

## **The Illusion of Competition**

An examination of the Chilean neoliberal economic project and  
its role in the concentration of market power

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## **Abstract**

During Augusto Pinochet's dictatorship Chile's economic structure changed radically from a heavily state-controlled economy to one of the most open and free market systems in the world. Although the 1970s and 80s Chilean economic experiment has been thoroughly examined, an evaluation of its connections to the current concentration of market power in certain industries is yet to be examined and questioned. This study attempts to evaluate two issues: first, to explore the extent to which the neoliberal Chilean economic system allowed the subsistence of concentrated markets since the 1970s dictatorship and through the return to democracy; and second, to examine the role of the neoliberal economic model in the current (October 2019-present) political and social situation. The former will be reviewed through an analysis of the level of concentration of three markets: the private pension administration (AFPs), the private health insurance (Isapres), and the “retail” chain pharmacy. The latter will be analyzed by examining the implications of the economic model in present day Chile. Overall, this research attempts to shed light on the long-term political implications of the neoliberal model and evaluate the model's role in the current political situation.

Keywords: Chile, political economy, free market economic model, neoliberal experiment, market concentration

## Introduction

During the 1970s Chile experienced deep political, ideological and economic transformations that completely reshaped the way the country functioned. In September 1970, Salvador Allende became the first democratically elected socialist president in the history of Chile. His presidency was relatively brief but long enough to provoke a complete restructuring of Chile's internal economy, which in turn resulted in a complete political and social polarization. In 1973, the military decided to organize a coup d'état and establish an authoritarian military regime led by Augusto Pinochet, the commander-in-chief of the army.

During Pinochet's dictatorship the "Chicago Boys," a group of Chilean economists who had recently graduated from the University of Chicago, began to develop an economic program based on the principles of "free market capitalism."<sup>1</sup> Within the first years of the dictatorship the Chicago Boys managed to get involved in the political and economic reforms of the military regime and establish their economic model.

This paper explores the effects of the 1970s liberal economic project in Chile. More specifically, this analysis attempts to comprehend why the Chilean economic and political system, which is supposedly defined by an extremely liberal ideology that aims to generate maximum competition, produces highly concentrated markets. I will use the Herfindahl-Hirschman Index (HHI) as a way to test the extent of the concentration of the private pension administration market, the health insurance market and the pharmaceutical industry.

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<sup>1</sup> Arnold Harberger, economics professor at the University of Chicago and mentor and friend of the Chilean students, was a key figure who heavily influenced the Chicago Boys. For more information on the Chicago Boys and their relationship with Arnold Harberger, see De Castro's interview in *Un Legado de Libertad, Milton Friedman en Chile* (2012).

Overall, this research attempts to shed light on the long-term political implications of the neoliberal model in the concentration of market power, and give a comprehensive evaluation of the model's role in the current (October 2019-present) political situation.

### ***Literature Review***

Although the political and economic history of Chile has been thoroughly examined, little has been shown as to why an open economy has produced such a concentrated economy. The events of the 1970s and 80s have awakened the interest of scholars of across the political spectrum given the dramatic and rapid changes that the country endured. An important amount of literature has focused on analyzing the neoliberal economic experiment led by the Chicago Boys during Augusto Pinochet's dictatorship (1973-1990) studying the social and economic implications that developed as a result. Sebastián Edward's book *Monetarism and Liberalization: the Chilean Experiment* (1993) has served me greatly in understanding the implementation of the model, clarifying its immediate political effects.

My research also offers a new perspective on *El Ladrillo* ("The Brick") (1974), the economic program used by the military regime written by the "Chicago Boys." Most literature on *El Ladrillo* studies the relationship between the Chicago Boys and the military regime, as well as the bibliographical aspect of the Chicago and their lives at the University of Chicago. My research takes a different approach, considering *El Ladrillo* as an entryway to the neoliberal model's view on competition and market concentration. This part of my research applies Patricio Bernedo's notion of the "two pillars" of free competition as argued in his book *Historia de la Libre Competencia en Chile* (2013) – namely, *El Ladrillo* as the "programmatic pillar", and the article DL N° 211 as the "normative pillar." My research takes a step beyond Bernedo and argues that

there is a third “pragmatic pillar”: ODEPLAN (National Planning Office). This takes into consideration the role of the political implementation of the neoliberal program.

My research largely focuses on the long-term consequences of the neoliberal system in the concentration of market power. There is limited literature that compares market concentration in Chile across time. I found few articles that compared markets’ Herfindahl–Hirschman Index (HHI) in order to reach general conclusions regarding the concentration of market power and the role of the economic model established in Chile since 1973. My research approaches three markets – the private pension administration (*Administradoras de Pensiones de Seguros*, AFPs); private health care insurance (Isapres); and the “retail” chain pharmacies. I analyze the level of market concentration for each one of these across time, since their creation during the dictatorship. The concentration of these three markets have been studied separately by many scholars; however, the HHI methodology is rarely used.

Lastly, there are few academic papers regarding the current (October 2019-present) political situation in Chile, and most of these are focused on the subject of inequality and not market concentration. I have analyzed “Op-Ed” articles from international newspapers and journals (The New York Times, The Economist, The Guardian) that focus on the current situation and not on a broader historical analysis. Those that did include some historical analysis on the role of Pinochet’s economic model were very brief and lacked an in-depth discussion on how the Chile’s economic model has affected concentration of market power. My research uses these articles as sources to understand the political and economic situation.

## Chapter 1

### An overview of the restructuring years: 1970-89

#### **Socialist Chile, 1970-73**

*La historia es nuestra y la hacen los pueblos.*<sup>2</sup>

In September 1970 Salvador Allende became the first socialist president to be democratically elected in Chile. He won with 36.3% of the votes. His winning margin over the other two candidates, Jorge Alessandri and Radomiro Tomic, was slim – Alessandri came in second with 34.9% and Tomic third with 27.8% – which meant that since the beginning of his presidency Allende's opposition amounted to almost two thirds of the voters. It didn't take long for his victory to be questioned. The 40,000 votes that gave Allende the presidency over Alessandri were not enough to give him an absolute majority, which meant that Congress was constitutionally required to settle who would take the presidential seat between Allende and Alessandri. Allende was chosen, albeit reluctantly, and was obliged to sign a *Estatuto de Garantías Institucionales* (“Statute of Democratic Guarantees”) formulated by Congress in order to legally certify that his presidency would abide by the constitution. As a result, Allende's presidency was preceded by a general ambiance of uncertainty and concern – his victory was, after all, unprecedented.

The transformations that happened during the almost 1000 days of Allende's presidency were rapid and aggressive. This period has been subject to many analyses from all fronts and areas of knowledge, and it is not this study's purpose to give a full evaluation of everything that happened. It is, however, necessary to understand the economic, political and social implications that emerged during 1970-73 in order to properly examine not only the emergence of the military regime, but also the transformations that took place during the years of Augusto Pinochet's

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<sup>2</sup> Salvador Allende's last speech, September 11, 1973. It vaguely translates into “History belongs to us and is made by the unification of the people.”

dictatorship. History must be understood as a sequence of related events and not as independent moments in time.

Allende's political alliance, the *Unidad Popular* ("Popular Unity," UP), was a left-wing coalition that grouped the Communist, Socialist and Radical parties. The UP was a multi-party organization that mobilized all revolutionary movements and coalitions. It envisioned a national economic system in which the state would lead, control and regulate key industrial sectors in order to secure workers' rights and promote the protection of the middle and lower classes. The historical protection of the elite and the maintenance of a capitalist economic structure were regarded as the main sources of social injustice, and thus their influence in Chilean politics needed to be completely minimized. The UP's political program clearly declared Chile's economic structure as fundamentally flawed and in need for deep reforming:

*What has failed in Chile is that it accepts a system that does not correspond to the needs of our time. Chile is a capitalist country, dependent on imperialism, dominated by sectors of the bourgeoisie structurally linked to foreign capital, which cannot solve the country's fundamental problems, which derive precisely from its class privileges to which they will never voluntarily renounce from.<sup>3</sup>*

While they did share a common leftist ideology, the UP's degree of radicalness at the moment of making political decisions varied significantly from party to party. Internal power disputes within the UP among its most extreme and radical members, some of whom sought to install socialism outside of the Chilean democratic tradition, were common.

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<sup>3</sup> Unidad Popular, 1970. [https://www.bcn.cl/historiapolitica/partidos\\_politicos/wiki/Unidad\\_Popular#cite\\_note-1](https://www.bcn.cl/historiapolitica/partidos_politicos/wiki/Unidad_Popular#cite_note-1)

### *Economic policies*

The UP's program was composed of a series of reforms that would centralize economic power within the state and as a result reduce the private sector's political and economic power. The UP government was convinced that Chile's elites and landowning class, who at the time controlled major parts of the Chilean economy needed to be targeted in order for the country to emerge from what they considered to be an inescapable downward spiral of low average wages and neglect of the working class. In July 1971 Congress unanimously approved the nationalization of the copper mining company, which had historically been in the hands of international enterprises, and which had been promoted by Allende. Even though the process of nationalization encountered an expected international opposition from the United States and resulted in a dramatic fall in production and profit, this was still a noteworthy win for the UP: it managed to democratically acquire Chile's most valuable resource within Allende's first year in office with the approval of right-wing members of Congress.

