



Plaza de Armas, Santiago, Chile.
Photo by Roberto Stelling.

CHILE

Democracy and the Chilean Miracle

by Bryce Breslin

How can Latin American countries articulate economic growth, social development and democracy in a sustainable model of development? How can this goal be achieved in the context of the growing integration of global markets and increased interdependency among nations? With these questions, Manuel Castells opened his recent talk for the Center for Latin American Studies. The model elaborated by Chile, he argued, has emerged as the most viable — indeed, the only viable — response to these challenges in Latin America. Yet contrary to the standard view, which has framed the “Chilean Miracle” as a triumph of the neoliberal economic policies and reforms first implemented under the military dictatorship of Augusto Pinochet (1973–90), Professor Castells offered an alternative explanation of Chile’s success: the 17 years of measured state intervention and social redistribution, comparable to Roosevelt’s New Deal, that elected governments have pursued since Chile’s return to democracy in 1990.

Castells, a world-renowned scholar of communications and the “information society” who was for many years a professor in Berkeley’s Departments of Sociology and City and Regional Planning, first reviewed the economic theory of development that dominated the last quarter of the 20th century. After the stagflation of the 1980s, Latin American nations came under increasing pressure — both internal and external — to adopt a model of economic development based on liberalization, privatization, deregulation, adoption of austerity measures and containment of social demands. This theory dominated much of the 1990s, in Castells’ words, “...a period marked by the so-called Washington Consensus, labeled ideologically as neoliberal policies.”

While for many this model seemed the only possible solution to the challenges of development in the context of globalization, its trajectory as a tenable approach turned out to be remarkably short-lived. By the first years of the new century, most Latin American nations had written off neoliberalism as socially regressive and politically unstable. In addition, many countries subsequently elected left-leaning administrations in a widespread rejection of the Washington Consensus. Castells pointed to Mexico and Colombia as the sole exceptions to this political backlash in the region.

With this new era of political leadership has come



Photo by Meredith Perry.

Manuel Castells.

an emphasis on state intervention and policies of social redistribution. It is in this sense, Castells explained, that the ideology of neoliberalism is “dead,” having “defeated itself.” In this same period, however, institutional stability and democracy in the region have regressed: Castells cited a recent study that shows democracy has lost the support of more than 50 percent of the region’s population. In its place, he argued, has arisen a form of populism that subordinates democracy to broader projects of social transformation and ultimately weakens economic stability. Such instability currently threatens to lead to another round of economic crisis in Latin America.

Against this backdrop, he argued, Chile — with its sustained economic growth and 17 years of political stability — has stood in sharp contrast. Since the end of the Pinochet dictatorship, Chile has seen a substantial improvement in the living conditions of its population, an unprecedented reduction of poverty and dramatic progress in education, housing and health. “In many ways,” Castells explained, “Chile is the only success story of Latin American development.” In the United States and throughout the world this singular success has largely been attributed to the free market, laissez-faire economic model implemented by Pinochet and his economic czars, known as “the Chicago Boys.” However, the empirical data — which Castells supplied in great quantity,

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Photo by Huong Worley

New housing development in Chile.

having carried out research on the subject for a book he published in 2006 — emphatically refutes this notion.

Castells identified two distinct models of development in Chile since 1973: the “authoritarian liberal exclusionary model,” implemented under the dictatorship; and the “democratic liberal inclusive model,” which has been in place since re-democratization in 1990. This second model, Castells insisted, is the hidden story behind Chile’s unprecedented growth and stability. Castells’ direct comparison of the empirical indicators for each of these models was telling: during the 17 years of Pinochet’s dictatorship, Chile’s average rate of economic growth was 2.4 percent. During the 16 years subsequent to Chile’s return to democracy, on the other hand, the economy grew at an average rate of 5.8 percent, while its GDP more than doubled. During the same period, the average rate of economic growth for all of Latin America was 1.1 percent. In fact, Chile’s growth between 1990 and 2006 was the fastest in its history, and according to the IMF, Chile’s was the eighth-fastest growing economy in the world during this period.

Castells provided an extensive index of the democratic inclusive model’s superiority to the authoritarian exclusionary model in economic performance. Among the indicators he cited were:

- Inflation, which averaged 27 percent during the dictatorship, while in 2005 it reached 3 percent and currently remains in the single digits;
- Unemployment, which was 15 percent in the last Pinochet years and is 5 percent currently; and
- Real wages, which, on an index of 100 in 1970, remained stagnant throughout the dictatorship, leveling at 103 in 1989; using the same index, this indicator reached 190 during the democratic period.

