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Are powerful dictators free from 'the market as prison'? The case of pension privatisation in Pinochet's Chile

Authors

Ignacio Schiappacasse[1]
Diego Sánchez-Ancochea[2]

[1]Grupo de Investigación Max Planck-UCEN en Economía y Sociedad (ESOC), Universidad Central de Chile
[2]Department of International Development, University of Oxford

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ABSTRACT

The central role of economic elites in shaping public policy in Latin America has become increasingly clear. Yet most of the recent literature on the subject focuses in democratic contexts. This paper analyses pension privatisation in Chile as a case study for improving our understanding of business-state interaction in authoritarian contexts. Globally, the 1981 pension reform carried out during the Pinochet dictatorship became an example for pension privatisation elsewhere. The analysis of the policymaking process, based on novel empirical material, shows that since 1973 financial groups accumulated growing power which enabled them to (a) defeat first their opponents within the economic elite, (b) overpower their rivals within the state, and, finally, (c) force Pinochet into passing pension privatisation. Our results stress the need to include the study of different actors' power resources -along with ideological issues and the regime structure- to understand the outcome of policy processes in authoritarian contexts.

INTRODUCTION

'Who will manage the money? That gets me nervous because I also know that several gentlemen have become millionaires in this country, and they have sent people abroad to study the [pension] system since they want to operate in it', said general Augusto Pinochet in the opening of the key secret session in which the military junta discussed -and ultimately passed- the reform proposal to privatise Chile's pension system.[1] Later during the same meeting, the powerful dictator was to reiterate several times his concerns: 'I believe that a new pension system is necessary, but it causes me anguish the fact that there will be so much money and here we have a bunch of crooks [who might take advantage of the system]'.

Pinochet thus revealed his significant concerns regarding the radical pension reform which was to replace the pay-as-you-go system[2] by a scheme of individual capitalisation. In the comfort of a secret session of the military junta, the dictator, who ruled Chile for seventeen years (1973-1990) with an iron fist, recognised being *anguished* by the prospect of a pension system run by the private sector. Pinochet was fearful of the mammoth financial conglomerates (the 'gentlemen' and 'crooks') that controlled large swaths of the Chilean economy thanks to the policies implemented by his own government.[3]

[1] Secretaría de la Junta, 'Acta Nº 398-A', 14 October 1980, Actas Secretas de La Junta de Gobierno, Biblioteca del Congreso Nacional (ASJG hereafter), p. 3.
[2] In contrast to a defined-contribution pension system based on individual capitalisation accounts managed by for-profit providers, pay-as-you-go systems are state-managed, defined-benefit pension schemes funded by contributions from current workers to pay retirees' pensions.
[3] Carlos Huneeus, *The Pinochet Regime* (Boulder, CO and London: Lynne Rienner Publishers, 2007); Eduardo Silva, *The State and Capital in Chile: Business Elites, Technocrats and Market Economics* (Boulder, CO: Westview Press, 1996); Alejandro Foxley, *Latin American Experiments in Neo-Conservative Economics* (Berkeley and London: University of California Press, 1983).

How can we explain, then, Pinochet's approval of pension privatisation in spite of these fears and even against the recommendations of trusted advisors? Previous research has emphasized state autonomy and the concentration of power in the hands of Pinochet to explain the adoption of the radical reform.[4] This literature, nonetheless, has not addressed the central question of why Pinochet passed the reform in spite of his strong reservations and that of many collaborators. We argue that in order to understand this puzzle we have to pay more attention to the Chilean economic elite and its multifaceted sources of power. Using Charles Lindblom's (1977, 1982) metaphor,[5] we contend that Pinochet became hostage to the market prison built with his own assistance through a series of market-oriented reforms. As we shall see, these reforms empowered financial conglomerates vis-à-vis other segments of the economic elite and the state, enhancing their power.

Our aim is thus to analyse pension privatisation in Chile so as to improve our understanding of business-state relations in authoritarian contexts. We show that since 1973 financial groups accumulated growing power, which enabled them to (a) defeat first their opponents within the economic elite (i.e. traditional conglomerates), (b) overpower their rivals within the state (corporatist top-officers), and, finally, (c) force Pinochet into passing pension privatisation. We study these outcomes by a comparative analysis across three stages of the

[4] Rossana Castiglioni, *The Politics of Social Policy Change in Chile and Uruguay: Retrenchment versus Maintenance, 1973-1998* (New York and London: Routledge, 2005); Silvia Borzutzky, 'Chilean Politics and Social Security Policies', unpubli. PhD diss., University of Pittsburgh, 1983; Silvia Borzutzky, *Vital Connections: Politics, Social Security, and Inequality in Chile* (Notre Dame, IN: University of Notre Dame Press, 2002); Rossana Castiglioni, 'Explaining Uneven Social Policy Expansion in Democratic Chile', *Latin American Politics and Society*, 60: 3 (2018), pp. 54–76; Silvia Borzutzky, 'You Win Some, You Lose Some: Pension Reform in Bachelet's First and Second Administrations', *Journal of Politics in Latin America*, 11: 2, pp. 204–230; Rossana Castiglioni, 'The Politics of Retrenchment: The Quandaries of Social Protection Under Military Rule in Chile, 1973-1990', *Latin American Politics and Society*, 43: 4 (2001), pp. 37–66.

[5] Charles E. Lindblom, *Politics and Markets: The World's Political-Economic Systems* (New York: Basic Books, 1977); Charles E. Lindblom, 'The Market as Prison', *The Journal of Politics*, 44: 2 (1982), pp. 324–36.

policy-making process, namely: (i) agenda setting before the coup (1970-1973); (ii) the design of a compromise bill including both neoliberal and corporatist ideas (1973-1976); and (iii) the definitive implementation of pension privatisation (1976-1981). Our study of the policy process relies on a diversity of sources, including the minutes of the military junta´s secret sessions, and hitherto unpublished, secret documents of the military regime. We also draw on interviews with key players that participated in the policy-making process, including five former high-ranking government officials with strong links to the economic elite. Additionally, we undertook extensive archival research of press records at the National Library. We identified causal mechanisms and built the explanations of the case by triangulating information across those multiple, independent data sources.