After the nationalization of the copper mining industry, Allende sought to expropriate other large-scale private companies. By 1970 the state already owned and controlled "something like 40% of national production"<sup>4</sup> through the Production Development Corporation (CORFO). The UP's most radical followers (the Socialists, Popular Unity Action Movement (MAPU), and Revolutionary Left Movement (MIR)) aimed to increase that percentage to 100%, eradicating any and all private production companies. The moderate UP (Communist and Radical parties) wanted to act with cautiousness and target only the private companies with what they regarded to be "monopolistic" tendencies. The president chose an intermediate avenue. He proposed that all

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<sup>4</sup> Collier, 2004.

companies with a net worth greater than US\$1 million would be expropriated and transferred to the Social or the Mixed Areas, the former being controlled and owned by the state, the latter controlled by the private sector but whose biggest stockholder was CORFO. There were around 253 corporations that fell under this categorization, which was deemed arbitrary according to some.<sup>5</sup> The president's proposition was rejected by Congress. Nevertheless, he found a way to legally elude the Congress' decision through the use of a forgotten law installed during the 1930s. The law allowed the president of the republic to expropriate "agricultural properties, industrial and commercial enterprises and establishments dedicated to the production and distribution of essential items"<sup>6</sup> and declare them as public utility. By the end of Allende's presidency, the "state controlled 80% of the country's industrial output, upward of 400 enterprises, and around 60% of GNP."<sup>7</sup>

It didn't take long for the rapid nationalization policies to shake the economy. In 1971, 29% increase in real wages, in addition to the 7.7% growth in GDP and stable inflation of 22% made Allende's economic program seem positive and advantageous. However, by 1972 the policies proved to be unsustainable. The fiscal deficit amounted to almost 13% of GDP, price control elevated inflation to a monthly rate of 23% in August of 1972, production began to decline, and the "trade deficit rose from \$US18 million to US\$225 million in 1971-72."<sup>8</sup>

### *Politicization of the elite*

Throughout the UP's government, the owners of private enterprises and powerful businessmen took part in a series of groupings in order to create alliances that would protect them against Allende's expropriation policies. The National Party was at the time the main right-wing

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<sup>5</sup> Collier, 2004.

<sup>6</sup> Ley Chile. <https://www.leychile.cl/Navegar?idNorma=6157> 1932.

<sup>7</sup> Collier, 2004.

<sup>8</sup> Collier, 2004; Edwards, 1993.

political party, composed of “traditional” conservatives, which led the political opposition in Congress. The landowning, business and elite class, feeling that the Congress was being systematically bypassed, began to mobilize.

A group of right-wing intellectuals and activists met every Monday over lunch to discuss a radical restructuring of the economy based on the teachings of Arnold Harberger, Milton Friedman and other economists from the University of Chicago. These reunions initially brought the Chicago Boys together,<sup>9</sup> a group of Chilean economists who had recently graduated from the University of Chicago, to prepare *El Ladrillo* (“The Brick”), the economic program that would later be implemented during Pinochet’s regime. An in-depth analysis of *El Ladrillo* will be covered in the next chapter.

By the end of Allende’s presidency, Chile’s economy was severely damaged. Inflation rate rose to 605.9% and domestic production drastically dropped. The state of the economy translated into a deep social crisis which polarized the Chilean population, and in turn caused a widespread speculation of a possible civil war or even a military coup d’état. One of those speculations resulted to be accurate. On September 11, 1973, the armed forces staged a coup that ended with Allende killing himself in his office while the building was being seized and raided.

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<sup>9</sup> Silva, 1996.

### **Military Regime, 1973-89**

*Nación es tratar de hacer de Chile un país de propietarios y no de proletarios.*<sup>10</sup>

The military coup was immediately followed by a series of aggressive and repressive mechanisms proper of an authoritarian takeover. The Congress was closed, all newspapers with the slightest Leftist tendencies were abolished, universities were purged, books were prohibited, political parties became illicit. The nation's control was given to the four militia commanders who formed the *Junta Militar de Gobierno* (“Military Junta”). Augusto Pinochet, Allende’s last minister of Defense designated in August 1973, was assigned to be the president of the Junta. By the end of 1973 Pinochet had his own infamous secret police – the Directorate of National Intelligence (DINA) – which aimed to seize all high-profile supporters of the UP as well as any civilian that the Junta considered to be their enemy. The DINA had many secret detention centers across Chile within which torture, violence and murder were constantly used as ways to eliminate any memory of the UP’s government. Thousands of civilians were taken and never found, alive nor dead; they came to be known as the *desaparecidos* or “disappeared.” Today, it is estimated that 33,200 people were detained, tortured and imprisoned.<sup>11</sup> More than 3,000 were killed or “disappeared.”

Although the Junta tried to stabilize the economy during the first months of the military regime, the economic changes that occurred during the UP were deeply felt during their first years in control. This was aggravated with the economic international chaos that emerged as a result of the 1973 First Oil Shock. By mid-1974 “copper price started to fall alarmingly,”<sup>12</sup> and by 1975 it had fallen to its lowest level in two decades, while unemployment steeply increased.<sup>13</sup> As can be

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<sup>10</sup> Augusto Pinochet in *El Mercurio*, 1987. ““Nation” is making Chile a country of owners and not of proletarians.”

<sup>11</sup> Informe Valech, 2005.

<sup>12</sup> Collier, 2004.

<sup>13</sup> Edwards, 1993.

seen in Figure 1, 1975 was a year of economic struggle and uncertainty, with economic activity dramatically declining and consequentially GNI reaching what would be its lowest point within the next 10 years.

**Figure 1.** Rate of Growth of GDP, 1974-85 (%).

Year	GDP Annual Variation Rate	GDP Annual Variation Rate per Capita	GNP Annual Variation Rate	GNP Annual Variation Rate per Capita	Real GNI Annual Variation Rate	Real GNI Annual Variation Rate per Capita
1974	-	-	-	-	-	-
1975	-12,9	-14,3	-15,0	-16,3	-23,9	-25,1
1976	3,5	1,9	4,2	2,6	5,8	4,2
1977	9,9	8,3	10,6	9,0	9,0	7,4
1978	8,2	6,7	8,1	6,6	8,0	6,5
1979	8,3	6,7	7,8	6,2	10,3	8,7
1980	7,9	6,3	7,5	5,9	7,1	5,4
1981	6,2	4,5	4,6	2,9	2,5	0,9
1982	-13,6	-15,0	-16,3	-17,7	-18,0	-19,4
1983	-2,8	-4,4	-2,8	-4,5	-2,3	-3,9
1984	5,9	4,1	5,0	3,3	3,4	1,6
1985	2,0	0,3	2,6	0,9	0,8	-0,9

GDP: Gross Domestic Product.

GNP: Gross National Product.

GNI: Gross National Income.

Source: Banco Central de Chile (1990).

Amidst the economic turmoil of 1975 the restructuring program of the “Chicago Boys” began to be heavily installed. None of the Junta members had any economic knowledge and were in desperate need of intellectual help. Trained at the University of Chicago under the influence of Milton Friedman’s monetary policies, these economists were drivers of a new Right that moved away from the traditional oligarchic conservative right-wing National Party. They managed to

convince Pinochet with their economic propositions and consequently began taking positions in the government's National Planning Office (ODEPLAN), the main institutional agency for policy formulation and implementation.<sup>14</sup> One of the most prominent figures of the group at the time was Sergio de Castro, who in 1976 became the minister of Finance. De Castro, alongside ODEPLAN, took full advantage of the liberty that comes with having power in an authoritarian regime and began to completely restructure the Chilean economy.

The Chicago Boys aggressively accelerated the introduction of an open free market by liberalizing the international trade and implementing a non-interventionist economic program. This methodology became known as the Chilean “shock treatment” due to its rapid and drastic implementation. As can be seen in Figure 1, the rate of growth grew exponentially in the years that followed its implementation – an economic boom that was both admired and scrutinized internationally. Effects of the liberalization policies brought favorable results; the Chilean economy seemed to be finally stabilizing after years of economic uncertainty, the GDP, GNP and GNI were increasing, and inflation was steadily decreasing.

#### *The origins of market concentration and the grupos*

During Allende’s presidency, the total number of state-owned enterprises increased immensely. In 1970 the state’s Production Development Corporation (CORFO) owned 46 firms and no banks, and by September of 1973 it owned a massive total of 571 enterprises – 553 firms and 18 banks (Figure 2). The state had the biggest and most powerful production processes under its control through CORFO, which acted as both a supra-company that owned and managed enterprises from all economic activities, and a giant shareholder that owned most shares of 14

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<sup>14</sup> González-Rossetti, 2000.

national commercial banks and a minor percentage of four others – making it the largest controlling agency of the Chilean financial market by 1973.<sup>15</sup> It is important to emphasize that a significant amount of enterprises between 1970-73 were acquired through a process of confiscation – or intervention, as defined by the UP government – and as a result were managed by CORFO but not completely owned by the state (Figure 2).

**Figure 2.** Number of state-managed enterprises, 1970-89.

	1970	1973	1983	1989
Enterprises related to CORFO	46	571	24	24
a. Subsidiaries	46	228	23	24
b. State-managed enterprises	0	325	0	0
c. Banks	0	18	1	0
Other state-owned enterprises	20	22	21	18
Other financial institutions	2	2	2	2
CODELCO	0	1	1	1
<b>Total</b>	<b>68</b>	<b>596</b>	<b>48</b>	<b>45</b>

Source: Banco Central de Chile (1990).

Within the first months of the military regime, a large number of state-owned enterprises became rapidly privatized. By the end of 1989 more than 90% of the total number of public enterprises that were under CORFO's control in 1973 became part of the private sector. This period of rapid and drastic reduction in state's economic dominance was a phenomenon that is unique to Chile in both magnitude and prolongation, as it completely shifted the balance between the private and public sector in a span of less than a decade.

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<sup>15</sup> Saez, in Munoz, 1993.