Every existing empirical indicator demonstrates much higher economic performance in the period since 1990 than in the years before. Yet the greatest contrast between the two models is in the areas of poverty and living conditions. In 1990, 38.5 percent of the population was below the poverty line; today the figure is 17 percent. Extreme poverty went from 12.7 percent to a current 3.5 percent. And in real terms, Chile’s minimum wage has increased by 80 percent during the democratic period.

The key to the new model in Chile? Not what one who has heard the common narrative on Chile’s economic growth would expect. “Most significantly,” Castells explained, “I would say that in most of the economic and social discussions on Chile the key to the story that nobody talks about is the massive redistribution of wealth in housing, health, education and subsidies of all kinds.” The democratic liberal inclusive model follows in many ways the form of traditional social democracy: redistribution of wealth, through taxes, in the form of government transfers. One way to demonstrate the extent of economic redistribution in post-Pinochet Chile is to analyze the most common criticism leveled against Chile’s economy: income inequality. The difference between the highest-earning 20 percent and the lowest-earning 20 percent is approximately a magnitude of 14, an indicator that has remained essentially the same over the last 30 years. Yet if government transfers are included in the calculation of income, Castells argued, this number decreases to a magnitude of seven in the period after 1990.

The benefits of this redistribution are evident in Chile’s 2002 census data. Education particularly saw dramatic improvements: by 2006, primary education was universal; secondary education had reached 90 percent; and higher

education doubled in the 1990s and increased by 20 percent again in the first years of the new century. Currently, in the 20 to 29 year-old cohort, approximately 24 percent are enrolled in higher education, a number that is equal to the European Union. Other indicators from the census demonstrate widespread improvement in the Chilean standard of living: 72 percent of Chileans are homeowners; infant mortality is down to 10 per 1,000; and life expectancy is 80 years for women and 71 years for men. The CASEN survey of 2006 also demonstrated the efficiency of state subsidies: 40 percent of education subsidies went to the poorest 20 percent of students, while the top 20 percent received 7 percent. These numbers were the same in every area of government transfers.

“Since 1990,” Castells emphasized, “[Chile’s democratic inclusive model] is clearly superior in economic terms, plus it’s much more redistributive in every possible aspect... and does not require an authoritarian regime.” How does this model work? Castells characterized Chile’s democratic liberal inclusive model as an export-oriented growth model based on an open economy, with extensive liberalization of external and internal markets. In descriptive terms, Castells

described it as based on competitiveness, new lines of export and modernization of the production process. “But,” he was quick to point out, “with strategic intervention of the public sector: regulating microeconomic policy, tightly controlling credit, organizing studies of external trade and acting very decisively on social transfers.”

The superiority of the democratic liberal inclusive model is also evident in light of two simple ideas Castells offered: development and democracy are complimentary to each other; and, as he succinctly put it, “politics matter in trade.” Progressive democracy and a free, open society have been essential to Chile’s success as an increasingly knowledge-based economy — something that could not have been possible under a repressive, authoritarian regime. “Redistribution actually means expansion of the domestic market; social policies mean stability of industrial relations; institutionalization means stability and playing by the rules; and getting rid of a dictator means respectability in the world at large.” These important points are concealed in the dominant narrative, which in Castells’ view, falsely credits the military dictatorship with having laid the foundation for Chile’s development.

Former President Ricardo Lagos inaugurates Valparaiso’s rail line in November 2005.

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Yet in spite of its many successes, Chile's current model has several serious problems, as Castells acknowledged toward the end of his talk. Briefly summarizing the most salient of these, Castells mentioned income inequality; uneven health coverage; quality of higher education, particularly in newer private universities; the privatized pension system; marginalization of the native Mapuche communities and land policy in the south; gender inequality in the work place; and the environment. Castells also pointed to the need

for great strides in technological development and human capital in the near future. He signaled investment in research and development, education and know-how as essential steps in Chile's bid to establish itself as a competitive, knowledge-based economy founded on information- and technology-based development.

Before closing his talk, Castells took a few moments to reflect on what lessons Chile's experience since the end of the military dictatorship may hold for other Latin American nations. One such lesson is to be found

in the progression of Chile's return to democracy. Successfully instituting democracy, Castells argued, "while managing economic growth and social redistribution, is a lesson for Latin America... It's not the famous 'stages theory': first you grow, then you redistribute, then democracy. No. It's the other way around: the synergistic relationship between the three levels which reinforce each other. And that's what the Chilean democratic model has shown to be true."

