

DISCUSSION PAPER 6/2018

Chile's Reform Decision Points

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*Strengthening Africa's
economic performance*



Executive Summary

From poverty levels of 50 per cent and a per capita income of just US\$730 in 1975, Chile's real income per person has increased to over US\$13 000 in four decades, while life expectancy has risen from 63 to 79 over this time. Successive civilian governments have, since 1990, built on a foundation of openness and fiscal prudence established by the military during their 17 years of rule. Overall, five lessons stand out from Chile's reforms: The first involves a word of warning for those authoritarians attracted by the Pinochet growth thesis, aside from the ugly human rights aspects. While the military government put in place the foundations of growth, the economy only took off after the reinstatement of democracy. A second lesson lies in an overarching imperative to take care of creating growth with equity. A third lesson is the need for low inflation and high growth as important prerequisites to development. Fourth, Chilean politicians have, until now, been remarkably accessible. Related to this, finally, Chile's experience speaks of the importance of political continuity.

Introduction

Santiago's skyline is dominated by the 64-story *Torre Gran Costanera*, the tallest building in Latin America, completed in 2013 at a cost of US\$1 billion. Modern Chile scarcely resembles the country that made a shaky, if firm, ascent from military rule in 1990.¹

From the modern glass, steel and concrete of the tower's *Providencia* business district the scenery gradually changes to barren khaki brown, slate grey and mauve shades as the road winds and climbs 3 000 metres into the Andes to the Los Bronces mine, 70 kilometres north-east from the capital. The third largest copper producer in Chile, Los Bronces has a 150-year history, and an African connection.

It was bought from Exxon by Anglo American in 2002 for US\$1.4 billion along with the Solado mine and the Chagres smelter in a complex known as *Disputada*. Within a decade the value of *Disputada* had increased to over US\$20 billion, now being jointly owned by its operator Anglo American, with 50.1 per cent, and Mitsubishi 20.4 per cent, with Chile's state-owned Codelco and its joint venture partner Mitsui holding the remaining 29.5 per cent stake.² Los Bronces has a copper ore content averaging around 0.6 per cent. Its output, once crushed, is conveyed along a 4.4km tunnel to the grinding plant at *Confluencia*, from where the slurry is pumped a difficult 52kms along a pipeline down to the Los Tortolas concentrate plant.

Anglo bought *Disputada* shortly after walking away from its stake in the Konkola Copper Mines (KCM) in Zambia where the grade was closer to 4 per cent.

Anglo, through its subsidiary Zambia Copper Investments (ZCI), acquired 65 per cent of Konkola Copper Mines in 2000, which in turn acquired the Konkola and Nchanga divisions and the Nampundwe pyrite mine from *Zambian Consolidated Copper Mines*, thereby becoming the largest copper mining operation in Zambia. The cost to ZCI was relatively small, at least on paper, by comparison to *Disputada*, involving US\$30 million up front, with a further US\$60 million payable in instalments. Moreover, KCM was committed to capital expenditure over the first three years

of US\$208 million and, subject to the availability of finance and the prevailing copper price, to the development of the Konkola Deep mine. Anglo's plan was to run the existing mines, smelter and tailings assets at a profit and ultimately to treble production to 200 000 tonnes per annum through US\$600 million in additional investment.



Chile produced 686 000 tonnes of copper in 1970; in 2012 it produced 5 370 000 tonnes

But little under two years later, Anglo walked away from Konkola, saying its Zambian copper operation was not justified in the face of the unavailability of finance and metal prices. Anglo had a long history in Zambia, one of the reasons why it was encouraged by its 'old African hands' to reinvest.

Zambia suffered from 25-years of underinvestment and mismanagement. Despite its relatively high grade copper, Zambia's mines were high cost and higher risk. The Konkola mine was regarded as the wettest mine worldwide, with significant costs in pumping out around 300 000 tonnes of water per day. Combined with the general state of Zambia's infrastructure and political and governance risks, the required rate of return on investment was higher for Zambia than a country such as Chile – negating the benefits of the superior copper grades on the Zambian mines, but also explaining why even higher grade deposits elsewhere such as in the Congo are underdeveloped.

By comparison, *Disputada* met Anglo's strategic considerations. It was the right size, low cost, had a long projected lifespan, and was available as a result of its previous owner, Exxon, extracting itself from mining. As an existing rather

than a greenfield operation, it had clearly definable risks. Chile also had a 20-year track record of being investor-friendly, enjoying certain policy and political 'competitive advantages' over a rival like Zambia, despite both possessing the same 'comparative' resource-endowed advantage. Chile, which produced less copper than Zambia in 1970, had rapidly increased its production over the next four decades, nudging six million tonnes by 2018, or one-third of global production. Yet Zambia had shrunk its global share to under 5 per cent from 14 per cent in 1970.

