour relations. Equality of opportunities was defined as the absence of discrimination which can only be attained in the market, that is, sheltered from the arbitrary and discretionary power of public bureaucracies. Equality also implies ensuring to all the population the possibility of satisfying their basic needs of food, health and education (MIDEPLAN: 1991, p.9).

Further elaboration of this notion sustained that the objective to be attained, according to the Declaration of Principles of the Government of Chile, “is a society with equal opportunities in a context of freedom, where personal differences are highly positive provided they come from God or from merit...equality means uniformity, collectivization and elimination of the individual. To focus upon opportunities for life, for the development of each one, is to aim at the human realization of self” (ODEPLAN, 1984, in Martínez and Palacios: 1996, pp. 188-189).

The principle of subsidiarity of the State shelters these notions of equality of opportunities and individual liberty, as well as the values of autonomy of intermediate organizations. “From this principle the more adequate strategies for eradication of poverty and creation of necessary conditions for the social

development of each one , can be derived ... A strategy that can focus social subsidies in the poor social stratum in a direct and progressive way is required for eradicating poverty. This means that the rest of higher strata should bear all or part of the cost of social benefits they are now receiving free. In this way they would have an effective solidarity relation with families in conditions of poverty” (Idem) If inequalities prevail, they are the result of the personal effort or merit of individuals, their propensity to save, and so. Distortions in the social structure and in the market can be easily overcome with policies aiming at living direct subsidies to satisfy the extreme needs of vulnerable groups. (MIDEPLAN: 1991).

The practical implications of these ideological views can be seen in the sharp decline of social expenditure as a proportion of GNP, falling to 16% of the GNP in 1980, and then slowly climbing to reach in 1986 the level of 1970. (Martínez and Palacios: 1996).

As regard the participation of the private sector the final balance can be summarized in the municipalization of primary and secondary in order to decentralize the administration of the system. A notorious effect of this privatization is the persistent loss of quality of education in the poorer “municipios”. In the health sector private health insurance agencies were created, in parallel with private administrators of pension funds in the social security sector. Social housing services were increasingly handled by private real estate firms with market financing.

These processes had a deep impact in the increase of the levels of poverty at the bottom of the social stratification profile and in the concentration of income of high class strata at the top. Modern capitalistically advanced Chile can be counted among the ten most unequal societies in the world today (Torche, 2005).

7. Impact of the neo liberal model on the social structure of Chile

The effects of the neo liberal turn on the social structure of the country towards the end of the military regime in 1990, must take into account the interrelationships of an accelerated process of capitalistic transformation guided and imposed from the top, a political system that was forcibly and formally closed, and a repressive authoritarian political regime. A number of typical situations in the social stratification profile and the corresponding social mobility processes, can be

worked out in order to assess the differential impact of the drastic change in the economic model, implemented by the military regime since 1973 (Ortiz: 1989).

To that end, typical situations in the changing social structure of Chilean society at the time, are constructed in the following pages.

(i) *Groups receiving the benefits of the neo liberal model.*

These groups were mainly but not exclusively concentrated at the top of the social pyramid, as some specific benefits spilled down through highly selective and segmented mechanisms. In general these beneficiaries comprised a small group rooted in the most modernized sectors of the socio economic structure and, as such they were able to expand their success opportunities. Members of this top layer were basically entrepreneurs and economic groups controlling holding arrangements linked to medium sized and big enterprises that could have advantageous and timely access to the opening of the financial market and to the bidding operations and transfers of public capital assets to the private sector. In this way they could consolidate their positions in a domestic market characterized by oligopolic features. Entrepreneurs that were able to make light technological adjustments that were needed to capture the more advanced segments in the productive markets, specially those that recycled their operations toward international export markets, must also be included in this privileged group.

Another group that were firmly positioned at the top of the social hierarchy comprised big and diversified entrepreneurs that had privileged strategic information on foreign markets and, at the same time, could have access, in the appropriate moment, to foreign investor groups that enabled them to engage in new productive activities directly related to the opening of the national economy. These economic agents grew in the primary mining sectors, and in fishing, forestry, and export oriented agriculture that became the supporting platform for modern agro-industries and the associated chain of technical, financial and commercial services linked to agricultural exports.

Associated to the diversified modern capitalist entrepreneurial stratum described above, there was an important social category (possibly in qualitative more than quantitative terms) including numerous agents providing specialized technical and professional services demanded by the more expansive firms in the export sectors. This is the occupational category comprising independent and highly skilled

professionals that were in a position to respond to the demand for specialized services coming from an exceptional layer of powerful clients. Independent consultants, as well as qualified managers and top level officials having dominant roles in decision making in both private firms and public agencies must be included in this category.