In rethinking the relationship between the economic elite and the Pinochet dictatorship in Chile, we make a broader contribution to the political economy literature on state-business relations in non-democratic environments. This contribution is particularly useful given both the importance of dictatorships in Latin America's past development as well as the current authoritarian backlash across the world. Most of the recent literature on business power focuses on democratic contexts,[6] paying much less attention to the role of economic elites in dictatorships. Yet, as we will show, several sources of business power identified by authors working on democratic periods are also useful to study authoritarian regimes. By

[6] See for example: Ignacio Schiappacasse, 'Business Power in Post-Authoritarian Chile: Explaining Regulatory Continuity in the Pension System, 1990-1994', *Revista Española de Sociología*, 29.3 (2020), 503–21; David Broockman, 'The "Problem of Preferences": Medicare and Business Support for the Welfare State', *Studies in American Political Development*, 26 (2012), 83–106; Ignacio Schiappacasse, 'Continuidad Del Sistema de AFP En Democracia: El Rol Del Poder de La Elite Económica', *Revista Chilena de Derecho y Ciencia Política*, 12.1 (2021), 104–48; Tomás Bril-Mascarenhas and Antoine Maillet, 'How to Build and Wield Business Power: The Political Economy of Pension Regulation in Chile, 1990–2018', *Latin American Politics and Society*, 61.1 (2019), 101–25.

adapting the conceptual framework developed for studying business in democratic contexts to an authoritarian setting, we provide new insights on the channels and mechanisms through which economic elites might influence the policy process under authoritarian regimes. Our contribution is also empirical as we provide novel evidence -including undisclosed secrets documents from the dictatorship era- on a case of global interest. Chile represents the world's first and most notable case of pension privatisation and an inspiration to a number of Latin American, Asian and European countries.[7]

We next proceed with a review of the literature on business-state relations -with particular attention to the Latin American context- showing its insufficient attention to business' mechanisms of influence in authoritarian contexts. We then argue that the categories to study business power recently developed for democratic contexts can be adapted for non-democratic regimes. In section 4 the empirical analysis of the policy process (1970-1981) is presented. The paper concludes with some reflections on the broader relevance of our research.

BUSINESS POWER AND THE STATE UNDER AUTHORITARIAN REGIMES: AN INCOMPLETE LITERATURE

During the 1970s, influential political economists considered the role of big business under authoritarian regimes. Much of this literature -from bureaucratic-authoritarianism to dependency theory- followed a macro-historical approach in order to show how capitalist groups influenced political and economic development. These approaches were interested

[7] Mitchell A. Orenstein, *Privatizing Pensions: The Transnational Campaign for Social Security Reform* (Princeton and Oxford: Princeton University Press, 2008); Sarah M. Brooks, 'Globalization and Pension Reform in Latin America', *Latin American Politics and Society*, 49: 4 (2007), pp. 31–62.

in explaining structural outcomes: in the case of bureaucratic-authoritarianism, the challenge was to account for the emergence of bureaucratic dictatorships as the result of a process of late modernisation.[8] Dependency scholars assessed the historical origins of different capitalist modes of production.[9] These approaches often assumed business influence instead of providing supporting empirical evidence or illustrating the mechanisms by which such influence operated in practice. Similarly, other influential authors have developed typologies of authoritarian regimes, distinguishing them by the role played by ideologies, modes of repression, and party and mass organisations, among other factors.[10] However, in these works the multiple mechanisms by which big business influence the policy-making process also remain understudied.

After the attention to business elites faded in Latin America's research agenda during the 1980s, the issue returned to the fore in the early 1990s.[11] The new literature paid more attention to specific policy processes and provided richer empirical accounts but failed to develop an adequate understanding of business-state relations under authoritarianism. This literature swung between theories of the 'autonomous state' (in which insulated

[8] David Collier, 'Overview of the Bureaucratic-Authoritarian Model', in David Collier (ed.), *The New Authoritarianism in Latin America* (Princenton, NJ: Princeton University Press, 1979), pp. 19–32; David Collier, 'Introduction', in Collier (ed.) *The New Authoritarianism in Latin America*, pp. 3–16.
[9] Fernando Henrique Cardoso and Enzo Faletto, *Dependency and Development in Latin America* (Berkeley, CA: University of California Press, 1979).
[10] Juan J. Linz, 'Totalitarian and Authoritarian Regimes', in Fred I. Greenstein and Nelson W. Polsby (eds.), *Handbook of Political Science* (Reading, MA: Addison-Wesley Publishing Company, 1975), pp. 175–411; Juan J. Linz, *Totalitarian and Authoritarian Regimes* (Boulder, CO: Lynne Rienner Publishers, 2000).
[11] Ben Ross Schneider, 'Elusive Synergy: Business-Government Relations and Development', *Comparative Politics*, 31: 1 (1998), pp. 101–22.

policymakers were able to adopt whichever policies they wanted)[12] and others suggesting that big businesses shaped policy in military regimes.[13]

Similarly, much of the study of social policy in authoritarian contexts in Latin America adopted a state-centred approach even when considering the role of economic elites. For example, in her informative analysis of Chile and Uruguay, Rossana Castiglioni highlights the centralised structure of Chile's dictatorship and the ideological position of technocratic elites.[14] According to this view, the consolidation of Augusto Pinochet's one-man rule facilitated the rise of the Chicago Boys to the upper echelons of the Chilean state.[15] From such positions and with high degrees of autonomy, they were able to push for a radical re-structuring of the country's pension system. This literature thus presents social policy reforms as a battle over ideas and state power, paying much less attention to the role of business interests.

Eduardo Silva's *The State and Capital in Chile* considers the role of business groups in the politics of policy change in Latin America more explicitly. [16] Focusing on the study of market liberalisation during the Pinochet regime, Silva argues that the pace and content of

[12] Andrés Velasco, 'The State and Economic Policy: Chile 1952-92', in Barry Bosworth, Rudiger Dornbusch, and Raúl Labán (eds.), *The Chilean Economy: Policy Lessons and Challenges* (Washington, DC: Brookings Institution Press, 1994), pp. 379–411.
[13] Jeffry Frieden, *Debt, Development, and Democracy: Modern Political Economy in Latin America, 1965-1985* (Princenton, NJ: Princeton University Press, 1991).
[14] Castiglioni, 'The Politics of Retrenchment: The Quandaries of Social Protection Under Military Rule in Chile, 1973-1990'; Castiglioni, *The Politics of Social Policy Change in Chile and Uruguay*.
[15] Borzutzky, 'Chilean Politics and Social Security Policies'; Borzutzky, *Vital Connections: Politics, Social Security, and Inequality in Chile*; Borzutzky, 'You Win Some, You Lose Some: Pension Reform in Bachelet's First and Second Administrations'; Raúl L. Madrid, *Retiring the State: The Politics of Pension Privatization in Latin America and Beyond* (Stanford, CA: Stanford University Press, 2003); Castiglioni, 'Explaining Uneven Social Policy Expansion in Democratic Chile'.
[16] Silva, *The State and Capital in Chile*.

neoliberal reforms was a result of changing relations between the state and different business coalitions. He characterises the process of economic restructuring according to changes occurred within both the state and the dominant business coalition that supported the dictatorship, which also influenced the patterns of interaction between the state and business. Although we draw on Silva's excellent research, we aim to provide a clearer understanding of the different means and mechanisms used by economic elites to advance their interests. Since he focuses on explaining large-scale policy shifts, we contend that the next required step to advance theory on business power in authoritarian regimes is the detailed, sustained analysis of specific policy-making processes.