	Zambia	Chile
Territory (km ²)	752 614	755 839
Population (2016 millions)	16.4	17.6
GDP (2011 US\$ billions)	27	258
Copper production (1970, tonnes)	684 000	686 000
Copper production (2012, tonnes)	675 000	5 370 000
Poverty (% below poverty line)	61	15
Extreme poverty (%)	42.3	2.8
Life expectancy at birth	49	79
Infant mortality (per 1 000 live births)	53	8
Child malnutrition (% children under 5)	15	1

One study³ shows that mine nationalisation in the early 1970s cost Zambia an estimated US\$45 billion in revenue. It pointed out that Zambia would have generated mineral rents totalling US\$65 billion if it had continued to produce at an annual rate of 700 000 tonnes over the 40-year period from 1970. Instead, it managed only US\$15 billion. The 'opportunity loss' exceeded the international aid it received over the period.

In a twist of fate, when Zambia nationalised its mines in 1969, Anglo American used the proceeds from its payout from the Zambian mines as seed capital for what was to become Minorco. In 1981, Minorco made its first investment in Chile's copper industry, which transferred later to Anglo. By the time it cut the Disputada deal, Anglo was already the second-largest investor in Chile's copper mines.

Chile's track record

Chile's economic growth since the 1980s has been nothing short of remarkable. During the 1990s it averaged over 7 per cent annual economic growth, establishing it as one of the best performing economies in Latin America and the emerging world.

In 1972 Chile was recorded to have the second worst economy in Latin America. Inflation had reached 500 per cent, and there were frequent strikes and widespread nationalisation. Price controls and high tariffs pervaded, the state controlling two-thirds of economic output. Yet from poverty levels of 50 per cent and a per capita GDP of just US\$730 in 1975, real income per person has increased to over US\$13 000 in four decades.

This transformation has been built on three pillars.⁴

The first was the institution of free market economic reforms in the mid-1980s. The second pillar of economic transformation relied on a massive increase in domestic copper production. Copper, of which Chile supplies nearly a third of the world's annual consumption, accounts for two-thirds of the country's export revenue.⁵ The transformation of this sector, however, over a quarter century has been spectacular. In 1990, the private sector accounted for less than one-quarter of Chilean copper mining output. By the end of the 2000s, the state mining company Codelco was producing more than twice as much copper as it had done 20 years before; yet the private sector was producing two-thirds of the annual national output of six million tonnes. In 1970 Chile produced the same amount of copper as Zambia; four decades later it produced eight times more.

As one example, by 2018 the mine pit at Los Brencos was a staggering 3km long, 1.5km wide and 800 metres deep, representing enormous, literally, sunk capital. Indeed there have been several capital investment projects, including that in 2007 of US\$2.8 billion to double the annual production capacity to 400 000 tonnes, employing 2 500 people. This sort of investment is more likely where there is a reliable policy regime.

Foreign investment was facilitated by low and stable taxes and non-discriminatory treatment of foreign and local companies. Chilean

tax laws agreed between the state and investors are the cornerstone of its investment regime. The Chapter XIX debt conversion programme, which was implemented in 1985 following the crisis in 1981–82, and the Decree Law 600 (DL600) of 1974, provided for a 'contract' bound by the constitution between the investor and the state of Chile. These were followed with the establishment of free trade zones, the introduction of policies guaranteeing the remittance of profits and capital, free choice as to the percentage of foreign ownership and non-discrimination with local investors, and tariff liberalisation, targeting foreign investors – mostly in mining – and promoting an open and transparent economy.



What 25 years of growth does. Modern Santiago

By 2011, foreign capital totalling almost US\$82 billion had been invested in the mining industry, more than half of all foreign capital since 1974.⁶ Byzantine labour policies were unwound through a series of measures aimed at: decentralising collective bargaining, improving transparency in union voting and allowing greater choice in union membership. Reform of the pension system in 1980 also allowed workers to opt out of the government-run pension system and instead put the formerly mandatory payroll tax (10 per cent of wages) in a privately managed Personal Retirement Account.

And, third, despite the pervasive mythology of the big man growth thesis, economic prosperity really took off with democratisation in the 1990s.

The coup

Today the downtown area around Chile's neo-classical La Moneda presidential palace is a peaceful mix of green parks, subtle glass barriers, and strolling tourists. Paths leading down the *Plaza de la Ciudadanía* ('Citizenry Square') on the side of the *Avenida Libertador General Bernardo O'Higgins* (known commonly as the Alameda) access the underground Palacio de La Moneda cultural centre, hosting regular exhibitions on Chilean culture and history. At the back of the white palace, to the one side of the *Plaza de la Constitución* in front of the Ministry for Justice and Human Rights, sits a statue of Salvador Allende Gossens with his words: *Tengo fe en Chile y su destino* ('I have faith in Chile and its destiny').

On 11 September 1973, Hawker Hunter jets of



the Chilean Air Force bombed La Moneda, where Allende had taken refuge together with members of his Cuban-trained GAP guard (*Grupo de Amigos Personales*). Some bullet marks can still be seen today. The 65-year old president died later that day of gunshot wounds.