Latin America's current political climate, Castells cautioned in conclusion, is marked by the ascendance of left-leaning governments that, in some cases, have been accompanied by a worrying movement away from democracy. This movement, Castells argued, has been largely supported by polities wearied of the mockery that their nations' political classes have long made of democracy and democratic values. The old debate over "bourgeois democracy" has re-ignited in Latin America and regional demagogues have capitalized on popular disillusionment. That Chile is largely beyond this debate marks its importance as a prospective model for others. "Chile," Castells concluded, "did not need to sacrifice democracy to overcome underdevelopment. This is perhaps the most important lesson that it can offer Latin America."

Chilean students walk away from desk chairs embedded in the gates of a secondary school during the October 2006 protests.

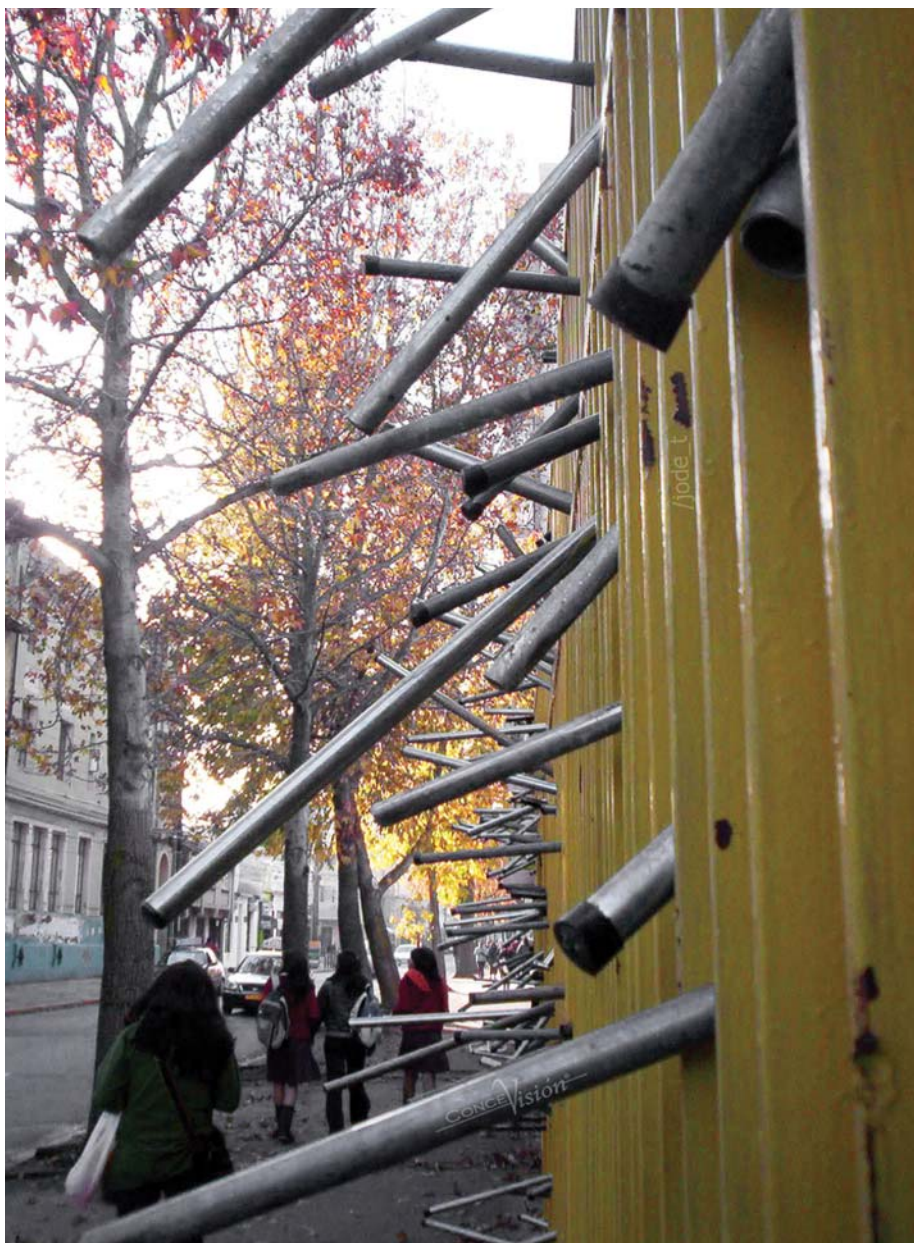


Photo by Francisco Varriet

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