During the last decade, there has been a surge in studies of economic elites in Latin America, following and extending path breaking work in the Global North. The work of Tasha Fairfield [17] has inspired a number of contributions that have studied the influence of big business in different realms such as redistributive policies,[18] industrial policy,[19] and social policy.[20] This scholarly work has precisely focused on the examination of multiple means and mechanisms by which economic elites might influence governments' decision-making. Rooted in Hacker and Pierson's seminal work,[21] Fairfield specifies a comprehensive

[17] Tasha Fairfield, *Private Wealth and Public Revenue in Latin America: Business Power and Tax Politics* (Cambridge: Cambridge University Press, 2015).
[18] Tasha Fairfield and Candelaria Garay, 'Redistribution Under the Right in Latin America: Electoral Competition and Organized Actors in Policymaking', *Comparative Political Studies*, 50: 14 (2017), pp. 1871–1906.
[19] Tomás Bril-Mascarenhas and Aldo Madariaga, 'Business Power and the Minimal State: The Defeat of Industrial Policy in Chile', *Journal of Development Studies*, 55: 6 (2019), pp. 1047–66.
[20] Schiappacasse, 'Business Power in Post-Authoritarian Chile'; Tomás Bril-Mascarenhas and Antoine Maillet, 'How to Build and Wield Business Power: The Political Economy of Pension Regulation in Chile, 1990–2018', *Latin American Politics and Society*, 61: 1 (2019), pp. 101–25.
[21] Jacob S. Hacker and Paul Pierson, 'Business Power and Social Policy: Employers and the Formation of the American Welfare State', *Politics and Society*, 30: 2 (2002), pp. 277–325.

set of mechanisms of business influence and guidelines for operationalisation, thereby providing analytical tools with stronger explanatory leverage for causal inference.

This operationalisation is mainly based on two categories for the study of business power: instrumental power and structural power (see Table 1 below). *Instrumental power* refers to deliberate, organized actions carried out in the political arena to influence the policy-making process.[22] Lobbying, funding political parties, and editorializing in the press, constitute some examples of collective actions carried out by economic elites based on sources of instrumental power. The second type is *structural power*, which arises from the myriad of investment decisions --based on profit-maximizing criteria-- taken by firms and capital owners. In a capitalist society, the state depends on businesses to invest and produce in ways that foster collective prosperity.[23] Hence, governments may themselves halt reforms that can harm investors' confidence thus affecting investment and economic growth.[24] In contrast to instrumental power, structural power does not require any capacity for collective action.

Fairfield applies this framework to the study of tax politics in Latin America. She finds that taxing economic elites was difficult when either their instrumental power or structural power was strong, or when, in combination, those two types of power exerted a significant influence on policy-making. As such, along with the specification of multiple causal

[22] Ralph Miliband, *The State in Capitalist Society* (London: Weindenfeld and Nicolson, 1969); C. Wright Mills, *The Power Elite* (Oxford and New York: Oxford University Press, 1956).
[23] Fred Block, 'The Ruling Class Does Not Rule: Notes on the Marxist Theory of the State', *Socialist Revolution*, 7: 3 (May-June 1977), pp. 6–28; Lindblom, *Politics and Markets: The World's Political-Economic Systems*.
[24] Tasha Fairfield, 'Structural Power in Comparative Political Economy: Perspectives from Policy Formulation in Latin America', *Business and Politics*, 17: 3 (2015), pp. 411–41.

mechanisms, her contribution lies in the recognition that instrumental power and structural power are mutually reinforcing. These two types of business power were traditionally seen as rather mutually exclusive in the literature.

However, Fairfield and the recent scholarly work inspired in the instrumental-structural framework have focused primarily on democratic contexts. These works yield insights on how economic elites exert influence in market democracies, with elections and political parties. They rely, for example, in the close links between economic elites and conservative parties. Yet, are these concepts useful in non-democratic environments? How does business power operate in authoritarian settings, with outlawed political parties, shut-down legislative assemblies, and highly concentrated executive power?

The recent literature exploring these questions is scarce. To the best of our knowledge, there are not studies of business power in Latin America's military regimes that apply the instrumental-structural framework. We need to move to other regions to find some studies that follow this approach. In particular, Winters analyses the Indonesian political economy during General Suharto's authoritarian regime (1965-1998).[25] He assesses how business power influenced Indonesia's policy trajectory, accounting for variations in state's responsiveness to those controlling private capital. Nonetheless, his work focuses on the analysis of the structural power (besides, with a strong emphasis on capital mobility), paying less attention to instrumental power.

[25] Jeffrey Winters, *Power in Motion: Capital Mobility and the Indonesian State* (Ithaca and London: Cornell University Press, 1996).

Table 1. Main descriptive aspects of Instrumental and Structural Power

<TABLE 1>

Source: own elaboration based on Hacker and Pierson,[26] and Fairfield.[27]

ADAPTING THE INSTRUMENTAL-STRUCTURAL FRAMEWORK TO AUTHORITARIAN CONTEXTS

In this paper we adapt Fairfield's framework to understand how economic elites may achieve their policy preferences in authoritarian settings. Economic elites, in this context, will wield their power to obtain the policies they prefer, which in turn are determined by their material interests. For instance, the financial sector tends to constitute unambiguous proponents of pension privatisation because it allows them to become providers of retirement savings products.[28] In this view, then, economic elites pursue their preferences by influencing policymaking through different *sources of power* (e.g. recruitment of business representatives into government), which allow them to carry out a number of *actions* (e.g. direct participation in policy-making), which in the end result in *observable implications* (e.g. pension privatisation). The application of the instrumental-structural framework to authoritarian contexts requires modifying some of the causal mechanism included in Table 1: We underline those sources of power that do not travel from democratic to authoritarian contexts, while new sources of power in authoritarian contexts are highlighted in bold. For the sake of brevity, the following discussion will focus on the analysis of those sources of

[26] Hacker and Pierson, 'Business Power and Social Policy'.
[27] Fairfield, *Private Wealth and Public Revenue in Latin America*; Fairfield, 'Structural Power in Comparative Political Economy'.
[28] Marek Naczyk, 'Agents of Privatization? Business Groups and the Rise of Pension Funds in Continental Europe', *Socio-Economic Review*, 11: 3 (2013), pp. 441–69; Marek Naczyk, 'Creating French-Style Pension Funds: Business, Labour and the Battle over Patient Capital', *Journal of European Public Policy*, 26: 3 (2016), pp. 205–18.

power, actions and observable implications that change when we move the analysis from democratic to authoritarian contexts.[29]

Given the nature of structural power, we do not expect substantial changes in the way this type of power might influence the policy process. As long as markets remain a key allocation mechanism, we expect structural power to exert a similar effect on democratic and authoritarian governments: policymakers may refrain from implementing reforms that could harm investment in both cases. Nonetheless, at this point we depart from Fairfield's operationalization since we acknowledge the possibility that economic considerations might also compel both authoritarian and democratic governments to implement policies in order to promote investment. As such, the pressure to restore or enhance business confidence might also act in the opposite direction to a credible disinvestment threat: it may compel governments to enact and implement reforms benefiting business interests.[30]

The channel of transmission of structural power does differ between both contexts. In democratic regimes, policymakers chiefly avoid negative aggregate economic outcomes since they might be severely punished at the polls. Dictators are not immune to the effects of economic performance but in different ways. For instance, a severe economic crisis could prompt the economic elite to shift their regime loyalty and promote a process of political change. Likewise, an economic downturn might activate popular sectors, which might become a veritable threat to the regime's continuity.