The process is often divided into 3 stages: the initial and most rapid stage was carried out between 1974-1978; the second stage between 1978-1981; and the third stage 1983-1989.<sup>16</sup> The early stage of privatization sought to reduce what the military government considered to be an excessive state intervention in the economy and with that reduce the fiscal deficit inherited from past governments.<sup>17</sup> The methodologies used to privatize consisted in either liquifying, bidding at auction, or selling directly<sup>18</sup> shares of state-owned firms and banks to private owners, including enterprises that had been created by CORFO and had been traditionally under its control. Some of the direct sales and auctioning of shares were condensed into single packages in which all shares of a single enterprise were sold to a single owner. These private owners came to be known as *grupos económicos* (“economic groups”), groups of large conglomerates that became affiliated in order to buy large firms and banks.<sup>19</sup> These *grupos* functioned as both the owners and managers of their firms and banks. During the first years of privatization they rapidly bought divestiture banks which were used to give themselves steady credit flows in order to buy more enterprises – to the point of acquiring firms across all economic sectors and concentrating ownership among themselves. By the end of 1979 they managed to own and directly control more than 80% of the total equity of all private banks.<sup>20</sup>

The conglomerates succeeded in controlling the private sector and managed to retain most economic power concentrated within their *grupos*. In 1978-9, the two largest *grupos* (BHC and Cruz-Larraín) controlled twice as many firms as their competitors, and together they held 37% of

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<sup>16</sup> The gap between the first and second stage is due to the 1982-3 recession, in which the process paused and later resumed toward the end of 1983.

<sup>17</sup> Hachette, 2001.

<sup>18</sup> Hachette & Lüders, 1993.

<sup>19</sup> Edwards (1993) explains that these *grupos* (types of conglomerates) had existed previous to the installment of the privatization process, but the “military experiment allowed a dynamic new style of *grupos* to emerge and expand,” 98.

<sup>20</sup> Edwards, 1993.

Chile's largest 250 firms assets and 40% of banking assets.<sup>21</sup> The concentration of economic power in a few *grupos* was a direct result of the first stage of the privatization process; the mechanism through which state-owned enterprises were sold and the evident discrepancy between their book value and the price at which they were sold allowed the *grupos* to own and manage most of the Chilean economy.<sup>22</sup> The lack of transparency during the selling-and-buying resulted in an unsubtle repetition of names between sellers and buyers, allowing some buyers to have inside information and invest accordingly. Moreover, the price at which firms and banks were sold were often unregularized and valued at a “cost significantly below their book value, given their null or extremely low profitability.”<sup>23</sup> However, few buyers could acquire these low-cost firms because the “sale of enterprises was largely conducted in a period of domestic recession and extremely high interest rates”<sup>24</sup> as the 1970s were. By the end of this decade, “214 companies with national capitals were managed by no more than 80 people.”<sup>25</sup>

It is important to reinforce the fact that the divestitures happened in a context of authoritarian regime, without the installment of a regulatory framework that would oversee and accompany the privatization of state-owned firms, especially in the early stage of the process. The process was structured in such a way that would be beneficial to the seller (the state through CORFO) and also to the buyer – the military regime desperately needed to stabilize the economy as quickly as possible, and the liberal market economists (led by the Chicago Boys) introduced a solution that would allow the problem to be taken away from the public sector’s hands to the private sector. One of the few firms that was able to evade privatization and remain under the

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<sup>21</sup> Silva, 1996.

<sup>22</sup> Dahse, 1979.

<sup>23</sup> Ibid.

<sup>24</sup> Ffrench-Davis, 2010.

<sup>25</sup> Dahse, 1979.

military regime's control for "strategic reasons"<sup>26</sup> was CODELCO, the massive national copper firm.

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<sup>26</sup> Edwards, 1993.

## Chapter 2

### Concentration of markets during the military regime

#### *Analysis of the neoliberal promise*

In this section I will explore the ideological bases of the economic principles of the military regime in Chile during the seventies. Its fundamental principles were an open economy and unencumbered competition. Freedom was always understood as the ultimate goal, in the context of economic choice.

In his book *Historia de la Libre Competencia en Chile* (2013), Patricio Bernedo argues that the neoliberal “free market” economic system of the 1970s was built upon two fundamental pillars: the “programmatic,” as defined by the Chicago Boys in *El Ladrillo* (1974); and the “normative,” as stated in the article DL Nº 211 (1973), which sets the rules for the defense of free competition. The author correctly recognizes that the normative pillar was created out of the need to sanction monopolistic and anti-competitive practices as outlined in the programmatic pillar. This means that the foundational text that framed the entire neoliberal economic model was *El Ladrillo*. I will begin by analyzing the programmatic and normative pillars as described by Bernedo, to then take a step beyond his focus and add a third “pragmatic” pillar: the ODEPLAN. Albeit ODEPLAN had a fundamental position within the military government, there are only a few academic works that study it in depth. I argue that ODEPLAN was a crucial agent in installing and embedding the economic plan into the Chilean society.

#### *(1) El Ladrillo: the programmatic pillar*

As stated in Chapter 1, *El Ladrillo* ("The Brick") is an economic manual created by the Chicago Boys designed to be implemented during the Chilean military regime. The day of the

coup d'état, commander in chief of the Navy, José Toribio Merino, recruited a group of economists to come up with an economic program. In 1974, after almost a year of debate and meetings, *El Ladrillo* was materialized and immediately put into practice.

The process of privatization must be understood as a tool used by the military regime in order to cement its ties with the private sector, and thus with the Chicago Boys. The liberalization of markets needed the privatization of enterprises – both financial and commercial – in order for it to function in the way envisioned by *El Ladrillo*. And, in turn, the military regime needed the assurance that the liberal market system and the private sector would stabilize the economy.

*El Ladrillo* had two main goals: to eradicate extreme poverty and achieve price stability. The instrument with which these objectives would be achieved was a high and stable rate of economic growth.<sup>27</sup> In the book's prologue, written years after the military regime, Sergio de Castro acknowledges that a context of an authoritarian regime allowed for the introduction of a free market economy and the abandonment of socialist system:

*The chaos concealed by the Marxist government of Allende, which only accelerated the gradual socializing changes that were introduced continuously in Chile since the mid-1930s, made it easy to convince [the military Junta] that socialist models would always lead to failure.*

Moreover, Dominique Hachette and Rolf Lüders (1993), two doctorate economists from The University of Chicago, “Chicago Boys,” recognized that “Chile's program [i.e., *El Ladrillo*] probably could not have been carried out under a regime of a different nature.”<sup>28</sup> The alliance

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<sup>27</sup> Hachette & Lüders, 1993; and interview with Rolf Lüders 11/26/19.

<sup>28</sup> Hachette & Lüders, 1993.

between the Junta and the Chicago Boys was forged when *El Ladrillo* was taken to be the regime's economic program.

*El Ladrillo* was not written as a theoretical analysis of the principles of a free market economic system, but as a program designed to be implemented in light of these economic principles – heavily influenced by Milton Friedman, Arnold Harberger (“Alito”<sup>29</sup>) and Adam Smith.<sup>30</sup> In this sense, it is a manual specific to Chile aimed to resolve problems that were specific to the country at that time. But it is also a text that serves as an entryway to the Chicago Boys’ understanding of *how* economic principles ought to be implemented in the political and economic context of 1973 Chile. The main ideological transformation that would arise through the implementation of the economic policies outlined in *El Ladrillo* was the creation of *capitalismo popular* (“popular capitalism”) – the idea that individual liberty stems from economic freedom, which in turn is only plausible within an economic system that decentralizes state power and protects private property. In other words, individuals can achieve maximum liberty when their economic decisions are made independently from the state, which results in collective liberty for the entire society. Hence, the Chilean economic system would be a market economy in which the state fulfills a subsidiary function when the private sector cannot (or does not want to) act for the benefit of society.<sup>31</sup> Freedom is understood, in this context, as the individual ability to choose among the maximum of alternatives.

Throughout the privatization process, the Chicago Boys and the military regime used *capitalismo popular* as the economic project’s slogan. Hachette and Lüders (1993) regarded the

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<sup>29</sup> Arnold Harberger, known as "Alito" among the Chilean students, became very close friend and mentor to all of them, especially to de Castro. For more information on the Chicago Boys and their relationship with Milton Friedman and Arnold Harberger, see De Castro's interview in *Un Legado de Libertad, Milton Friedman en Chile* (2012).

<sup>30</sup> “El Ladrillo de Sergio de Castro.” *The Clinic*. <https://www.theclinic.cl/2015/04/07/el-ladrillo-de-sergio-de-castro/> 04/07/15.

<sup>31</sup> Interview with Rolf Lüders 11/26/19.

privatization process as “an instrument of the military regime to decentralize and spread economic power in the country,”<sup>32</sup> a statement that repeats itself constantly in *El Ladrillo*,<sup>33</sup> even though the process’s transparency and adequate regulation has been questioned. In his later work (2001), Hachette trivializes the process’ issues of fairness and transparency. He acknowledges the existence of a double role of privatizer and buyer, the use of privileged information by these buyers, and the lack of a regulatory framework, but also states that it is “highly unlikely that the “lack of transparency” significantly affected the price and distribution of shares, given that the transfers were adequately informed,”<sup>34</sup> and that having people responsible for the privatization [of public companies] appearing among their buyers does not necessarily imply “bad behavior.”<sup>35</sup>

The fact that defenders of the privatization process recognize its flaws but justify the use of an unfair methodology demonstrates the profound difference and contradiction between *El Ladrillo* and its implementation in regard to the concentration of market power. The economic program clearly states that there must be “an effective decentralization of the economic system”<sup>36</sup> and an “enlargement of the antimonopoly law so that any alliance between producers to decrease competition is drastically sanctioned,”<sup>37</sup> among other specifications regarding decentralization of economic power. The former statement was probably referring to the decentralization of the state’s ownership and control but must be understood as an idea that also includes the acts of the private sector when taken into account with the latter statement. The promise – and later assurance – of a popular capitalism becomes a disguise for the implementation of a program that resulted in the

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<sup>32</sup> Hachette & Lüders, 1993.

<sup>33</sup> See *El Ladrillo* 1974, pages 53, 62, 63, 72, 103.

<sup>34</sup> Hachette (footnote), 2001.

<sup>35</sup> Ibid.

<sup>36</sup> *El Ladrillo*, 1974.

