

Chile: Anatomy of an economic miracle, 1970-1986



Article debunking myths about Chilean dictator General Pinochet's supposed "economic miracle."

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Anatomy of an Economic Miracle

With the arrest of General Pinochet, the usual slime of the right pronounced that his dictatorship created an economic "miracle." We will ignore the "ends justify the means" argument along with the question of why these defenders of "liberty" desire to protect a dictator and praise his regime. Here we concentrate on the facts of the "miracle" imposed on the Chilean people.

The actual results of the free market policies introduced by the dictatorship were far less than the "miracle" claimed by the right. The initial effects of introducing free market policies in 1975 was a shock-induced depression which resulted in national output falling by 15 percent, wages sliding to one-third below their 1970 level and unemployment rising to 20 percent. This meant that, in per capita terms, Chile's GDP only increased by 1.5% per year between 1974-80. This was considerably less than the 2.3% achieved in the 1960's.

Supporters of the "miracle" pointed to the period 1978 to 1981, when the economy grew at 6.6 percent a year. However, this is a case of "lies, damn lies, and statistics" as it does not take into account the catching up an economy goes through as it leaves a recession. If we look at whole business cycle, rather than for the upturn, we find that Chile had the second worse rate of growth in Latin America between 1975 and 1980. The average growth in GDP was 1.5% per year between 1974 and 1982, which was lower than the average Latin American growth rate of 4.3% and lower than the 4.5% of Chile in the 1960's. Between 1970 and 1980, per capita GDP grew by only 8%, while for Latin America as a whole, it increased by 40% and for the years 1980 and 1982 per capita GDP fell by 12.9 percent, compared to a fall of 4.3 percent for Latin America as a whole. In 1982, after 7 years of free market capitalism, Chile faced yet another economic crisis which, in terms of unemployment and falling GDP was even greater than that experienced during the terrible shock treatment of 1975. Real wages dropped sharply, falling in 1983 to 14 percent below what they had been in 1970. Bankruptcies skyrocketed, as did foreign debt. By the end of 1986 Gross Domestic Product per capita barely equalled that of 1970. Between 1970 and 1989, Chile total GDP grew by a lackluster 1.8 to 2.0% a year, slower than most Latin American countries. The high growth, in other words, was a product of the deep recessions that the regime created and, overall, 20 years of free market miracle had .

The working class

By far the hardest group affected by the Pinochet "reforms" was the working class, particularly the urban working class. By 1976, the third year of Junta rule, real wages had fallen to 35% below their 1970 level. It was only by 1981 that they had risen to 97.3% of the 1970 level, only to fall again to 86.7% by 1983. Unemployment, excluding those on state make-work programmes, was 14.8% in 1976, falling to 11.8% by 1980 (this is still double the average 1960's level) only to rise to 20.3% by 1982. By 1986, per capita consumption was actually 11% lower than the 1970 level. Between 1980 and 1988, the real value of wages grew only 1.2 percent while the real value of the minimum wage declined by 28.5 percent. During this period, urban unemployment averaged 15.3 percent per year. In other words, after nearly 15 years of free market capitalism, real wages had still not exceeded their 1970 levels. Moreover, labour's share in the national income fell from 52.3% to 30.7% between 1970 and 1989. In 1995, real wages were still 10% lower than in 1986 and 18% lower than during the Allende period!

The real "Miracle"

However, the other main effect of the Pinochet years was the increased wealth of the elite, and for this that it has been claimed as a "miracle." Between 1970, the richest 10% of the population saw their share in the national income rise from 36.5% in 1980 to 46.8% by 1989 (the bottom 50% saw their share fall from 20.4 to 16.8%). In the words of one of the best known opposition economists, "the Chilean system is easy to understand. Over the past twenty years \$60 billion has been transferred from salaries to profits."

Thus the wealth created by the economic growth Chile experienced did *not* "trickle down" to the working class (as claimed would happen by "free market" capitalist dogma) but instead accumulated in the hands of the rich. Just as it did not in the UK and the USA.

The proportion of the population below the poverty line (the minimum income required for basic food and housing) increased from 20% to 44.4%. On the other hand, while consumption for 80% of Chilean households dropped between 1970 and 1989, it rose from 44.5% to 54.6% for the richest 20% (the poorest 20% suffered the worse drop, from 7.6% to 4.4%, followed by the next 20%, from 11.8% to 8.2%, then the next 20%, 15.6% to 12.7%).

State Aid

The Pinochet's regime support for "free market" capitalism did not prevent it organising a

massive bail-out of the economy during the 1982 recession -- yet another example of market discipline for the working class, welfare for the rich. As was the case in the USA and the UK. The ready police repression (and "unofficial" death squads) made strikes and other forms of protest both impractical and dangerous. The law was also changed to reflect the power property owners have over their wage slaves and the total overhaul of the labour law system which took place between 1979 and 1981 aimed at creating a perfect labour market, eliminating collective bargaining, allowing massive dismissal of workers, increasing the daily working hours up to twelve hours and eliminating the labour courts. Little wonder, then, that this favourable climate for business operations resulted in generous lending by international finance institutions.

Of course, the supporters of the Chilean "Miracle" and its "economic liberty" did not bother to question how the suppression of political liberty effected the economy or how people acted within it. They maintained that the repression of labour, the death squads, the fear installed in rebel workers would be ignored when looking at the economy. But in the real world, people will put up with a lot more if they face the barrel of a gun than if they do not. And this fact explains much of the Chilean "miracle." According to Sergio de Castro, the architect of the economic programme Pinochet imposed, dictatorship was required to introduce "economic liberty" because:

"it provided a lasting regime; it gave the authorities a degree of efficiency that it was not possible to obtain in a democratic regime; and it made possible the application of a model developed by experts and that did not depend upon the social reactions produced by its implementation."

In other words, "economic liberty" required rule by technocrats and the military. The regime's pet "experts" used the Chilean people like laboratory rats in an experiment to make the rich richer. This is the system held up by the right as a "miracle" and an example of "economic liberty." Like the "economic miracle" created by Thatcher, we discover a sharp difference between the facts and the rhetoric. And like Thatcher's regime, it made the rich richer and the poor poorer, a true "miracle."

So, for all but the tiny elite at the top, the Pinochet regime of "economic liberty" was a nightmare. Economic "liberty" only seemed to benefit one group in society, an obvious "miracle." For the vast majority, the "miracle" of economic "liberty" resulted, as it usually does, in increased poverty, unemployment, pollution, crime and social alienation. The irony is that many on the right point to it as a model of the benefits of the free market.