[29] For a complete and detailed of business' sources of power and their observable implications in democratic contexts see Fairfield, *Private Wealth and Public Revenue in Latin America*, pp. 27-52.
[30] Winters, *Power in Motion*; Pepper Culpepper, 'Structural Power and Political Science in the Post-Crisis Era', *Business and Politics*, 17: 3 (2015), pp. 391–409.

In comparison with structural power, sources of instrumental power vary significantly in authoritarian contexts. In terms of relationships with policymakers, *partisan linkages* and *election to public office* are sources of power that do not travel to authoritarian contexts. By contrast, in authoritarian regimes there are new avenues for business influence. In military regimes, members of the armed forces usually become policymakers. This fact determines the need of -and opportunity for- business representatives to cater to top officers. In this regard, we expect to find evidence of power-building investments carried out by members of the economic elite aiming at strengthen their relationships with the military (i.e. *ties to the armed forces* in Table 1).

As for resources, the main differences relate to media access. We expect that money, technical expertise and cohesion will be similarly mobilised in both authoritarian and democratic contexts. In the case of media access, however, the direction of change is not clear and will be highly context specific. As a norm, authoritarian regimes severely curtail the freedom of the press. The extent to which an authoritarian government controls and censors their domestic press will determine the effect on 'media access' as business' source of power. In cases in which authoritarian governments censor free press bar media outlets owned by the economic elite, we expect business power through media access be significantly augmented. Under these circumstances, conservative media would have substantial leeway to shape public opinion and determine the policy agenda.

In the next section, we will see how the interplay of these multiple sources of power determined the adoption of the 1981 pension reform.

PRIVATISATION OF CHILE'S PENSION SYSTEM: ANALYSIS OF THE POLICY PROCESS

This section analyses the policy-making process that started in the early 1970s and led to the outcome we try to understand: the 1981 radical pension reform implementation. The aim is to carry out a comparative analysis between three distinct stages, highlighting changes in the independent variables (business power, state structure and the interaction among them) that led to changes in our dependent variable (different stages of the neoliberal pension reform). In the analysis of each subperiod we will begin by describing the outcome to be explained and will then discuss changes in the independent variables.

FIRST STAGE (1970-SEPTEMBER 1973): PENSION REFORM IN THE MAKING

The outcome

During this period, the first outline of the pension reform ultimately approved was published. Months before the coup, top executives and neoliberal technocrats -selected and controlled by business representatives- drafted an economic programme dubbed 'The Brick'.[31] This economic plan advocated for a gradual shift toward a market-based economy. In one of its chapters, The Brick already contains the main features of the scheme based on individual capitalisation accounts, later known as the AFP system after the for-profit administrators[32] that manage workers' savings. Prepared in case of a military takeover, The

[31] Juan Gabriel Valdés, *Pinochet's Economists: The Chicago School in Chile* (Cambridge and New York: Cambridge University Press, 1995); Arturo Fontaine, *Los Economistas y El Presidente Pinochet* (Santiago, Chile: Editorial Zig-Zag, 1988); Silva, *The State and Capital in Chile*.

[32] In Spanish, AFP stands for Administradoras de Fondos de Pensiones (Pension Fund Administrators).

Brick largely defined the agenda during the military regime and represented a compromise between the different segments of the broad business coalition that supported the coup.

The pre-coup gradualist business coalition

Two segments of the economic elite played a leading role in such broad business coalition: (i) traditional, internationally competitive economic groups, and (ii) financial conglomerates with connections to international financial markets.[33] Differences in conglomerates' concentration in different sectors of the economy determined such categories. Given that the economic composition of business conglomerates is closely related to their interests (which, in turn, may determine distinct policy preferences and roles in the policy-making process), a brief analysis of their business portfolios is in order.[34] Conglomerates with a higher concentration in (highly mobile) liquid assets, for example, may push for faster, radical changes as they are able to adjust much more quickly than fixed-assets holders to market signals. Financial conglomerates, in this context, held portfolios with a heavy concentration in liquid assets, with two thirds or more of their companies in sectors such as banking, insurance, commerce and real estate speculation. In contrast, traditional conglomerates had a composition in which, roughly, half of their holdings were in industrial, fixed-asset sectors and only the other half were in liquid assets (see Table 2). Importantly, traditional conglomerates constituted the dominant fraction in this broad, intersectoral gradualist coalition, while financial conglomerates occupied a subordinate position.[35]

[33] Silva, *The State and Capital in Chile*.
[34] Jeff Frieden, 'Classes, Sectors, and Foreign Debt in Latin America', *Comparative Politics*, 21: 1 (1988), pp. 1–20.
[35] Eduardo Silva, 'From Dictatorship to Democracy: The Business-State Nexus in Chile's Economic Transformation, 1975-1994', *Comparative Politics*, 28: 3 (1996), pp. 299–320; Silva, *The State and Capital in Chile*.

Table 2. Major Conglomerates in 1970 and concentration of companies by economic activities.

<TABLE 2>

Source: Adapted from Silva.[36]

Both groups favoured an economic restructuring towards a market-based economy, including pension privatisation. Traditional conglomerates, the dominant segment, pushed for a gradual market-based restructuring with an emphasis on industrialisation: as they held interests in fixed-asset sectors, these groups could only adapt to a *gradual*, slower opening of the economy to external competition. By contrast, financial conglomerates -given their portfolios concentrated in liquid assets- preferred a swift and radical restructuring of the economy. The gradualist coalition, forged in the early 1970s during the campaign against Allende, was thus to be a fragile, short-lived alliance.[37] By 1975, it would be superseded by a coalition led by the *radical* financial conglomerates only[38] and excluding traditional groups (see more in the next section).[39]

As different historical accounts attest, business opposition to the Allende government started soon after his election.[40] In mid 1971, top-executives of the most influential

[36] Silva, *The State and Capital in Chile*.
[37] Pilar Vergara, *Auge y Caída Del Neoliberalismo En Chile: Un Estudio Sobre La Evolución Ideológica Del Régimen Militar* (Santiago, Chile: FLACSO, 1984).
[38] Hence named as the radical neoliberal coalition or simply radical coalition.
[39] Eduardo Silva, 'Capitalist Coalitions, the State, and Neoliberal Economic Restructuring: Chile, 1973-1988', *World Politics*, 45: 4 (1993), pp. 526–59.
[40] Mónica González, *La Conjura. Los Mil Un Días Del Golpe* (Santiago, Chile: Catalonia & Ediciones Universidad Diego Portales, 2012).

traditional and financial conglomerates began to meet on a regular basis. Representatives of the Edwards group (traditional) and of the radical financial BHC conglomerate coalesced around what they called 'The Monday Club' as they met every Monday for lunch. This network represented a key source of instrumental power, becoming the main locus of civilian organisation of the coup and coordination with the armed forces. From this network, the gradualist coalition was able to establish strong *ties to the armed forces*. These ties would allow the gradualist coalition to influence the economic agenda (and particularly the discussion on pensions) in the initial phase of the military regime.