<sup>37</sup> Ibid.

subsidized transfer of public property to private interests at the expense of both the principles of a free market economy and the possibility of a competitive economy.

## (2) DL N° 211: the normative pillar

In December 1973 the law *Decreto Ley* (“Legal Decree”) N° 211 “Rules for the defense of free competition” was enacted. It may come as a surprise that laws were issued during Pinochet’s dictatorship, given that an inherent characteristic of authoritarian regimes is the power to dictate policies without the need for a legislative body. Indeed, Congress was dissolved the moment that the military took over control of the country. However, legislative power did not cease to exist; it was rather transferred to the hands of the Junta.

Each member of the Junta had under their control a share of the legislative power, aided by “legislative commissions.” These legislative commissions were “central working organs through which each member of the Junta elaborated a concrete position on the myriad of legislative proposals before the Junta.”<sup>38</sup> A unique aspect of Pinochet’s dictatorship was its “limited” form of authoritarian constitutionalism, in which the maintenance of the legislature was an essential aspect for the organization and structure of the regime. In his book *Constitutionalism and Dictatorship* (2002), Roberto Barros studies the regime’s self-binding legislative design, in which legislative commissions composed of civilian participants worked alongside the Junta. It is important to note that the Courts of Justice never stopped working and managed to remain somewhat independent from the control of the regime, enforcing the laws passed by the Junta.

The DL N° 211 was a key aspect in the installation of a free and competitive market system as outlined in *El Ladrillo*. The first article of the act declares the following:

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<sup>38</sup> Barros, 2004.

*The purpose of this law is to promote and defend free competition in the markets. Attacks against free competition in economic activities will be corrected, prohibited or repressed in the manner and with the penalties provided in this law.*

The fundamental aspect of the normative pillar is summarized in this article. The “promotion,” “defense” and “protection” of a free competitive market *had to be enacted through the law*. The introduction of a free market system into the Chilean society relied on the normative regulation and judicial prosecution of all economic activities. It was not a model that could “naturally” immerse itself into the Chilean society – it required a carefully designed normative framework that would ensure the promulgation and protection of the economic model. The DL N° 211 is still the main Legal Decree that safeguards free competition in Chile.

### *(3) ODEPLAN: the pragmatic pillar*

The National Planning Office (ODEPLAN) was created in 1967 during the Presidency of Eduardo Frei Montalva with the objective of advising the President with the planification and structuring of the economy. However, ODEPLAN was not used that much by neither Frei nor Allende’s governments. The military regime transformed ODEPLAN into the main institutional agency for policy formulation and implementation.<sup>39</sup> Within the first year of the regime, the ODEPLAN was completely upgraded into becoming a supra-ministry designed to pragmatize *El Ladrillo*’s economic program. It was mainly composed by hand-picked young economists (many

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<sup>39</sup> González-Rossetti, 2000.

of whom were Chicago Boys) and technocrats who were loyal to the neoliberal model and shared a common commitment to the public sector.

As early as 1974, ODEPLAN had succeeded in positioning itself as a key office within the government, “since it could link up to all the other ministries, from those of the economic sector to sectors like Education and Public Works.”<sup>40</sup> It succeeded in becoming an indispensable agency within the regime, constantly working alongside the Ministries of Finance and Economy and the Budget Direction (DIPRES). This allowed ODEPLAN to have direct access to political and investment projects, as well as to the government’s public resources. Moreover, ODEPLAN was given distinctive autonomy in “defining and refining the economic policies of the military government”<sup>41</sup> and putting them into practice. Two noteworthy economic reforms that were implemented under the preparation and coordination of ODEPLAN were the privatization of the pension and the health insurance systems, which will be analyzed in the next chapter.

ODEPLAN was the agent that installed the ideals of *capitalismo popular* into the Chilean society. It was the main intellectual hub within which the principles outlined in *El Ladrillo* were applied and translated into economic and social policies. The role of the ODEPLAN during the military regime is commonly overlooked; however, many of the practical policy implications of the economic project were originated in the Planning Office.

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<sup>40</sup> Huneeus, 2000.

<sup>41</sup> González-Rossetti, 2000.

## Chapter 3

### Subsistence of oligopolies: from military regime to democracy

#### ***Quantification of the survival of oligopolies throughout the years***

This chapter will explore the origins and subsistence of three highly concentrated private markets in Chile in order to provide an empirical-based analysis of the effects of the privatization process. The markets in review are the private pension companies, private health insurance companies and the pharmaceutical industry. I will expose the annual level of concentration for each market using the Herfindahl-Hirschman Index (HHI)<sup>42</sup> in order to demonstrate that none of these markets can be classified as nonconcentrated.

#### ***(1) Pension administration companies***

As described in Chapter 2, the privatization process gave access to the private sector to own and control most of the country's economy. Before 1973, the pension system was structured in a pay-as-you-go system through which the state regulated and attributed retirement accounts collectively. In 1981, during the period of privatization, it was replaced by an individualized system dependent on each worker's individual retirement accounts, limited to a 10% of accumulated wealth earned throughout their lives and controlled by private pension companies (*Administradoras de Fondos de Pensiones*, AFPs). All new workers were obligated to enroll in the private system. Since its creation, the private pension system has remained practically untouched and unamended.

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<sup>42</sup> The HHI is calculated by taking the sum of the squares of each firm's market share within a single market. The HHI can take values from 0 to 10,000; if the value is 0 then the market has a perfect competition, and if the value is 10,000 the market is controlled by a monopoly (one single firm). In the case of Chile, the National Economic Prosecution establishes that an index value below 1,500 does not indicate concentration, between 1,500 and 2,500 indicates a moderately concentrated market, and a value above 2,500 reflects a highly concentrated market.

The AFPs work by investing its clients' money and charging commissions: each worker invests in a single pension administration and is charged an amount that consists of a "fixed fee and a fee that is proportional to the participant's contribution."<sup>43</sup> The system is highly individualized; workers can only invest all of their savings in a single AFP, while AFPs manage each retirement account separately. José Piñera, former Minister of Labor (1978-80) and creator of the private pension system<sup>44</sup>, argued that personal retirement accounts would be beneficial for the individual *and* society – better retirements are given to those who work and voluntarily save more than the obliged amount, which incentivizes society at large to work more and save more, resulting in an overall better allocation of resources.<sup>45</sup> The "personal responsibility" approach to managing retirement accounts was evidently based on the neoliberal principles of voluntary exchange, individual freedom of choice and subsidiary state defined by the Chicago Boys and implemented by ODEPLAN.

Even though the pension system is not a company in the way that other privatized enterprises are, its transferal to the private sector can be understood in a similar, but unique way. The AFPs provide a commodity in exchange for a fee, as any other company does. However, unlike most companies the adherence to an AFPs is obligatory for all workers as there is no public alternative.<sup>46</sup> Additionally, the pension system's privatization process was accompanied by an AFPs regulatory framework led by the pension superintendence, which legitimatized the new system. The superintendence was designed to facilitate the dissemination of information regarding each AFP's performance and fees.<sup>47</sup> Nevertheless, the new private pension system managed to

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<sup>43</sup> Krasnokutskaya, 2018.

<sup>44</sup> The private pension system was created by the Minister of Economy José Piñera and implemented through ODEPLAN. This is an evident example of how the ODEPLAN managed to work alongside key ministries throughout the military regime.

<sup>45</sup> Piñera, 1992.

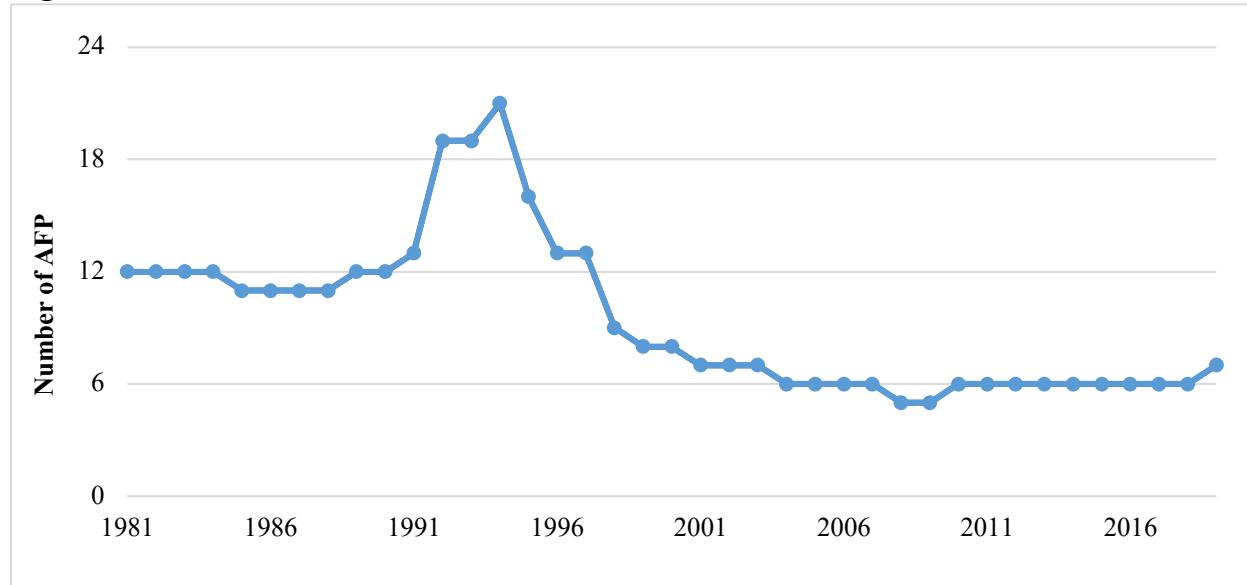
<sup>46</sup> Since 2008, people with low income receive state financing for their pensions through the "Pilar Solidario."