A junta, comprising the heads of the Army, Navy, Air Force and Police took over power, though the Chief of the Army General Augusto Pinochet quickly consolidated his control. Allende, the first democratically-elected Marxist President in Latin America, had set Chile on an economic course sparking rapid decline, high inflation, labour unrest and a breakdown in relations between the executive and legislature, while strengthening relations with Castro's Cuba and suppressing the media. On 22 August 1973, the Chamber of Deputies had passed a resolution that asked the Allende government to put 'an immediate end' to breaches of the constitution which it saw as an attempt by the president to establish 'a totalitarian system'.

Pinochet's coup followed an attempt that June by an armoured unit which loyal units, led by the general, had quickly put down. Unlike other Latin American countries, Chile's military had remained out of politics during the 20th century before the coup. Pinochet remained in power until 1989. The previous year a national plebiscite had emphatically rejected his bid to extend his rule for another eight years. Resembling the actions of President FW de Klerk five years later, the military left the country's future to multiparty elections.

The first election was won by the candidate of the centre-left coalition *Concertación* led by Patricio Aylwin, a Christian Democrat. Aylwin's presidency was notable for its political continuity and his support for the Chilean Truth and Reconciliation Commission to expose human rights transgressions of the junta.

Key decision points

Andrés Velasco was the Finance Minister from March 2006 to March 2010, the whole of the first presidential term of Michelle Bachelet. A key decision point, he notes, was that by the democratic opposition to contest the referendum against Pinochet in 1988. The reverse brain-drain made a difference to the result, and certainly to what followed. This was possible by what he describes as 'decision point zero' – the coming together of the centre and the left in the *Concertación* in 1988.⁷ The opposition had splintered during the junta

years, but realised that 'if they wanted to restore democracy, they had to set aside their differences'.

A second key decision was that by the Aylwin administration 'not to dismantle the free market economy'. We made a number of basic strategic choices in this regard: to keep the open economy and re-establish fiscal discipline which had loosened towards the end of the Pinochet regime which left 40% debt to GDP ratios and high interest rates.' He recalls 'the insight of the first Finance Minister Alejandro Foxley that "the conservative world is waiting for us to fail and the difference between success and failure is in our ability to pay our bills". We termed this "governability" at the time.' If you are a small economy, he observes, 'the difference between 20% and 100% debt to GDP ratios is the difference between life and death.'

Foxley identifies three main challenges at the outset of the democratic period: 'First, we had to be credible. The main actors – including the private sector – had to feel that they were making the right choice of administration.' It helped that the group of economists had been around during the Pinochet years, even if their activities were constrained, which created a level of understanding and of confidence. Second he notes that 'there was a high priority of developing a growth with equity strategy ... in which the highest priority was to reduce poverty, involving a tax reform to achieve this through gathering 3 per cent of GDP extra in revenue.' And third, a dialogue was established 'with the unions to teach them about economics, and with the private sector, since the country was terribly divided'. This helped reinforce the government's credibility, especially on contentious issues such as the increase in taxation.

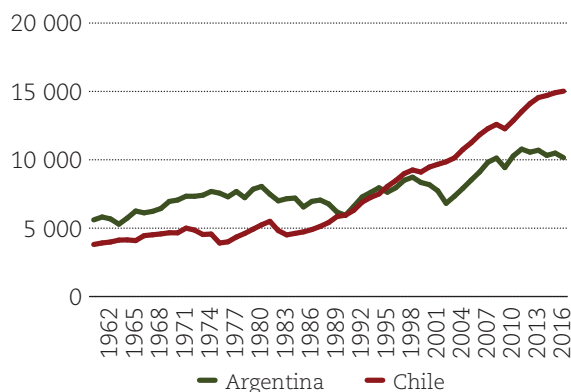
In this regard it was useful, too, says Velasco that 'a lot of the socialists [including Bachelet] were living in Eastern Europe. After a year or two in Moscow and East Germany, Marxism and the class struggle did not seem too attractive any more. Or,' he says, 'what [President Lagos] would have done on his arrival at La Moneda palace was to think what Allende would have done, and then gone and done the opposite.'

Lagos reflects in this regard that 'It was a very unusual junta. Normally juntas are state-oriented given they are from the military, a state institution.

This one was not. It was an extreme neo-liberal junta, as you might expect from one visited by Milton Friedman.' He believes that 'The military were convinced that if you had an extremely liberal political economy, that while you could not go to the World Bank for a loan on account of your human rights record, that you could, say, get funding from Chase Manhattan. But we kept the major macro-economic variables in order to keep country risk and cost of borrowing low. We also lowered the fiscal deficit by pegging the budget to the long-term price of copper rather than the actual price. When the price rose we were able to save as much as 40% of GDP.' Or as his immediate presidential predecessor Eduardo Frei puts it: 'I said when I took over [in 1994] that I was not going to deny what is already there. I am president number 27, and I will take over the good and the bad and not just start for scratch.'