One of the main participants of this network was Hernán Cubillos, at that time top-executive of the Edwards group, ex-navy officer and future minister of Foreign Affairs during the dictatorship (1978-1980). Cubillos constituted the chief link between the gradualist coalition and the armed forces. Navy officers who participated in the subversive plot against Allende communicated they could not go ahead with the coup if they did not have a clear economic programme to govern.[41] The communication channel of the message first included another ex-navy officer and top-executive of the Edwards conglomerate, Roberto Kelly (who later would play a key role recruiting neoliberal technocrats for the National Planning Office, called ODEPLAN for its acronym in Spanish; see more below), who passed the message to Cubillos.[42]

[41] Vergara; Verónica Valdivia, *El Golpe Después Del Golpe: Leigh vs. Pinochet. Chile 1960-1980* (Santiago, Chile: LOM Ediciones, 2003).
[42] Philip O'Brien and Jackie Roddick, *The Pinochet Decade* (London: Latin American Bureau, 1983); Fontaine, *Los Economistas y El Presidente Pinochet*.

Months before the coup d'état, representatives of the Monday Club convened a group of top executives and Chicago Boys with the aim of drafting a post-coup economic programme: The Brick.[43] This policy document represented a compromise between the dominant, traditional conglomerates and the subordinate radical financial conglomerates. It advocated for economic restructuring, but proposed a *gradual* process without a defined calendar.[44]

The most influential authors of The Brick were neoliberal technocrats, materially connected with both traditional and financial conglomerates and who were to reach highly influential posts in the authoritarian regime's Cabinet. The leading author was Sergio de Castro, known as the 'dean' of the Chicago Boys because of his leadership. Linked to the Edwards group through his participation in CESEC, the think-tank funded by this conglomerate,[45] after de coup de Castro began his service in government as an advisor subsequently becoming minister of the Economy in April 1975 (see Figure 1C). Another prominent author of The Brick was Manuel Cruzat, a close friend of Sergio de Castro, who was top-executive of largest financial conglomerate, the BHC. Later, from 1974 onwards, he would lead the mammoth Cruzat-Larrain financial conglomerate.

In general, previous research has depicted the Chicago Boys as autonomous, failing to highlight their close contacts with the economic elite.[46] Top executives of economic conglomerates were closely allied with the radical Chicago Boys, forming a network that

[43] Valdés, *Pinochet's Economists*; Fontaine, *Los Economistas y El Presidente Pinochet*.
[44] Silva, 'Capitalist Coalitions, the State, and Neoliberal Economic Restructuring'.
[45] Philip O'Brien, 'The New Leviathan: The Chicago School and the Chilean Regime 1973-1980', *IDS Bulletin*, 13: 1 (1981), 38–50; Qué Pasa, 'Reportaje: Los Chicago Boys', 29 May 1975, pp. 32–37; Víctor Herrero, *Agustín Edwards Eastman: Una Biografía Desclasificada Del Dueño de 'El Mercurio'* (Santiago, Chile: Debate, 2014).
[46] Castiglioni, *The Politics of Social Policy Change in Chile and Uruguay*; Borzutzky, *Vital Connections*.

grew out of a shared social, professional and academic background. For instance, most of the Chicago Boys and some top executives had studied economics together at the Catholic University and, in some cases, at the University of Chicago.[47] Furthermore, the most prominent Chicago Boys were top executives of both traditional and financial conglomerates before *and* after their appointments to top positions in Pinochet's dictatorship.

As noted, the Brick contains the first blueprint of the pension reform finally implemented in 1981. In one chapter, entitled 'Policies on Social Security', it introduces what was to constitute a paradigmatic shift: the transition from a pay-as-you-go pension plan to a fully funded scheme based on individual accounts.[48] The new pension scheme would consist of two subsystems: a state-provided minimum pension and 'the second, that would be based on a system of mandatory savings scheme that would be deposited monthly in a specialised institution (…) such savings could only be drawn out in the form of a life annuity at retirement'.[49] Considering their significant holdings in liquid assets, pension privatisation as outlined in The Brick suited the interests of both traditional and financial conglomerates. Among other opportunities provided by the new scheme, pension fund managers could invest in debt instruments issued by their banks, shares issued by their companies and their insurance companies could sell life annuities to retirees.

[47] Fontaine, *Los Economistas y El Presidente Pinochet*.
[48] Huneeus, *The Pinochet Regime*.
[49] CEP, *'El Ladrillo': Bases de La Política Económica Del Gobierno Militar Chileno*, ed. by Sergio De Castro and Juan Carlos Méndez (Santiago, Chile: Centro de Estudios Públicos (CEP), 1992), p. 130.

After having coalesced around the Monday Club and offered a coherent economic plan, the gradualist business coalition was able to set the policy agenda early in the authoritarian government. The agenda contained in The Brick prevailed because it was a coherent programme. In contrast, top military officers involved in the conspiracy did not have a clear economic plan.[50] Immediately after the coup some officers asked for help from precisely those neoliberal technocrats who had worked on The Brick. Thus, early on *ties to armed forced* coupled with *technical expertise* constituted an additional source of instrumental power for the economic elite. In the aftermath of coup, then, civilians materially connected to the gradualist coalition became ministers in influential positions while the Chicago Boys were appointed as advisors.[51]

Critical for the analysis of pension policy-making, the segment of internationally uncompetitive capitalists producing for domestic markets constituted the only fraction of the economic elite which was not part of the broad, gradualist coalition just discussed. This segment did not favour a departure from the import-substitution industrialisation (ISI) strategy and opposed a shift toward a market-based economy. These internationally uncompetitive industrialists had been passive supporters of the expansion of the social security system[52] as it constituted a vital aspect of the bargain which maintained the multiclass alliance that supported the model.[53] Nonetheless, Allende's policy of nationalisation had weakened this segment, thus reducing their influence.

[50] Valdivia, *El Golpe Después Del Golpe*; Vergara, *Auge y Caída Del Neoliberalismo En Chile*.
[51] O'Brien, 'The New Leviathan'.
[52] Guillermo Campero, 'Entrepreneurs under the Military Regime', in Paul W. Drake and Iván Jaksic (eds.), *The Struggle for Democracy in Chile, 1982-1990* (Lincoln, NE: University of Nebraska Press, 1991), pp. 128–60.
[53] Michael Albertus and Victor Menaldo, *Authoritarianism and the Elite Origins of Democracy* (Cambridge and New York: Cambridge University Press, 2018).