<sup>47</sup> Krasnokutskaya, 2018.

symbolize the problematic effects of the privatization process, as most of the AFPs were controlled and owned by the *grupos*. In May 1981, less than a year after the establishment of the new pension system, nine out of the 11 AFPs already belonged to *grupos*.<sup>48</sup>

The concentration of the pension administration market has somewhat fluctuated since the creation of the AFP system, as can be seen in Figure 4. The first years of the system show an immediate HHI value of almost 2,000, which may demonstrate an apparent connection between the installation of the new system and the fact the *grupos* owned most AFPs. Moreover, Figure 4 gives evidence that only in the early 1990s the market had an HHI of less than 1,500 (no concentration), and that since the mid 1990s the concentration increased until it reached its highest HHI of almost 3,000 (highly concentrated market). The decline that follows is probably due to the introduction of the *pilar solidario* (“solidary pillar”), a mechanism established in 2008 through which low income people could appeal to receive state financing for their retirement and be exempt from adhering to an AFP.

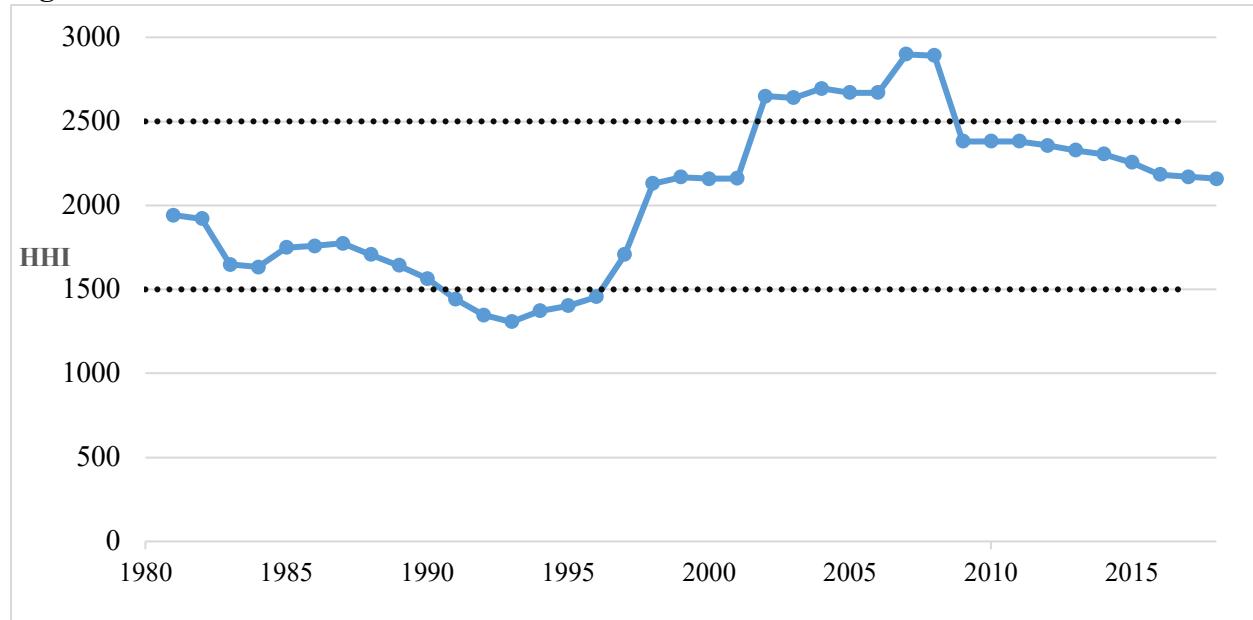
**Figure 3.** Number of AFPs 1981-2019



Source: Constructed from data obtained from the Pension Superintendence.

<sup>48</sup> Saez, in Munoz, 1993.

**Figure 4.** AFP HHI, 1981-2019



Source: Constructed from data obtained from the Pension Superintendence.

## (2) Health insurance companies

Alike the pension system, the health care system underwent deep structural changes during the military regime's privatization era. In 1981 the Ministry of Health alongside ODEPLAN transformed the previously state-administered healthcare structure<sup>49</sup> into a mixed public-private system in which workers could choose to adhere to a private health plan administered by private insurance companies (Isapres) or have their insurance managed publicly by the National Health Fund (*Fondo Nacional de Salud*, FONASA). The mixed structure remains practically unchanged to the present day. Isapres work by collecting contributions from workers and pensioners. Workers who decide to be covered by the private system are obliged to provide 7% of their monthly salary to their Isapre of choice, while workers who choose the public system are either exempt from paying a fee or forced to give either 10% or 20% of their salary, depending on their monthly

<sup>49</sup> In 1951 the National Healthcare Service (SNS) was created, enabling the state to administer around 90% of the healthcare system.

income. FONASA is also partially financed through general taxation in order to provide coverage for the low-income population. The amount of population covered by the private sector fluctuated during the first years since the creation of the Isapres but has remained fairly stable in the past decade. Currently, only 14.4% of the country's population is covered by the private system (Isapres), while the vast majority (78%) are administered by FONASA.<sup>50</sup> This is partly because Isapres work on an individual basis – they compete among each other to receive the largest number of contracts but are also allowed to deny or limit an individual's coverage based on age, gender and health.

During the first decade since the creation of the private health insurance market the number of open Isapres<sup>51</sup> increased from only six to of 22 in 1993, the highest recorded number. After than year, the number steadily decreased, and since 2009 there have only been six open Isapres.

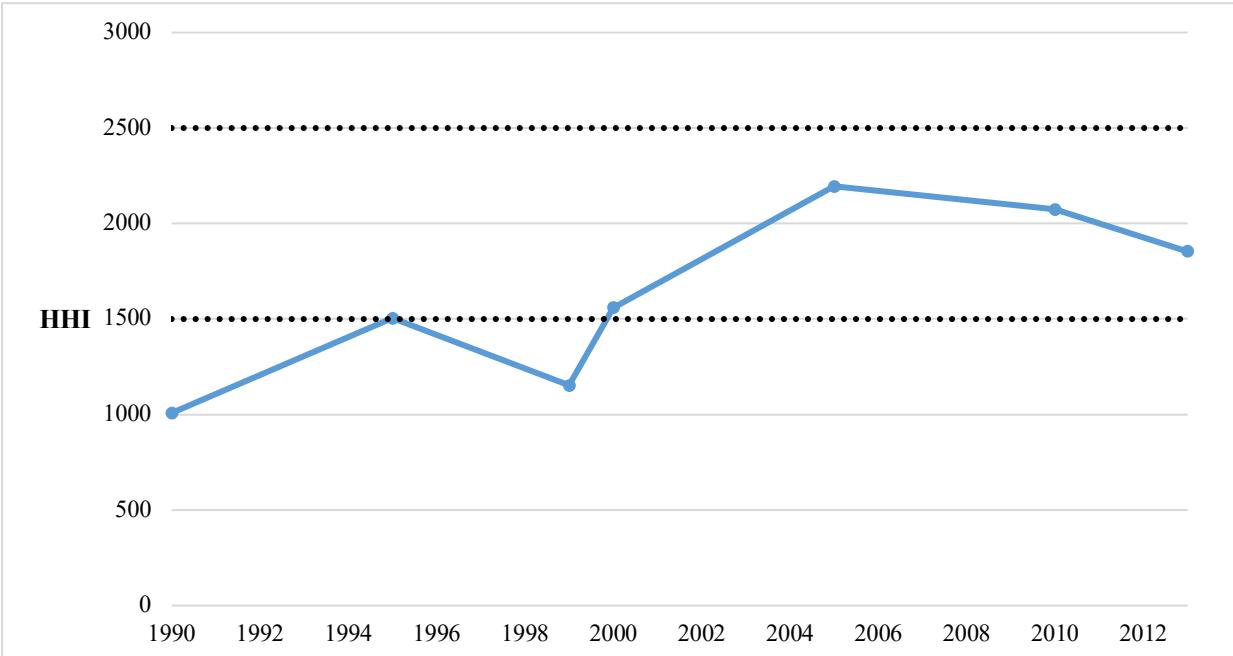
The appearance of new health insurance companies (Isapres) created a new market that was aligned with the neoliberal program's principles: developing an open-market competitive economy, protecting individual's freedom of choice, and limit state intervention. The latter two principles were arguably maintained; however, the rise of a private insurance system did not fully establish a competitive market. Even though the market appeared to behave competitively during the 1990s, Figure 5 shows that there has been a significant increase in concentration since 1999, as it has maintained a moderate-to-high concentration with an HHI of around 2,000. Overall, the private insurance market has protected the existing Isapres from external competition, and thus has allowed for six companies to control the market.

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<sup>50</sup> The remaining 7.6% of the population includes the armed forces and other groups who are not covered by neither the public nor the private sector.

<sup>51</sup> Open Isapres: membership and health plans are offered publicly. Closed Isapres: limited to workers of a certain company or institution. Throughout this paper I only focus on open Isapres as they encompass the largest amount of customers.

**Figure 5.** Isapres HHI, 1990-2013



Source: Constructed from data obtained from the Health Care Superintendence.

### (3) ‘Retail’ pharmaceutical industry

The origin of the pharmaceutical industry is difficult to track given its complex structure. The multiplicity of the actors involved in addition to the vast array of medicine products (each with its own market) construct a health industry that is extensive and complicated. I will focus my analysis on the “retail pharmacies” or chain pharmacies sales market, as it is undoubtedly one of the most criticized Chilean markets given its highly uncompetitive structure and recent price collusion scandal.