From Velasco's vantage 'it helped a lot, too, in managing political pressures, that Argentina entered democracy earlier' after the fall of its junta in 1982. The government of Raúl Alfonsín 'entered with hyper-inflation. We would keep price data for Argentina, as with Chile, and we would say "Look across the Andes". This ultimately caused Alfonsín's government to resign. This counter-example helped a great deal in keeping our policies on track.'

Real GDP per capita comparison: Argentina and Chile



Equally, a balance between fiscal rigour and political dynamics was assisted by an increase in public welfare spending, a change in labour laws to make it 'more union friendly', and a change in

the rules governing the hiring and firing of public employees, permitting greater protection.

The second election in 1994 was won by Eduardo Frei, whose father, also Eduardo, had been president from 1964 until the advent of Allende in 1970.⁸ Frei Jnr's presidency was notable in making improvements in health and education as well as reducing poverty. He attempted a comeback as the candidate of the *Concertación* for the 2009 presidential election, but was narrowly defeated.

Frei, 76 in 2018, says one extent of the changes in Chile can be seen in the changing composition of its foreign trade partners. 'In 1994, when I became president, 'our export trade was basically divided between America and Latin America. Now 27% goes to China among the half that goes overall to Asia, and just 15 per cent to the United States. When we returned to democracy in 1990 we did not have a middle class, and all the numbers in health and education had us placed 4th or 5th in Latin America. Today 70% of Chileans own a home, and 28% have a second home' he observes. 'There are 30 million cellphones in circulation, for just 18 million people, and 4.5 million of our people travel through our airports each year.'

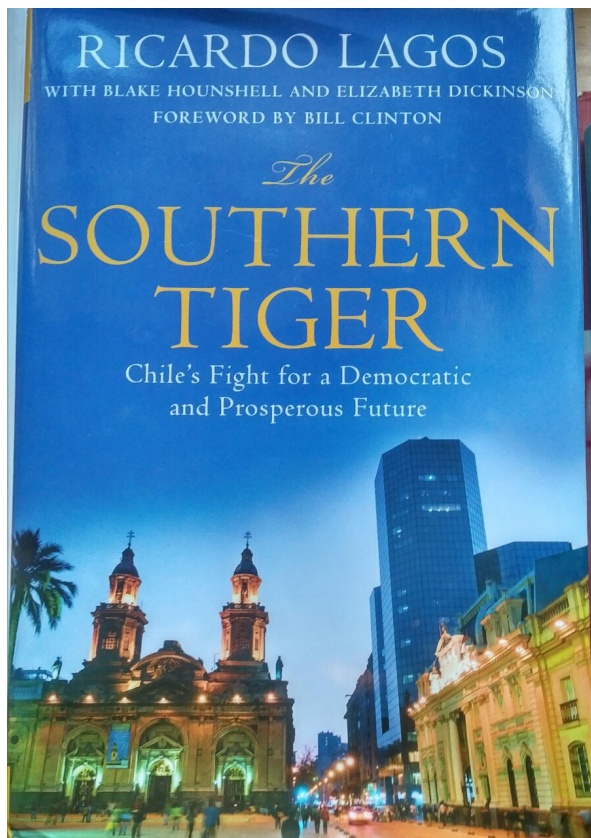
There were difficult challenges to be faced along the way. 'My father died in 1982. He was murdered, poisoned. The process about his death has been going for the last 15 years and is not finished yet. The same is true for General [Carlos] Prats, the chief of the army under Allende, murdered [by a car bomb] in Argentina. Also for the former foreign minister Orlando Letelier, and for the father of President Bachelet, an Air Force general. Perhaps the most difficult moment for me was when the justice system sent the Chief of the Secret Police [the DINA, *Dirección de Inteligencia Nacional*, General Manuel Contreras] to jail [for 505 years]. We were clear, as we had to cope with the military, however that he was sent by the justice branch, not the government. Still, we have made much more progress in seeking justice than for example the Spanish in their civil war. Of course for the relatives of those who were killed, this justice can never be enough.'

The core of Chile's transition has been, in his mind, down to a democratic system. 'Without a democratic government, without respecting the laws and their basis, we can't progress. Chile is

the only Latin American country I believe which complies with all the laws.'

This does not mean that Chile does not have to be concerned. 'We are no longer fighting against dictatorship. We have entered a different world. When I travelled as president they would give me,' he says pointing to a shoebox-sized ornament on his glass coffee table, 'a phone the size of that. Computers only arrived in the public service in 1997. Now, the world has become smaller. Populism, on left and right, is everywhere. The effect is that the political parties that we knew in the second part of the last century no longer exist. The world,' he notes, 'has changed.'

In Chile's case it was important to have a strong coalition 'to make policy for the long term. While some people think that our recipe is good to continue, the needs and expectations of Chileans have changed along with a change in our political parties and the nature of coalition politics.'