Strictly speaking in these groups there was the limit of the so called “spill over effect” induced by sustained economic growth that was advocated as a process that would socially compensate the economic concentration of income and wealth intensified by the modernizing authoritarian policies of the military regime. It was a short range spillover from the membership of the privileged sector at the top to the immediate peripheral stratum that was close to privilege. Clearly it was a spillover that did not filter much down beyond the top, and would not reach social groups that only from the distance could glance at the living standards enjoyed by those who were receiving most of the material benefits of economic growth.

At the top of the stratification system dominated by the capitalistic modernizers in the Chilean society of the 1970s and 1980s, there was also room for the more traditional upper class that, to a certain extent, regained a social economic prestige that had been undermined during the long period of the State of compromise as described above in this paper. It is certainly possible that the challenges this group had to go through were much more related to the weakening legitimacy of its prestige, than to a real loss of economic power. If that were the case, there would be a reasonable explanation for the strong identification of this group with the symbols and the ideology of a military government that was decisively restoring a social order that was clearly attractive to those in command.

Privilege and benefits also reached to a middle class stratum of young entrepreneurs and technocrats. The old Chilean middle class that grew under the protective umbrella of universal public services and stable jobs in the public bureaucracy, could not be counted among the major beneficiaries of the capitalistic neo liberal model imposed on the country in so far as this model implied a persistent dismantling of the social and economic policies of the State of compromise. The beneficiaries in this stratification level, were members of a middle class of a modern generation, that embraced in full the values of competitiveness and rapid success associated to the ideology of the model. For this new, young middle class, the values of lifelong security and job stability cherished by the older generation, had no practical significance.

The military technocracy could also fit into the new privileged middle class, in so far as the professional armed forces in full command of the political control of the country and firmly positioned in the state technobureaucracy, were recovering their own social prestige. This sort of re-encounter of political power with social prestige, - now detached from the brilliant past of the army in the national history-, would not only explain the privileged status of the military, buy also the strong ideological commitment they felt to embrace a “mission” devoted to founding and consolidating a new social order in the country.

(ii) Groups with adaptive capacities to adjust to the model.

The second layer in the stratification profile affected by the implementation of the neo liberal model, comprises all those social groups that could accommodate themselves to rapid changes that were shaping the social context. In general adaptive strategies were followed by groups that not being necessarily the direct beneficiaries of the neo liberal policies, were able to adapt to the new realities they had to face.

Groups in this broad social sector were not directly privileged, neither they were the direct recipients of the limited spillover of economic growth generated by the neo-liberal model. They made up a highly heterogeneous sector, embracing middle class strata that were now stagnant as compared to the gradual but sustained upward mobility they had enjoyed in previous decades. Their mobility channels had been traditionally linked, on the one hand to the protected, inwardly oriented industrial development that prevailed in the era of the State of compromise, and on the other hand to the expansion of coverage in the educational system. Industrial jobs available in the manufacture sector, acquisition of educational capital and the social networks created by the developing welfare system since the 1930s were the pillars of the middle classes that had attained advantageous positions in the social structure of modern Chile.

Sizable groups with second level professional qualifications, occupying dependent position in the labour market, such as teachers, technicians and specialists graduating from the tertiary, non university higher education, were the mainstream of the middle class strata. In addition these strata also included a considerable number of public servants in the expanding social services provided by a wide range of public agencies, that were forced to migrate to the private sector, due to the drastic reduction or dismantling of the State agencies that were in charge of the subsidized social services and programmes that took place at the initial stages of the neo liberal

turn, and more intensively at the later time of the full implementation of the privatization process during the more advanced stages of the model.

An important level of women's participation in the labour market was a notable characteristic of the composition of these groups, a feature that was intensified during the 1980's due to the deterioration of family incomes and to the increase in the joblessness and underemployment of the household heads, caused by the shift towards a market led development model.

Another component of the heterogeneous middle class groups that somehow adapted themselves to the new conditions, was the diversified layer of small entrepreneurs that are statistically aggregated in the broad category of "independent workers". Shopkeepers, owners of small family enterprises, as well as small and medium sized firms and workshops, and small handicrafts productive units, that were economically viable in the context of cooperative associations and networks promoted by State agencies, were forced to subsist almost by their own under extremely unstable conditions in a productive market that was increasingly dominated by the emergence of modern and strongly competitive firms and service providers.

However, an entrepreneurial spirit of ingenuity in combination with affirmative independent actions allowed these small entrepreneurs to adapt themselves to the new economic conditions created by market forces. Thus they were able to set up a range of productive units in some sort of "grass roots economy" that adopted the productivity benchmarks in their dealings with the external market economy but, at the same time, adapting coordination criteria to guide economic efficiency and labour organization at the inside of their own small and medium sized enterprises.