Even though the emergence of the first chain pharmacies can be traced back to the 1970s, the most radical structural transformation happened during the mid 1980s, when three “retail” pharmacies – Salcobrand (SB), Cruz Verde (CV) and Farmacias Ahumada (FASA) – gained increasing control over the market. The market structure shifted from being fairly decentralized

(with around 1,500 independent pharmacies working across the country) to highly concentrated. The 1983 recession and the 1980s price deregulation policy aggravated the disparity in market share between the three large chain pharmacies and the rest of independent pharmacies and as a result enabled SB, CV and FASA to dominate the market. After more than 30 years, these three chain pharmacies still control over 80% of the market.<sup>52</sup>

Figure 6 shows the market concentration for the pharmaceutical industry. Evidently, this is an extremely concentrated market that has remained above the 2,500 HHI level for the past 20 years. CV, SB and FASA currently dominate more than 80% of the pharmaceutical sales market in Chile.<sup>53</sup> Figure 6 also shows that the market had its highest level of concentration sometime around 2008 but was followed by a precipitous drop. These trends may be correlated to the pharmaceutical price collusion scandal involving CV, SB and FASA. In 2008, the *Tribunal de Defensa de la Libre Competencia* (“Free Competition Tribunal,” TDLC), a jurisdictional agency subject to the Supreme Court, proved that the three main pharmaceutical companies had colluded between 2007-2008. The TDLC tracked the change in the price of certain medicines and identified that they increased in each pharmacy at a certain time and day, like clockwork. According to the TDLC, the pharmacies’ strategy was to increase the price in sequence: first one increased the price, then the other two followed. The price monitoring that each pharmacy did of the prices established by their competition (other two pharmacies) of certain medicines corresponded with the days in which the prices increased. Normally, pharmacies track their competition’s prices every seven or 15 days, but in this case, they monitored their competition’s prices every two days. On their own, these unusual synchronized monitoring behaviors don’t give enough evidence to establish a causal

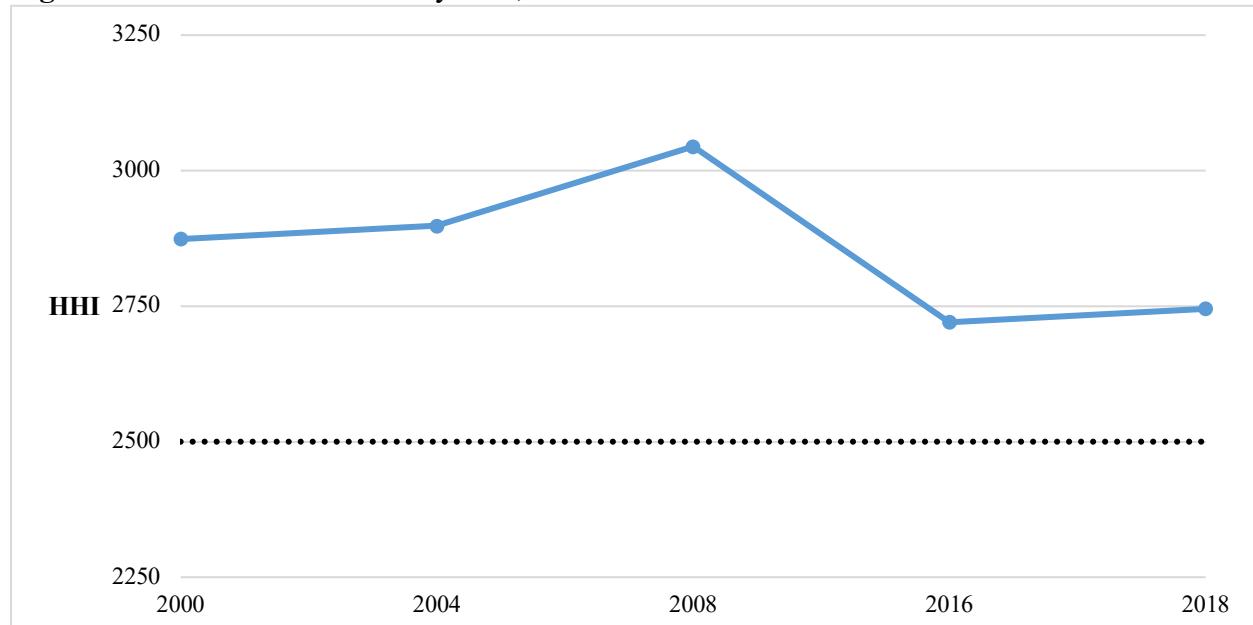
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<sup>52</sup> “A review of the drug market.” CEP Seminar, FNE Report. <https://www.cepchile.cl/cep/noticias/notas-de-prensa/seminario-informe-fne-examen-al-mercado-de-medicamentos> 12/03/2019.

<sup>53</sup> Ibid.

connection between an increase in price and collusion, but when linking them to the dates in which the prices increased, they do show an effort to act simultaneously. FASA was the only company that recognized their anti-competitive behavior. At the time, the three pharmacies managed to control between 79% and 99% of the market for the medicines under investigation.<sup>54</sup>

**Figure 6.** Pharmaceutical industry HHI, 2000-2018



Source: Constructed from data obtained from the Health Care Superintendence and the FNE.

## Results

The three markets explored above show similarities and differences in the ways that they relate to the concentration of market power and to the liberal economic system. The most evident similarity is that no market can be classified as nonconcentrated; they all have either a moderate or high degree of concentration. The results can be summarized as follows (with corresponding average HHI):

<sup>54</sup> Tribunal de la Libre Competencia. [https://www.tdlc.cl/nuevo\\_tdlc/c-184-08-requerimiento-de-la-fne-en-contra-de-farmacias-ahumada-s-a-y-otros/](https://www.tdlc.cl/nuevo_tdlc/c-184-08-requerimiento-de-la-fne-en-contra-de-farmacias-ahumada-s-a-y-otros/)

- 1) Highly concentrated: pharmaceutical industry (2,812)
- 2) Moderately concentrated: pension administration companies (2,052) and health insurance companies (1,621).

The structural changes of these markets was feasible given the political context of the late 1970s/early 1980s. The state of the economy was stable, GDP was high (Figure 1) and the recently enacted 1980 Constitution gave some judicial legitimacy to the regime. Overall, there was widespread agreement among the opposition and members of the regime that the pension and health care systems were in need for reform. However, these changes were strategically constructed by the regime's technocrats as ways through which the economic neoliberal project could penetrate into the Chilean society and prevent the return of a socialist government. A notorious political implication that emerged as a result was the concentration of power among the *grupos*, as most of the AFPs and new health insurance companies were owned by them upon their creation.<sup>55</sup>

The private pension fund administration, private health insurance system and the pharmaceutical industry encompass services and products that have a tendency toward being inelastic and are continually on demand. This also necessarily includes an ethical aspect to the concentration of the pension system and the medicine market – the vast majority of the medicines that were part of the synchronized increase in price treated chronic diseases; the AFP control the individual pension funds of all working Chileans; and the Isapres administer a large portion of an individual's salary. It is thus worth asking whether the market follows the neoliberal principle of voluntary exchange, and thus to what extent did the military regime's economic project was

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<sup>55</sup> Edwards, 1993.

socially detrimental.<sup>56</sup> Are low-income groups able to choose or are they indirectly forced to adhere to a certain AFP? Do the elderly and sick have the possibility of choosing an Isapre or are they always going to be denied a private insurance plan given their age and health status? Can someone with limited access to transportation be expected to travel to the nearest non-chain pharmacy, if there is a CV or SB strategically located at the end of their street?

There are many ethical implications in the case of the pension administration system. For instance, the system presumes that all consumers possess absolute information and are thus sufficiently informed and financially literate to choose the right retirement plan for them. The system groups people from all educational levels under the same expectation of being able to make the best decision for themselves, as they are free to invest their savings on any AFP of their choice. This prompts an asymmetry of information between consumers and pension administrators that is not caused by a lack of transparency – the pension superintendence has always maintained all information regarding AFPs available to users – but is rather caused by the system's disregard for consumer's educational level. In other words, by forcing everyone to be part of the private system and assuming that they have equal cognitive capacity of making strategic and rational choices, the private pension market prevents the symmetry of information between consumer and producer.

For the health insurance market, the mixed private-public structure separates the population by income: those who receive high income tend to choose a private coverage, while low income groups choose FONASA, as Isapres are allowed to exclude an individual based on their income level. Changing the structure to mixed also caused the public health services to decline in quality, as the state had less funding available to spend in health care. Alternatively, the private system maintained high-quality hospitals and services for members of Isapres. The disparity between the

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<sup>56</sup> Collier, 2004.

private and public system can be evidenced in the degree of satisfaction according to the income level those who are enrolled in an Isapre tend to be more satisfied with the health care system in comparison to those who are covered by FONASA. According to a study (2018) made by the Center of Public Studies (CEP), the degree of dissatisfaction varies according to an individual's financial situation, since they are faced with expenses that cause a problem in their budget or that they cannot cover, and that limit their access to services; and their opportunity in care, due to lack of availability and waiting times to receive care.<sup>57</sup>

For the pharmaceutical industry, one of the most salient results of non-competition is the vast amount of chain pharmacies located across the country relative to the amount of non-chain pharmacies. The physical location of pharmacies affects the level of demand, as people will choose to buy medicines from whatever pharmacy is closer to them. This aggravates the disparity between market share for retail pharmacies and local pharmacies, allowing CV, SB and FASA to maintain their dominion over the pharmaceutical market.

Nevertheless, these markets have significant differences. The private pension system was accompanied by a regulatory framework that sanctioned and managed AFPs the moment that it was created, while the health insurance market and pharmacy market did not. The Isapres superintendence was created in 1990, almost a decade after the creation of the private insurance. In the case of chain pharmacies, the lack of a regulatory institution allowed for unregulated negotiations between pharmacies and laboratories to take place, with no obligation for transparent procedures and no sanctions. Another salient difference is that the AFP reform, unlike the health care reform, was a significant issue ("high politics") that needed to be addressed quickly given its years of financial and structural malfunctioning.

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<sup>57</sup> CEP, 2018.