The nature of contemporary and future politics is a central theme to his presidential successor, Ricardo Lagos. 'We have a big, long-term challenge as to what democracy will look like. Digital technology is changing our lives so fast and the changes

they are bringing are so huge. The wave is still on the move and is not slowing down. You cannot run a system with an effective plebiscite every day,' which he says is what the current digital world amounts to. 'We have completely overhauled our country. Today seven of every ten tertiary students are the first generation to go beyond secondary school. We are proud of this statistic, but someone has to pay for this. And we also have to satisfy the demands and expectations that result.'

The 'Lagos Finger' describes the moment Lagos, 80 in 2018, was propelled into the public limelight. Appearing on the first televised political debate show since the 1973 *coup d'état*, he stated; 'With the triumph of "No", the country will prevent General Pinochet from being 25 years in power, it will mark the start of the end of the dictatorship' Looking directly into the camera and raising his index finger, he went on: 'General Pinochet has not been honest with the country ... So I will remind you, General Pinochet, that on the day of the 1980 plebiscite you said that "President Pinochet would not be a candidate in 1989". ... And now, you promise the country another eight years, with tortures, murders, and human rights violations. It seems to me inadmissible, that a Chilean can have so much hunger for power, to aim to stay 25 years in power!'

He explains 30 years later. 'We assumed that the military had 40 per cent support for the plebiscite. To get the other 60 per cent, we needed to get people to register. But there was division among the opposition. The Communists wanted to fight, as did a segment of the Socialists. This was the origins of the *Concertación*.

'I was speaking at an event at La Serena, about 500kms from Santiago, in a theatre of around 300 people. The Communists were chanting their slogan 'Inscription is treason'. I had received a cable which read that "General Pinochet: Lagos we are watching you". It was the first time Pinochet had referred to me. I said to Aylwin, let me speak first. I read the cable out aloud. This produced silence in the theatre. I then said "General Pinochet 1, 2, 3, 4!" what I repeated later on television. I asked people to be courageous to register so we can be a party. When I repeated this later on camera, when they tried to interrupt me, I told them that I was speaking after 15 years of silence!'

Some believed that Lagos would not survive to see the next day. But he did, serving as Minister of Education in the Aylwin government, and Minister of Public Works under Frei, and becoming President from 2000 to 2006. He was followed on 11 March 2006 by the Socialist Michelle Bachelet, from the same coalition as her predecessors. She was succeeded, in turn, by Sebastián Piñera in 2010. Bachelet and Piñera have enjoyed another 'go' at the presidency, respectively in 2014 to 2018 and from March 2018.

While accepting the inheritance of the military was crucial for economic stability, Lagos focused also on restoring the dignity of the population, through providing potable water to rural communities, for example, and in a range of other areas, such as his Chile Solidario programme. This aimed at informing the 225 000 indigent members of the population of their rights, but also pioneered practical measures such as dentures for women to enable them to regain their social standing. 'Sometimes', he nods, 'prosperity and development is more than just statistics'.

While meeting the expectations of the middle class will be challenging, he says, the only way to compete in a globalised world 'is to equip our people with education and training. The greater the international competition, the more they will have to rise to the challenge.'

Never again

'We have, I think, probably seen the last of coups in Latin America because of the cost. It is not the duty, or the role of the armed forces to engage in politics. It has a lot of cost for the armed forces. It is not a good experience overall for the institution. It places distance between society and the armed forces.'⁹

He should know. Juan Emilio Cheyre was Commander-in-Chief of the Chilean Army from 2002 to 2006. The armed forces led by General Augusto Pinochet, staged a successful coup on 11 September 1973, running the country until a civilian government took over once more in March 1990.

Like other Latin American coups – or *golpes* – there was an ugly human rights aspect, much the same as occurred in the cases of Argentina (1966 and 1976), Bolivia (1969), Brazil (1964), Peru (1968) and Uruguay (1973).

But unlike other military regimes in Latin America, and Africa for that matter, the Chilean armed forces did a pretty good job with the economy after an initial shaky start. However, this progress has come at a cost, not least the 3 000 lives lost during the coup and its aftermath.

From the moment that army units surrounded the La Moneda palace in the centre of Santiago and Hawker Hunter jets bombed President Salvador Allende and his guard inside into submission, the fate of Chile's military – and not just Allende's – was sealed.

For the Chilean military's involvement in politics was exceptional in at least three respects.

First, unlike their regional counterparts, the Chilean military operated in relatively poor conditions. Officers were comparatively badly paid. The first signs of the unhappiness generated by these conditions were in their 1969 so-called *Tacnazo* protest against under-funding.

Second, there was extreme provocation and initial reluctance to get involved, unlike serial regional offenders such as in Argentina, where the military had ruled for nearly 20 years of the second half of the 20th century. 'In fact', says the general, 'the military in Chile only acted when the representatives of the Senate, Chamber of Deputies, Judges and vast sectors of citizens publicly stated that the government of President Allende had broken the institutional framework.'

Allende's regime had posed a severe threat to governance and social stability, in effect posing a civilian coup to the constitutional order. Although the army had put down an attempted coup in June 1973, known as the *Tanquetazo* tank putsch, the crisis had quickly escalated just a month later over a short time.