Figure 1. Evolution of Cabinet Composition, 1973-1981 (grey-shaded squares represent members of the Chicago Boys' network)

<FIGURE 1>

Source: authors' elaboration based on various sources.[54]

SECOND STAGE (SEPTEMBER 1973-MARCH 1976): CORPORATIST OFFICERS LIMIT THE CHANCES FOR RADICAL PENSION PRIVATISATION

The outcome

During this second stage that extends from the military takeover (11 September 1973) to March 1976, the military junta pursued a compromise pension bill. This bill attempted to harmonize the reform proposal developed in The Brick with one prepared by corporatist top-officers.[55] This group of corporatist officers -who were the main plotters of the military takeover- was autonomous in relation to business power. As such, they pursued their own agenda. Proponents of The Brick, in this context, controlled ODEPLAN while corporatist military officers -who aimed to secure harmonic relations between labour and capital- were most influential within the Ministry of Labour and Social Security, formally in charge of the reform process.

[54] Fontaine, *Los Economistas y El Presidente Pinochet*; Hoy, 'Boris Blanco: La Caída Del Superintendente', 15 March 1984, pp. 24–29; El Mercurio, 'Falleció Ex Canciller Hernán Cubillos', 11 April 2001, p. C1; Empresa Periodística de Chile, *Diccionario Biográfico de Chile, 1984-1986*, 18th edn (Santiago, Chile: Empresa Periodística de Chile, 1986); Hoy, 'Previsión: El Debut de Las AFP', 13 May 1981, pp. 30–33; Hoy, 'Quién Es y Cómo Es Javier Vial, y El Baile de Los Pesos', 26 August 1981, pp. 22–26; Hoy, 'Quién Es y Cómo Es Manuel Cruzat, El Millonario Invisible', 16 September 1981, pp. 19–22; María Olivia Mönckeberg, *El Saqueo de Los Grupos Económicos Al Estado Chileno* (Santiago, Chile: Ediciones B, 2001); Análisis, 'Las Once de La "Competencia"', June 1981, pp. 10–12; Hoy, 'COPEC: Los Rostros Nuevos', 24 June 1981, p. 43.

[55] Ministerio del Trabajo, *Anteproyecto Del Estatuto Fundamental de Principios y Bases Del Sistema de Seguridad Social* (Santiago, Chile: Editorial Universitaria y Ministerio del Trabajo, 1975).

The compromise bill pursued by the government up to 1976 was, therefore, an attempt to harmonise contradictory, disparate concepts such as state subsidiarity (key for neoliberal technocrats) and universalism (supported by corporatists officers).[56] While ODEPLAN prevailed in the financial aspects of the proposal (i.e. creation of individual capitalisation accounts),[57] the Ministry of Labour prevailed in the administrative structure: pension funds were to be managed by semi-public, non-profit organisations run by workers called 'Corporations of Social Security'. The Ministry of Labour officially presented the bill -widely known as '*Anteproyecto*'- to the public in November 1975, aiming to promote an open discussion. Nonetheless, the process came to an abrupt halt when the Chicago Boys took control of the Ministry of Labour in 1976 and blocked the proposal.

Pensions and the gradualist coalition

The dictatorship's initial ministerial structure reflected the balance of power within the economic elite. As we saw in the previous section, the broad, intersectoral gradualist coalition was dominated by traditional conglomerates with financial groups playing a subordinate position. The radical neoliberal technocrats' subordinate role in the governmental apparatus is evident in Figures 1A and 1B: in 1973 and 1974 Chicago Boys were in advisory positions and none of them occupied a ministerial post. Gradualists such as Fernando Léniz, former top executive of the Edwards group, occupied key positions like the Ministry of the Economy. The Ministry of Labour and Social Security was headed by a corporatist general, Nicanor Díaz, who was a very close associate of General Gustavo Leigh, member of the military junta.

[56] Ministerio del Trabajo, *Anteproyecto*.
[57] Borzutzky, 'Chilean Politics and Social Security Policies'.

ODEPLAN was led by Roberto Kelly, an ex-navy officer who opposed corporatist top-officers and was one of the main links between the military plotters and the economic elite. As mentioned above, after leaving the navy Kelly became top-executive of the Edwards group, which was at the core of the gradualist coalition.[58] He recruited a number of neoliberal technocrats to ODEPLAN. The most prominent was Miguel Kast, who played a critical role in the pension discussions since the beginning: in 1972, his report on the US system of private retirement accounts constituted the basis for the proposal developed in The Brick.[59] From then on Kast became the most prominent ideologist and promoter of the neoliberal reform.[60]

There were additional *ties between the Chicago Boys and the armed forces*. One of these links was colonel Enrique Lackington, appointed undersecretary of the Economy immediately after the coup. His son, an economist as well, was a close friend of Sergio de Castro and recommended de Castro and other Chicago Boys as advisors to the Ministry of Economy.[61] *Ties to the armed forces* coupled with *informal ties* and *recruitment of business representatives into government* were, therefore, the most decisive sources of instrumental

[58] Patricia Arancibia, *Conversando Con Roberto Kelly: Recuerdos de Una Vida* (Santiago, Chile: Editorial Biblioteca Americana, 2005); Patricia Arancibia, *Chile: Un Milagro. Roberto Kelly, Un Padre Fundador* (Santiago, Chile: Autoedición, 2013).

[59] Patricia Arancibia and Francisco Balart, *Sergio de Castro: El Arquitecto Del Modelo Económico Chileno* (Santiago, Chile: Editorial Biblioteca Americana, 2007); Heraldo Muñoz, *The Dictador's Shadow: Life Under Augusto Pinochet - A Political Memoir* (New York: Basic Books, 2008); Ignacio Schiappacasse and Carlos Tromben, 'Más Allá de José Piñera: Los Verdaderos Padres Del Actual Sistema de Pensiones Chileno', *Interferencia* (Santiago, Chile, 8 August 2020). Available at: https://interferencia.cl/articulos/mas-alla-de-jose-pinera-los-verdaderos-padres-del-actual-sistema-de-pensiones-chileno

[60] Miguel Kast,*' La previsión y el mercado del trabajo', in H. Burdiles (ed.), El pensamiento de Miguel Kast en perspectiva* (Santiago, Chile: Fundación Miguel Kast, 2006 [1976]), pp. 138-141; Miguel Kast, 'El sector previsional como inversionista institucional en el mercado de capitales', in H. Burdiles (ed.), *El pensamiento de Miguel Kast en perspectiva* (Santiagp, Chile: Fundación Miguel Kast, 2006 [1976]), pp. 95-105. Also interview with former minister of the dictatorship during the 1970s, 11 October 2017.

[61] Fontaine, *Los Economistas y El Presidente Pinochet*.

power for the gradualist coalition (and for financial conglomerates in particular) since the military takeover.