It is also important to reinforce that the Isapres tend to cover almost exclusively the young, healthy and rich section of the population, meaning that it is a market for the minority. It is not a market that affects the middle and lower classes, nor the “sick, the elderly, the out-of-work.”<sup>58</sup> In contrast, all workers are obliged to invest their savings in an AFP, making the private retirement administration market able to affect the vast majority of the population and not only a minority.

Overall, the contrast between variations in the HHI for the pension system, health insurance system and the pharmaceutical industry may be a reflection of the exploratory differences outlined above. These three markets give different, but not conflicting, reflections on how the concentration of market power has developed in Chile. The pension and health care reforms illustrate and embody the ideological principles of the neoliberal economic project – they were meant to promote individual freedom of choice, legitimize the private sector and bring stability through competition and meritocracy by concentrating state intervention in the low-income population and shifting the demand to the private sector. However, the emergence of these systems and the rise of chain pharmacies exemplify contradictory results, such as the concentration of market power in all three industries. The expectation of private competition was not fully achieved.

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<sup>58</sup> Collier, 2004.

## Chapter 4

### Role of oligopolies in the current<sup>59</sup> political situation

#### *;Chile Despertó!*

On October 14, 2019, a 30 peso (four cent) increase in the rush hour metro fare ignited a wave of mass fare evasion led by high school students in multiple metro stations in Santiago. After the surge in price, the capital's metro fare became one of the most expensive in the region, at \$830 pesos (\$1.17). Metro stations were flooded by thousands of students jumping over turnstiles and eluding barriers as a way to protest the surge in price, calling for a *#EvasiónMasiva* movement. These protests continued for days, becoming more and more massive and violent. Protesters damaged turnstiles and vandalized stations, interrupting transport of more than 2.5 million daily metro passengers.<sup>60</sup> The police responded aggressively by dispersing demonstrators with tear gas and beating them up. Government officials responded to this sudden upheaval by asking Chileans to wake up earlier in order to avoid the rush hour fare increase.<sup>61</sup> The government's evident lack of empathy and disconnection with the everyday struggles of most Chileans provoked an immediate wave of criticism that aggravated the protests.

Protests reached a critical point Friday afternoon, October 18. 22 metro stations were completely incinerated, supermarkets and pharmacies were ransacked, buses were set on fire, chaos and riot filled the capital's streets. Looters hid among protesters, taking advantage of the disarray. Special police forces were sent to combat against the turmoil and allowed to confront the crowd with tear gas and violence, often dragging and hitting people. On Friday night, President

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<sup>59</sup> I will focus my analysis in the events that happened between October, 2019, and February, 2020.

<sup>60</sup> "Chile students' mass fare-dodging expands into city-wide protest." *The Guardian*.

<https://www.theguardian.com/world/2019/oct/18/chile-students-mass-fare-dodging-expands-into-city-wide-protest>  
10/18/19.

<sup>61</sup> When asked about the increase in fare, then Minister of Economy Juan Andrés Fontaine replied: "If you wake up earlier, you can have the benefit of a lower fare."

Sebastián Piñera declared a state of emergency in Santiago and conceded control to the military in an attempt to stabilize the capital. This was the first time since the military regime that a state of emergency was enacted, and the military were ordained to roam the streets of Santiago. Curfew was announced on Saturday for Santiago and other big cities, as well as the suspension of the rise in price of the metro ticket. On Sunday night, center-right President Sebastián Piñera declared that “Chile is at war against a powerful and implacable enemy, who respects nothing and no one, and who is willing to use violence without any limits.” In less than a week, Chile went from being the region’s leading example for economic growth and political stability to a country struggling to maintain political legitimacy and social order.

The seemingly unprecedeted *explosión social* (“social explosion”) of October 18 and the following rapid radicalization of citizens created a new normal state of permanent uncertainty and weekly protests. A noteworthy demonstration happened on October 25, a week after the social explosion. 1.2 million people (around 6% of the total population) mobilized peacefully for the *marcha más grande de la historia* (“largest march in Chile’s history”). Chileans of all social groups walked together in protest, banging pots and pans while announcing *Chile despertó* (“Chile woke up”).

Numerous marches have taken place following the initial upheaval, albeit none has managed to remain completely nonviolent. Conflict between demonstrators and the police has become an inherent consequence of the protests in Chile. Since October 2019, at least 30 people have died, 1,383 have reported violations, including excessive use of force in detention, torture and sexual violence, and more than 350 have suffered ocular injuries or total loss of their eyesight,<sup>62</sup> according to the National Institute of Human Rights (INDH).

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<sup>62</sup> A unique consequence of the violent confrontations between the police and protesters has been the large number of optical wounds suffered by protesters as a result of pellet shots fired by the police.

A particularity of the *Chile despertó* movement is the many demands and social issues that it encompasses. There is no single demand and no defined leaders, making the movement massive but messy. The rising costs of living, miserable pensions of the middle-and lower-class elderly, and systematic incompetence of the political class are some of the many issues people are protesting against. Yet, there is one essential demand that brings all of the others together: the fight against inequality.

The subject of inequality in Chile goes beyond the scope of this analysis. Nevertheless, it is important to highlight certain aspects and consider them within the context of the social explosion. As Figure 7 shows, poverty has significantly decreased in the past decades: at the beginning of the 21<sup>st</sup> century, more than 30% of Chile's population was below the poverty line; by 2017, only 8.6% of the population was considered to be poor. That is a massive and rapid decrease of 20% in only 17 years. Income inequality has also decreased, but not nearly at the same rate. Since 1990 Chile's Gini coefficient declined from 57.2 to 44.4<sup>63</sup> (Figure 8). This shows that, to some extent, the past decades have seen an increase in average household income. However, the level of income inequality is still extremely high. Chile is well above the OECD average (Figure 9),<sup>64</sup> and 1% of the richest population in Chile holds around 25% of the wealth generated in the country.<sup>65</sup> It is important to note that income inequality is only one dimension within a spectrum of different notions of inequality.

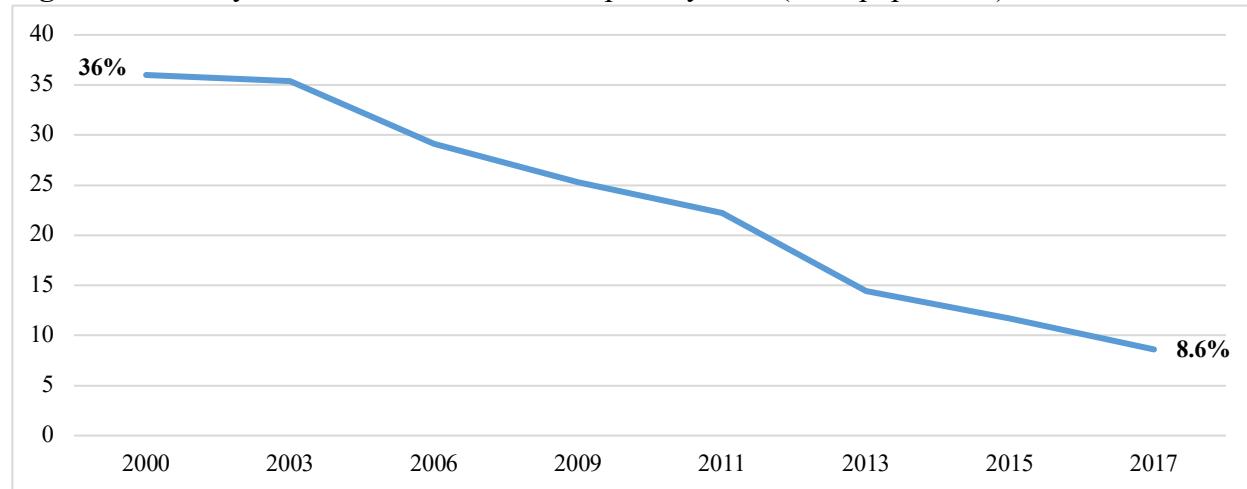
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<sup>63</sup> Gini index of 0 represents perfect equality, while an index of 100 implies perfect inequality (World Bank).

<sup>64</sup> Even though the methodology used by the OECD and the World Bank (Figures 8 and 9) to construct inequality indexes may be up for discussion, they do show important data on the relative position of Chile's current level of inequality in comparison to prior years and other countries.

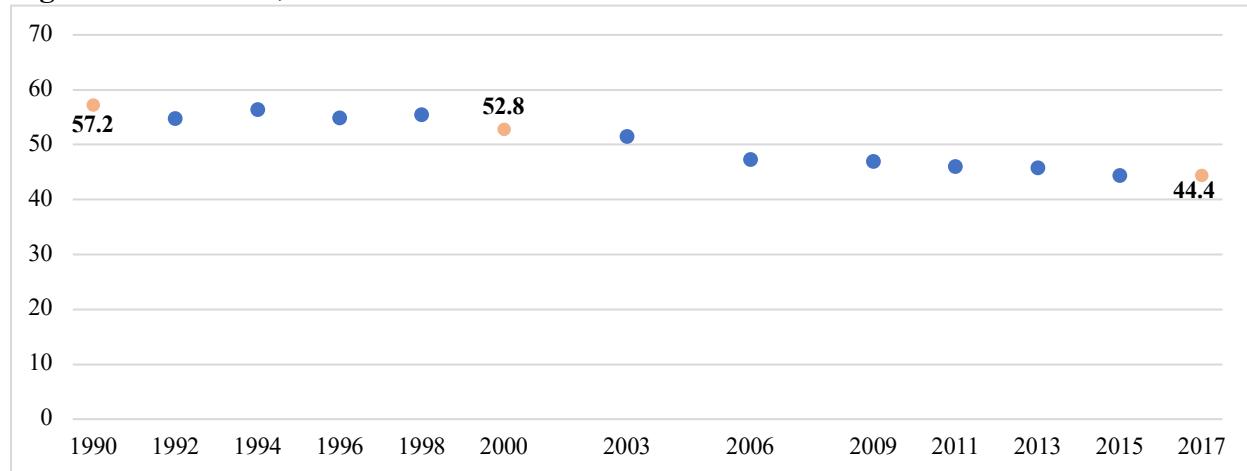
<sup>65</sup> PNUD, 2017.