La Moneda Palace

In August 1973, the Supreme Court complained about the government's inability to enforce the law. The same month, parliament had called upon the military to enforce constitutional order, shortly thereafter passing a resolution to this effect. With shortages of basic foodstuffs, public protests escalated against the rising costs and increasing hardship. Politics pervaded. In a shade of Hugo Chavez's regime in Venezuela three decades later, Allende had linked the supply of basic goods to party membership cards.

Finally, third, unlike their regional military counterparts, again, the Chileans did not embark on a populist economic path. To the contrary, after some initial economic turmoil, the military took civilian advice in pioneering a fiscally conservative, free market set of policies advised by a set of economists trained at the University of Chicago – giving rise to the moniker of the 'Chicago boys'. The economic shock treatment provided stopped the inflationary, statist chaos of the Allende period.

Cheyre explains this alternative route to the populist economic practices which had become the norm for military juntas in Latin America. 'The officers in Chile are not from the elite, but from the middle classes. So we feel the pressures that normal Chileans feel,' he explains. It quickly became personal. 'As a second lieutenant in 1971, with a small baby, my wife who was a university student, had to spend a lot of time just trying to find food for us.'

'The military was culturally mono-religious, as a Catholic institution. It was also very strong in educating the officer corps, not just in terms

of military science, but in economic matters, political science and engineering. We were able to explain with figures, rather than ideology, what the country's problems were and how they might be solved. We did not have an anti-ideology position against Communism or Socialism; equally we were against the idea that ideology should upset Chile's population.

'Crucially, our experience of the Allende period and the economic collapse, was so dramatic, so deep and so bad in terms of security, development and the ability to lead a normal life, that we all felt we needed to make a change. The situation had jeopardised the security and sovereignty of Chile which had reached a situation of weakness and loss of power that made it vulnerable both internally and externally.'

Regardless, the cost was high.

'It was not normal for us to be involved in political affairs. It was then very bad that Pinochet stayed in power so long. We also paid a very high price in terms of human rights violations. And as a military it left us unprepared.'

Due to its internal focus and international isolation, 'we had to wait until 2000 to change as an organisation in ways that should have happened much earlier. We also had to pay a premium on military equipment during the years of isolation, a debt that we were still paying off until 2001, which made new investments in equipment impossible.'

While the economy stabilised through the Pinochet years and set the stage for the 5 per cent annual growth averaged since 1990, democracy offered a better, inclusive development alternative, aside from the human rights aspect.

As Commander-in-Chief, General Cheyre attempted to distance the Army from Pinochet's record and the military's abuses.

'As Pinochet kept his post of Commander in Chief until 1998, we could not say that the armed forces were in a democratic state until after this time. We then had to make an internal transition process, with the aim of situating the armed forces within a normal, democratic environment and institutions after its abnormal period during the anti-democratic military regime.'

This included a reorganisation of defence commands and equipment consistent with its focus on external security, and an 'elimination of the disproportionate power the military had within the Security Council of Chile. We needed,' he recalls, 'to make a definite break with the past. This is why, unlike others such as Argentina, we co-operated fully with the justice sector in all investigations around human rights violations.' It was crucial, he says, that the army be 'perceived as legitimate by all Chileans and not only those who had supported the military government.'

In early 2003, General Cheyre published an article saying that the coup had not been a triumphant 'military pronouncement' but instead a time of 'acute civic enmity'. In his view there could be no justification for the human rights violations which accompanied it. Six months later he made a speech as army commander which sharply criticised the civilian groups which urged the military to overthrow the Allende government. 'Never again,' said the General, 'the sectors that incited us and officially backed our intervention in the crisis which they provoked. Never again, excesses, crimes, violence and terrorism. We are building an army for the 21st century.' He had consulted President Ricardo Lagos on the speech beforehand, as an illustration of the armed forces' deference to civilian rule.¹⁰

Fifteen years after his historic speech, he emphasises the point. 'This is why we say "Never again" should the army be involved in this type of activity. And to make this more than just words, we embarked on an education process inside and outside the military.'

Aside from contemporary Venezuela where the military continues at the centre of political power and financial control, the era of the Latin American *golpe* appears to be over. In neighbouring Argentina, for example, a combination of inherent statism in the military, its poor policy choices of Peronist populism, the 'dirty war' which saw 30 000 activists 'disappear', and the disastrous Malvinas operation, has seemed to have put the armed forces forever out of politics.

In 2016 General Cheyre was detained for his alleged involvement in the killing of 15 left-wing activists in the northern city of La Serena, as part

of the so-called 'Caravan of Death'. He maintains his innocence. 'The events were perpetrated by soldiers headed by a General who had come from Santiago. I had, as a young officer in that regional unit, no participation in these events at all.'