In this context, the conflict between neoliberal economists and corporatist top-officers was acute since the beginning. Roberto Kelly, for instance, recalls that when Miguel Kast proposed in 1974 the replacement of the common fund with individual capitalisation accounts, '*Leigh was furious, he said that it was madness to propose such reform*'.[62] The economic elite directly pushed for a neoliberal reform as they -and their Chicagoans associates- resisted the creation of the workers associations to manage pension funds. In this regard, *informal ties* afforded the economic elite the opportunity to reach General Díaz himself and put pressure on him. Speaking to Hoy magazine in 1980, Díaz asserted that '*many businessmen came directly to my office to criticise the bill given that, in their opinion, workers would not be able to manage their funds efficiently*'.[63]

For the authoritarian regime, the solution to this acute conflict was the compromise bill. The first draft of the *Anteproyecto* was formally submitted to the military junta on 23 October 1974,[64] and the government announced the reform to the public in November 1975.[65] The proposal sought to solve the severe economic burden of the pay-as-you-go system by streamlining benefits. The bill also considered the introduction of a common fund and cross-subsidies in order to fund other social security programmes. The Ministry of Labour

[62] Gonzalo Vial, *Pinochet: La Biografía, Tomo I* (Santiago, Chile: El Mercurio-Aguilar, 2002), pp. 274.
[63] Hoy, 'PREVISION II: Razones Para El Debate', 22 October 1980, pp. 31–32.
[64] Secretaría de la Junta, 'Acta Nº 163-A', 23 October 1974, ASJG, p. 40.
[65] Ercilla, 'Anteproyecto: De La Previsión a La Seguridad Social', 19 November 1975, pp. 13–17; Emilio Filippi, 'Análisis: Inquietudes Frente Al Cambio', 26 November 1975, *Ercilla Magazine*, p. 11; Secretaría de la Junta, 'Acta Nº 215-A', 22 July 1975, ASJG; Ministerio del Trabajo, *Anteproyecto*.

promoted an open discussion by disseminating the reform in the media and carrying out dialogues with workers' associations and specialists.[66] The result of this consultation process, which culminated in February 1976, was a sizable report of four volumes with comments and suggestions.[67]

Yet this participatory process came to an abrupt halt in March 1976 when Sergio Fernández replaced General Díaz as the head of the Ministry of Labour. Fernández was a hardliner, who had been working with Miguel Kast in ODEPLAN´s reform proposal.[68] Why did this change take place? Did it reflect a change in forces within and outside the state?

Mutually reinforcing changes within the economic elite and the state

General Díaz had battled for the pre-eminence of corporatist ideas, opposing Chicagoans' orthodox views.[69] Yet he grew increasingly isolated: the economic elite opposed his plans because they were too 'statist', while trade unions did not support them either. In this context, Díaz´s resignation and the appointment of Sergio Fernández as minister of Labour signalled Chicago Boys' growing ascendency and can be explained by mutually reinforcing changes within the economic elite and the state.

[66] El Mercurio, 'Estatuto Fundamental de Principios y Bases Del Sistema de Seguridad Social', 8 November 1975, pp. 1 & 34; Borzutzky, 'Chilean Politics and Social Security Policies'; Ministerio del Trabajo, *Anteproyecto*; Ercilla, 'Anteproyecto: De La Previsión a La Seguridad Social'.
[67] Ercilla, 'Entrevista a Alfonso Serrano', 1 December 1976, p. 23.
[68] Ascanio Cavallo, Manuel Salazar, and Óscar Sepúlveda, *La Historia Oculta Del Régimen Militar*, Santiago, Chile: Ediciones La Época, 1988), pp. 85; Sergio Fernández, *Mi Lucha Por La Democracia* (Santiago, Chile: Editorial Los Ándes, 1994); Interview with former minister of the dictatorship during the 1970s, ibid.
[69] Fontaine, *Los Economistas y El Presidente Pinochet*.

Disputes between traditional and financial conglomerates over the pace and extent of the economy's liberalisation broke the gradualist coalition in early 1975.[70] The short-lived gradualist coalition was to be replaced by the radical neoliberal coalition led by the financial conglomerates, which progressively enhanced their sources of structural and instrumental power.

A combination of international and domestic factors facilitated this process. At the beginning of the 1970s, only two conglomerates formed the financial segment's core (see Table 2): The Vial group and its spin-off, the Cruzat-Larraín conglomerate. Critically, these financial groups controlled the intermediation of foreign loans.[71] By late 1973, the first oil crisis coupled with the lack of loans from multilateral lending banks aggravated Chile's traditional foreign exchange bottlenecks. The country found itself without access to international financial institutions because an international boycott to the authoritarian regime. Moreover, in 1974, a sharp fall in copper prices -Chile's main export- made the external position even worse.

Financial conglomerates promoted the implementation of an orthodox stabilisation programme to solve the crisis. Breaking with the gradualist coalition, they pushed for drastic neoliberal economic measures including the deregulation of the financial sector, faster privatisation and tariff reductions. Crucially, in April 1975 Pinochet decided to support the implementation of the 'shock treatment' to stabilise the economy. This decision was followed by a cabinet reshuffle which crystallised the rise of the radical financial coalition to

[70] Silva, 'From Dictatorship to Democracy'; Silva, *The State and Capital in Chile*; Silva, 'Capitalist Coalitions, the State, and Neoliberal Economic Restructuring'.
[71] Fernando Dahse, *Mapa de La Extrema Riqueza* (Santiago, Chile: Editorial Aconcagua, 1979).

the top and meant a delegation of decision-making to the Chicago Boys. Firstly, Jorge Cauas, a former Christian Democrat and Chicago Boy sympathiser, took the post of 'Super-minister of Finance' through a decree granting him extraordinary powers.[72] Secondly, Sergio de Castro, the Chicago Boys' dean, replaced gradualist Fernando Léniz as Minister of Economy.[73] By April 1975, then, neoliberal technocrats materially linked to financial conglomerates controlled all the economic ministerial positions as the comparison between Figures 1B and 1C above shows. Chile thus began to embrace an extreme version of neoliberalism.[74]

Pinochet's support for the shock therapy was decisive for its implementation: by late 1974, he concentrated in his hands all executive power. A significant step in this direction came in mid 1974 with the creation of the National Intelligence Directorate (Dirección Nacional de Inteligencia, DINA), the unified national military intelligence agency, which operated under Pinochet´s direct command. He was also successful in gradually purging his most influential (mostly corporatist) political rivals within the army.[75]

Why did Pinochet's support the radical and risky stabilisation programme? The answer has little to do with economic theory since Pinochet did not have a clear policy agenda or much understanding of economics.[76] Instead, two other factors are more significant. First,

[72] He had originally taken over the Ministry of Finance in July 1974.
[73] John R. Bawden, *The Pinochet Generation: The Chilean Military in the Twentieth Century* (Tuscaloosa, AL: The University of Alabama Press, 2016).
[74] Alan Angell, 'Chile since 1958', in Leslie Bethell (ed.), *The Cambridge History of Latin America Volume 8 - Latin America since 1930: Spanish South America* (Cambridge, UK: Cambridge University Press, 1991), pp. 311–82.
[75] Karen Remmer, 'Political Demobilization in Chile, 1973-1978', *Comparative Politics*, 12: 3 (1980), pp. 275–301.
[76] Valdivia, *El Golpe Después Del Golpe*.