**Figure 7.** Poverty headcount ratio at national poverty lines (% of population), 2000-2017



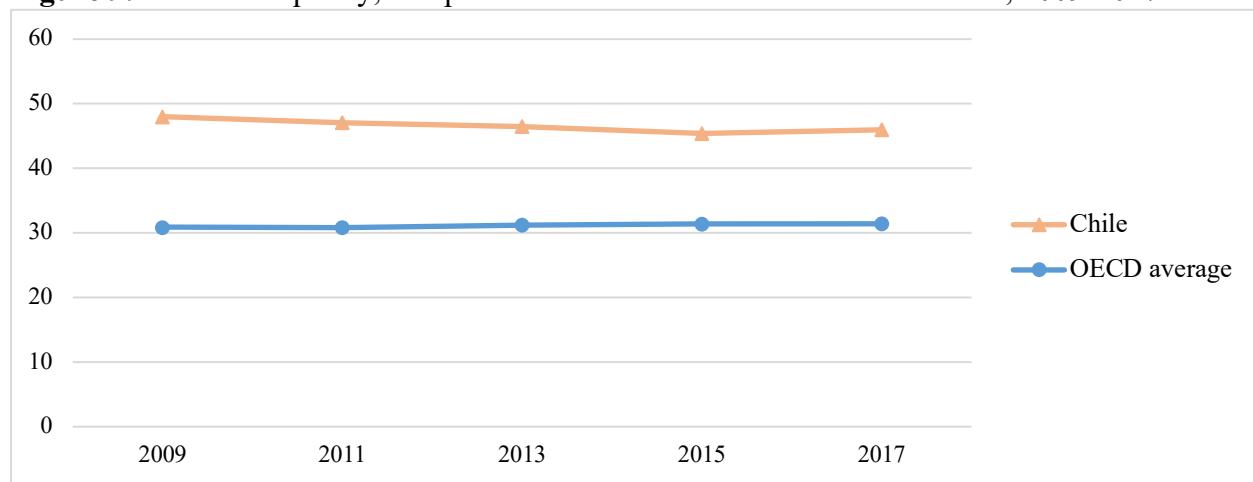
Source: World Bank.

**Figure 8.** Gini index, 1990-2017



Source: World Bank.

**Figure 9.** Income inequality, comparison between Chile and OECD countries, 2009-2017



Source: OECD.

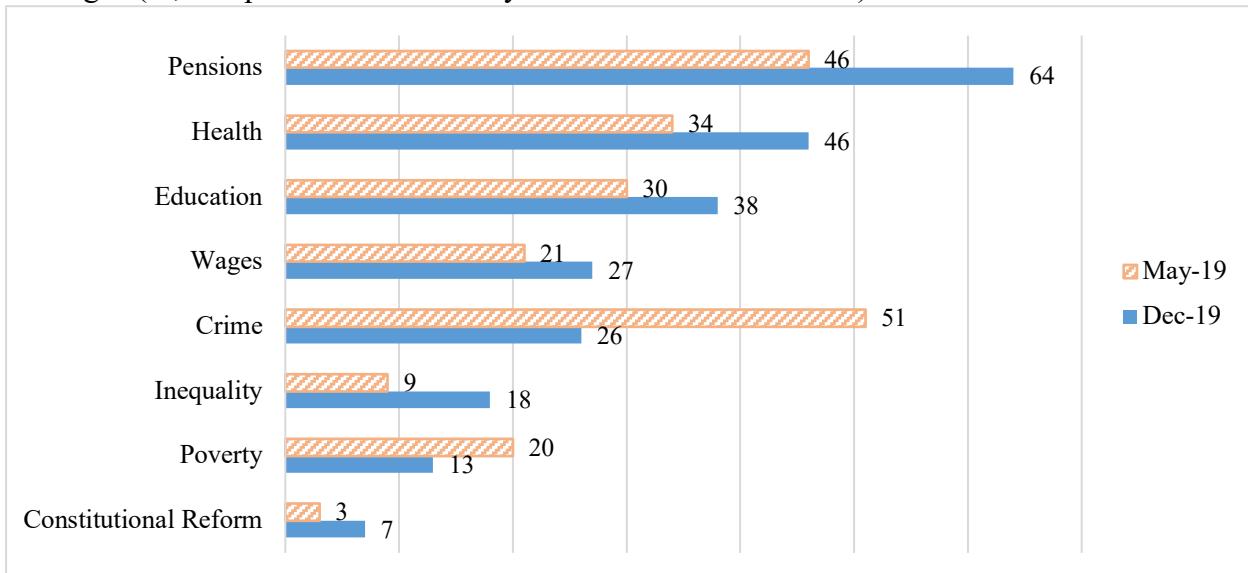
### ***No son 30 pesos, son 30 años<sup>66</sup>***

Even though the protests have become increasingly unstable and messy, one thing is clear: Chile is undergoing a crisis of disillusionment.<sup>67</sup> The profound feeling of dissatisfaction among citizens is almost palpable. Yet, it is important to note that this is not a new phenomenon – *no son 30 pesos, son 30 años*. As stated above, poverty has dropped dramatically, transforming Chile into largely middle-class society. There has been a growing sense throughout the past few decades among the middle class that the systematic abuse of the elite and private conglomerates – such as the pharmacy retail, Isapres and AFPs – has become a new normal. Years of price collusion scandals and market concentration have persistently indicated symptoms of inequality. According to a survey made by the Center of Public Studies (CEP), there is widespread agreement among Chileans (post October 18, 2019) that the country's two fundamental issues are pensions and health care (Figure 10) – although it is important to note that these results may point to urgency and not importance.

<sup>66</sup> “It’s not 30 pesos, it’s 30 years.”

<sup>67</sup> “Chile Woke Up.” *The New York Times*. <https://www.nytimes.com/2019/11/03/world/americas/chile-protests.html> 11/03/19.

**Figure 10.** Survey: “What are the three main problems the government should concentrate on solving?” (%; comparison between May 2019 and December 2019)



Source: CEP.

In my interview with Rolf Lüders (11/26/19), the ex-Chicago Boy classified demonstrators into two groups: small fraction of violent people (*violentistas*) and the mass. Within the first group, he distinguished between what he labeled as anarchists – people who have nothing to lose (the “*ninis*”: young adults who neither study nor work) and seek only to cause unrest; and looters – people who seize the moment and are mainly led by fear. Again, the *violentistas* are a relatively small group within the protests that take advantage of the situation to cause conflict. On the other hand, Lüders claimed that the mass – i.e. the large group of protesters asking for change – began to become disillusioned with the state of the economy after the 2007-2008 recession. Before the recession, the growth rate increased steadily and rapidly, causing a normalization in the possibility of further growth. But after the recession, growth rate slowed down considerably. Politicians promised accelerated growth of 5-6%, which generated expectations that were not met, and causing the mass who believed in these promises to invest and drown in debt.

In the interview I asked Rolf Lüders about the role of the neoliberal economic system in the current situation. He responded by adamantly defending the system and claiming that it is not to blame for the current political and social unrest.

However, there is widespread perception among protesters and left-wing politicians that inequality and the privilege of the elite are rooted in Pinochet's neoliberal economic model. That, throughout past 30 years, politicians and successive governments have protected an economic model that has benefitted a minority at the expense of the majority, failing to recognize the struggles of a growing middle class. In order to properly examine and assess the role of the neoliberal model, Chapter 2's discussion must be revisited.

As stated in Chapter 2, the neoliberal project's main objectives were achieved: poverty was significantly reduced, and economic growth was generated. *El Ladrillo*, in combination with ODEPLAN, created a robust growth plan that would both target the struggles of the poorest population and foment the county's economy. The model targeted two pressing issues – poverty and negative growth – that were specific to 1973 Chile. However, as the country became increasingly less poor, the model's effectiveness decreased. And as the years passed, people who were below the poverty line were able to move up the social ladder and be part of a growing middle class. The rapid economic growth increased the development of the national economy, which in turn allowed the middle class to have new aspirations, such as buying a car, owning a house and having access to quality education; and, to have new social expectations, such as worthy pensions and a fairer health insurance system.

But the model has continually failed to address the demands of the “new” middle class. The entire political class has lost what little legitimacy it had left, while the constant feeling of discontent and dissatisfaction has saturated citizens. Highly concentrated markets such as the

pension administration, health insurance and “retail” pharmacy have aggravated the divergence between classes.

## Conclusion

The current situation is not an isolated event. Behind the unrest and upheaval there are years of mounted political mismanagements, devout protection of the neoliberal model, and normalization of concentrated markets. The illusion of the Chilean “oasis”<sup>68</sup> has blinded politicians from recognizing the evident oversight of the middle class. How can democracy remain healthy in a country whose political legitimacy is hanging by a thread?

What this research has shown is that the economic model based upon the idea of free market principles and an authoritarian political structure has allowed for the subsistence of concentrated markets. It did not intend to reveal that the combination of authoritarian political structures and free market policies do not necessarily result in open market systems. Rather, highly concentrated markets and uncompetitive systems may result even if regulated, but not efficaciously implemented legislations are in place. Chile is undoubtedly a free economy. However, it is also a highly concentrated economy. The ideology of *El Ladrillo*, of the Chicago Boys, of Friedman and his followers, should balk at this result. Perhaps the free market is not as free as it was argued to be.

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<sup>68</sup> A week before October 18, 2019, President Piñera described Chile as Latin America’s oasis, because “oasis because we have stable democracy, the economy is growing, we are creating jobs, we are improving salaries and we are keeping macroeconomic balance.”

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### ***Interviews***

Interview with Rolf Lüders 11/26/19.