General Pinochet and his merry men

'You know,' ponders the General, 'I have 30 or 40 of my military classmates in jail. Some of them will never come out. They are in there for 200 years or more. I also have one charge against me, which I have had for the last 21 years, where I am accused of being responsible not because I did something myself, but because I was in the same area. But when I gave my "Never again" speech,' says the General, 'and given my support as the Commander for the justice process, I was criticised by some in the military. I said to my classmates who now have sons in the militaries, some of them at the rank of Colonel: "What would you prefer? Would you prefer your sons to have their time now, as professional military officers, or would you prefer them to be in your position, with all these things hanging over you, with the responsibility for what happened, and the damage that was done?"'

'That is why I say never, ever again.'

Notable lessons

Today poverty in Chile is just 11 per cent. Whereas there were 300 000 students in higher education in 1992, today the figure is 1.5 million. Two-thirds of children are educated in private schools. Life expectancy is 79 years, higher than the United States. It has the highest Human Development Index ranking in Latin America (38/188 countries), ranks 26/180 on Transparency International's *Corruption Perception Index* (second behind Uruguay in the region),¹¹ and scores 1/7 on Freedom House's Freedom rankings, Political Rights and Civil Liberties (where 1 is most free) with an aggregate score of 94/100 (where 0 is 'Least Free', and 100 'Most Free').¹²

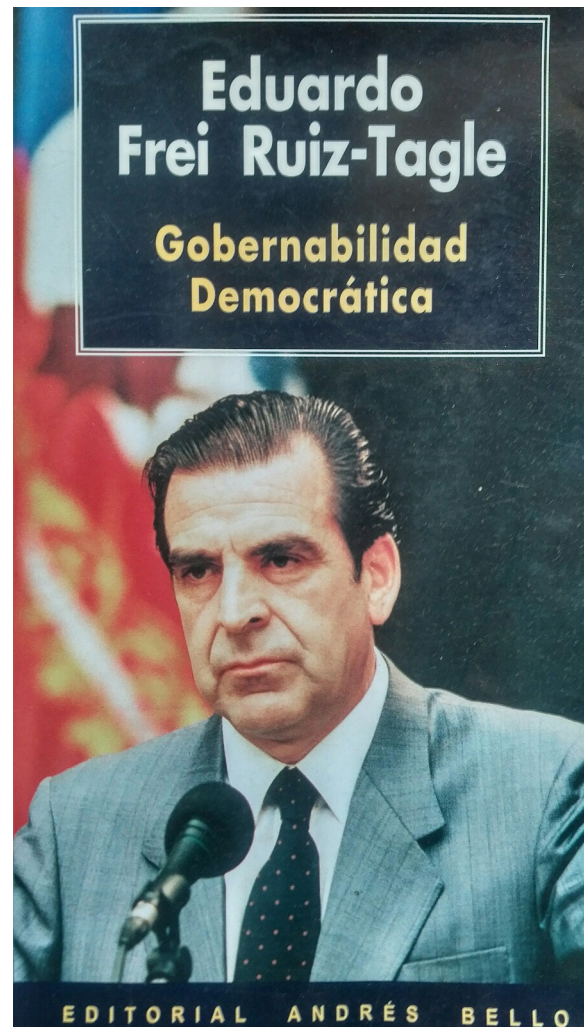
Overall, five lessons stand out from Chile's reforms:

The first involves a word of warning for those authoritarians attracted by the Pinochet growth thesis, the ugly human rights violations aside. While the military regime was brutal, it proved more able to manage the economy than most of its Latin American counterparts. The shock treatment it provided was excessive, but it stopped the inflationary, statist chaos of the Allende period. But it also suffered excesses and failures.

Growth really took off during the democratic period, not least, as Ricardo Ffrench-Davis reminds, because 'you have to negotiate with the other side in a democracy. You cannot be a dictatorship of just one view'. Difficult decisions lay behind the impressive political, social and economic progress, though as Frei notes, 'If you are not achieving unity in your decisions, you cannot solve the problems of the country'. Or as Lagos observes concerning the extension of the Chinese leader's term of office in this context: 'It might be good for President Xi, but it's bad for China. You need to have a renewal of leadership. Every generation will have different views, and will come with their "epic" moment. In our case it was to defeat Pinochet. I know,' says the former president, 'what the experience was in Singapore with Lee Kuan Yew. I understand what some are also saying in Africa. But you have to understand as a leader that all the accretions of power you enjoy are because you represent the state, and it's not because of you. Five or ten

years is enough, no more than that, otherwise it is going to be a tremendous mistake and a problem especially for the younger generations.'

Many of Ffrench-Davis' colleagues at the University of Chile left the country after the coup. The economist reflects on his decision to remain, that 'it was important for democracy that the opposition had tools to offer as an alternative which was enabled by staying. We started to gather as groups of academics to understand what to do: we had the advantage of 16-and-a-half years to do so,' he smiles. Debate and exchanges were funded by external foundations, notably from Germany and Canada, which enabled foreign travel and exposure.