In the rural context, adaptive groups comprised the new category of seasonal labourers hired by the big agro industrial firms and agricultural enterprises linked to the export economy. Again, in these groups, which were relatively young in age, there was a significant presence of women in the workforce. Former peasants who became inhabitants of the new rural villages created by the agrarian reform process during the late 1960 s and early 1970 s, were integrated into the adaptive groups pertaining to the broad and new middle class sectors, as they started to adopt life styles and occupations which were clearly more urban in character than the traditional ones they had in previous times.

Finally, technically qualified workers in demand by the competitive and export oriented firms that were successfully adjusting to the open economy, could also move upward in the stratification profile and joined the ranks of these adaptive social groups.

It is important to keep in mind that all these adaptive groups had practically no capacity at all for organizing themselves in defense of their own interests. It appears that the modernizing authoritarian political arrangement that operated unopposedly at the time, made room for adaptation and conformity along the capitalist rationality of the economic neo liberal model, at the cost of demobilizing and sacrificing the capacity to have a collective and autonomous action oriented to the real needs and interests of these groups.

(iii) Groups that were gradually marginalized

These include social sectors for whom there was no viable room in the new social structure that was taking shape with the productive transformation of the economy. Most of the groups in this category were affected by a kind of “social obsolescence” generated by the technologically modernizing neo liberal turn. They were hardly hit by the process and they were unable even to try to set up defensive strategies, due to the repression of social participation and the authoritarian closure of the political system in which there was no space for mobilization from the outside margins of the system.

Probably the most typical group in this situation were the traditional peasants who used to live and work as a sort of homesteader (“inquilino”) in the great landed properties of traditional landowners. As a consequence of the agrarian reform that had previously started in the mid sixties, this group was detached from such traditional structure and became either small owners of productive plots, or members of new cooperative economic units that were set up by the reform legislation after the expropriation of the great landed properties.

The military government dismantled the cooperative system. In addition, the reconstruction of the land and labour markets in the agricultural sector meant that former peasants had to recycle themselves as workers in the modern agro industrial export oriented firms that prospered under the new market led model. In a short time span, covering a couple of demographic generations, an entire social category practically disappeared from the changed rural world in modern Chile

In addition to the process of social obsolescence provoked by the technological component of the neo liberal model, another stream of discriminatory marginalization was related to the limited capacity of the deregulated market labour imposed by the military to increase substantially the demand for labour in a context of cheap, unemployed labour force. The mass of unemployed was located in the vast settlements of “pobladores”, some of them the product of de facto occupation of urban land, in the fringes of Santiago, the capital, and some other major cities in the regions. Residents of these shanty towns (pobladores) were not only displaced by the mains forces of the productive system but were also subject to forced relocation operations that took them away from the city of original residence. These were the reservoirs of cheap labour force, a significant input for competitive advantages in an economy that was increasingly geared towards the external global market.

It could be said that in a rather short period, embracing a couple of generations, an entire social category of traditional peasants was almost wiped out of the rural social structure of the country. This is basically an empirical statement. On the other hand, almost the same process could be observed in the sector of traditional fishermen, that could hardly resist the aggressive penetration of the modern fishing industry. Small fishing villages started a cycle of tourist activities that produced a change from productive to service occupations of the former fishermen.

The above comments do not deny that in certain occupational categories in these social groups there was a real demand for labour in selected development “poles” during the growing phase of the modernizing market model in Chile, but these were localized cases. The general situation of the categories that make up the group of marginalized “pobladores” was rather a lack of stable jobs. This has been a broad segment in the lower part of the stratification profile, conforming a socially discriminated world mainly populated by the young. In this realm some analysts sustained that the modernizing authoritarian imposition of the model produced in those years a country with two faces.

(iv). Groups that were repressed from above.

These groups adopted a strategy of straight rejection, inspired by a persistent “counter cultural” force that put into question the conformity to the patterns of behaviour of the new dominant model. This category was somehow heterogeneous but was clearly concentrated in the pockets of cronic unemployment created by the

model, that were located in the poorer segments of the major urban centers. The proportion of people, mostly young males, that were dropouts of the formal educational system and lacked stable jobs (if they worked at all) is a reasonable indicator of the risk and vulnerability of one of the main components of this repressed category. Around 1990 in the lower quartile of the income distribution in urban areas, the conditions described above situation was affecting the young in Chile in a one to four proportion (see CEPAL: 1993).

Political actors had a clear awareness of the tensions in the network of social relations in the changing social structure that was taking shape by the package of reforms implemented by the authoritarian regime during the 1970's and 80's, as described above in this paper. Accumulated tensions and latent conflicts in the system, were a basic ingredient in the scenario that opened the political transition to democracy in the late 1980's and early 1990's. However, in the economic dimension framework of the transition, no major changes in the neo-liberal model were noticeable. The development of the model into the following two decades, was in way a long projection of the frontal transformation that was led by the elite in power since the year of the military coup in 1973, but that perspective would take the analysis way beyond the limits of the present paper.

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