The reforms immediately after 1973 focused on stabilisation of hyper-inflation, by abolishing exchange controls, deregulating domestic financial markets, and reducing the size of the fiscal deficit

in part by shrinking the public sector and privatising state enterprises, that went beyond those nationalised by Allende. In terms of establishing a long-term path, critical was the privatisation of the pension system and part of the national health service, the removal of nearly all non-tariff barriers and reduction of tariffs to a uniform tariff on all goods of 10 per cent from 1979, and the establishment of a voucher system enabling choice in education.

Corrections were required, not least as a result of the debt crisis of 1982, in part due to an overvalued fixed exchange rate, as a result of which GDP fell by 14 per cent in a single year, followed by a widespread banking crisis and spike in unemployment to 31 per cent. Allowing the banks to regulate themselves with government guarantees was a recipe for disaster, with 14 of the 17 banks in the country becoming insolvent and requiring a bailout amounting to 25 per cent of then GDP. As a result, the country was flooded with unproductive investment in malls and a concentration of wealth from self-lending and dealing. The recovery involved a spectacular depreciation of the peso of 130 per cent between 1982 and 1988.

A second lesson lies in an overarching imperative to take care, as he emphasises, 'of creating growth with equity. This demands productive development from the first day.' How to achieve this? 'Import capacity,' he answers. 'If you don't have it. Train your labour. Align your financial markets to attract direct investment, not just financial inflows. If you have to subsidise, subsidise people borrowing money for small business by reducing their premium on loans.' As he puts it, 'Stop earning income at the expense of other

people, but rather as a result of an increase in productive capacity, as a result of growth.' High inflation, he warns, 'is terrible for democracy, in that it destroys productivity and rewards only speculators.'

The third lesson, notes Ffrench-Davis, 'is the understanding of the imperative for growth, and the need also for it to be sustainable. You need low inflation and high growth to develop. And you need to get the macroeconomics right.'

Fourth, Chilean politicians have, until now, been remarkably accessible. 'I have always lived in this, my own home,' says Frei, who was a civil engineer before following the 'family business' into politics, pointing to his office. 'When my father was president he would walk to the presidential office. I never cut into the traffic when I was president, though today,' he shrugs, 'in the age of thousands of Tweets and no privacy from the press, my sort of presidential political life seems impossible.'

Related to this, finally, Chile's experience speaks of the importance of political continuity. 'We have enjoyed the sort of continuity we have never,' states President Frei, 'had before in our history. Instead of having someone like [Venezuela's Hugo] Chavez who has a new song in saving the country, we had the same coalition in power for 20 years. And all finance ministers were there for the whole period of government.' Continuity plus institutional protection, political stability and policy continuity regardless of whether leftists or rightists were in power, together have served to attract private sector players to develop what the state was unable or could not afford to do.

All have, so far, been winners in the process.

Endnotes

1. This chapter is based on a research trip to Chile in March 2018. Thanks are expressed to Patrick Esnouf for his insights and kind assistance. The interviews cited herein, including those with Presidents Frei and Lagos, Ricardo Ffrench-Davis, General Cheyre, Alejandro Foxley and Andrés Velasco, were conducted during this time. See http://www.foreigninvestment.cl/index.php?option=com_content&view=article&id=123.
2. For details of this transaction and the subsequent dispute between Anglo and CODELCO, see <http://www.theglobeandmail.com/globe-investor/anglo-american-codelco-settle-copper-row/article4495320/>.
3. See <http://www.miningweekly.com/article/mine-nationalisation-lost-zambia-45bn-eunomix-study-finds-2013-03-22>.
4. Ricardo Ffrench-Davis, *Reforming the Reforms in Latin America*. London: Macmillan, 2000.
5. Ricardo Ffrench-Davis, *Reforming the Reforms in Latin America*. London: Macmillan, 2000.
6. See http://www.foreigninvestment.cl/index.php?option=com_content&view=article&id=123.
7. For a detailed discussion, see Ricardo Ffrench-Davis, *Economic Reforms in Chile: From Dictatorship to Democracy*. London: Palgrave Macmillan, 2010.
8. Presidential candidates under the *Concertación* won every election from the end of military rule in 1990 until Sebastián Piñera won the Chilean presidential election in 2010. In 2013 it was replaced by New Majority coalition.
9. Frei was ineligible for a second consecutive term in 1970. Allende received 36.6 per cent of the vote, with Jorge Alessandri Rodríguez of the National Party receiving 35.3 per cent and Radomiro Tomic of the Christian Democratic Party 28.1 per cent. Since none of the candidates won by an absolute majority, the National Congress had to decide among the candidates, Allende winning with support from the Christian Democrats.
10. General Cheyre was interviewed in Santiago, 7 March 2018.
11. Cited in Mary Helen Spooner, *The General's Slow Retreat: Chile after Pinochet*. Los Angeles: University of California Press, 2011, pp. 191–192.
12. At <https://www.transparency.org/country/CHL>.
13. <https://freedomhouse.org/report/freedom-world/2018/chile>.