according to Silva (1996), Pinochet was well aware of the growing structural power of the radical financial coalition in the context of the severe credit crunch and hopeful that such groups would back neoliberal policies with increasing levels of investment.[77] The fact that these conglomerates had the ability to provide foreign reserves made them very attractive to Pinochet.[78] Second, Pinochet decided to support the Chicago Boys as a way to distance himself from his adversaries inside the military junta, especially the corporatist general Gustavo Leigh.[79]

The application of the shock treatment significantly strengthened the radical coalition. It gave financial conglomerates an advantageous position to acquire low-priced state companies during the recessionary period, while further weakening the manufacturing sector.[80] Sources of instrumental power, in this context, were key for the further economic expansion of financial conglomerates, and, ultimately, for the enhancement of their structural power. Their relationships with the Chicago Boys afforded financial conglomerates critical insider information: neoliberal technocrats informed them of policy changes before they were announced to the public.[81] This access to privileged information allowed Cruzat-Larraín and Vial conglomerates to expand rapidly.

A factor that further strengthened the radical business coalition was the expansion of its power base when the Edwards group, owner of the all-influential *El Mercurio* newspaper, joined the radicals. The Edwards group contributed with its sources of instrumental power

[77] Silva, *The State and Capital in Chile*.
[78] O'Brien and Roddick, *The Pinochet Decade*.
[79] Valdivia, *El Golpe Después Del Golpe*.
[80] Silva, *The State and Capital in Chile*.
[81] Silva, 'Capitalist Coalitions, the State, and Neoliberal Economic Restructuring'.

(e.g. media access) to the radical, swift restructuring of Chile's economy. In November 1974, for example, *El Mercurio* published its first editorial advocating rapid privatisation, a reduction of tariffs and drastic deflationary policies.[82] By early 1975 three powerful conglomerates formed the core of the radical coalition: the Cruzat-Larraín, Vial and Edwards conglomerates, which were to throw all their weight behind the privatisation of the pension system.

The increasing personalisation of the authoritarian regime was thus functional to the business radical coalition. The establishment of the one-man rule, without parallel within contemporary Latin American authoritarian regimes,[83] was pivotal for the neoliberal project.[84] With such power, Pinochet was to insulate the Chicago Boys from the pressure of those groups in society negatively affected by the radical economic restructuring.[85] In this context, the opposition of the neoliberal coalition to the corporatist-led reform proposal was ultimately successful: according to the minutes of its secret sessions, after General Díaz' resignation the junta never discussed the *Anteproyecto* again.

THIRD STAGE (MARCH 1976-MAY 1981): IMPOSITION OF THE PRIVATE PENSION SYSTEM

The outcome

[82] O'Brien and Roddick, *The Pinochet Decade*.
[83] Robert Barros, *Constitutionalism and Dictatorship: Pinochet, the Junta, and the 1980 Constitution* (Cambridge and New York: Cambridge University Press, 2002).
[84] Castiglioni, *The Politics of Social Policy Change in Chile and Uruguay*; Karen Remmer, 'State Change in Chile, 1973-1988', *Studies in Comparative International Development*, 24: 3 (1989), pp. 5–29.
[85] Guillermo Campero, *Los Gremios Empresariales En El Período 1970-1983: Comportamiento Sociopolítico y Orientaciones Ideológicos* (Santiago, Chile: Instituto Latinoamericano de Estudios Transnacionales, 1984); Karen Remmer, 'Public Policy and Regime Consolidation: The First Five Years of the Chilean Junta', *The Journal of Developing Areas*, 13: 4 (1979), pp. 441–61.

The reform finally implemented in November 1980 put the management of savings for pensions in the hands of for-profit corporations, which was a central goal of neoliberal technocrats since the beginning.[86] The proposal legally mandated each worker to transfer 10 per cent of her/his taxable income to an individual savings account managed by the AFPs. AFPs´ profits were to arise mainly from a fixed commission -established with a flat, regressive structure- charged to every worker. Critically, the reform did not include mechanisms for workers' participation in the management of their savings. Under the new system, moreover, workers would receive a pension based solely on their savings plus returns (employers would not contribute to retirement accounts).[87] This structure ultimately meant that a growing stream of savings was to be managed by for-profit providers established by financial conglomerates.

During this period, financial business groups dominated the economic elite after having displaced traditional economic groups from the top. This change in the economic elite's balance of power triggered further changes in the cabinet's composition, which became firmly dominated by neoliberal technocrats materially connected to the largest financial conglomerates. Accordingly, during this period we observe a highly exclusionary policy process characterised by an unmediated access of the economic elite's financial fraction to policy-making.

Radical neoliberal coalition's further accumulation of power, 1976-1978

[86] Interview with advisor at ODEPLAN 1979-1980, 24 May 2017.
[87] Secretaría de Legislación, *Historia de La Ley: Decreto de Ley 3.500, Vol 1* (Santiago, Chile: Junta de Gobierno, 1980); Secretaría de Legislación, *Historia de La Ley: Decreto de Ley 3.500, Vol 2* (Santiago, Chile: Junta de Gobierno, 1980).

After the application of the shock treatment in 1975, the radical, financial coalition continued expanding its economic base[88] and, therefore, its sources of structural power. By 1978, the Cruzat-Larraín and Vial conglomerates together controlled almost 41 per cent of private banking assets and 52 per cent of the country's external credit.[89] Also by 1978, both Cruzat-Larraín and Vial conglomerates alone controlled more than 37 per cent of the assets of Chile's largest 250 companies.[90]

During this period, additional economic groups joined the radical business coalition. Several traditional conglomerates restructured their business strategies in order to take advantage of the opportunities created by the neoliberal reforms. As we already saw, Edwards was the first conglomerate to pursue this strategy.[91] Then, the traditional, powerful Matte and Luksic groups followed suit in subsequent years.

As the radical coalition's control of the economy and its sources of structural power grew, their sources of instrumental power also increased. Critically, the radical coalition built closer *relationships with policymakers* by, for example, the *recruitment into government* of more of its members. The paradigmatic case is the appointment of José Piñera as minister of Labour and Social Security in December 1978. Piñera embodied the direct, unmediated access of the radical financial coalition to the policy-making process. Before heading the ministry, he was a top executive of the Cruzat-Larraín conglomerate who advocated for the

[88] Foxley, *Latin American Experiments in Neo-Conservative Economics*; Alejandro Foxley, 'The Neoconservative Economic Experiment in Chile', in J. Samuel Valenzuela and Arturo Valenzuela (eds.), *Military Rule in Chile: Dictatorship and Oppositions*, (Baltimore, MD: The Johns Hopkins University Press, 1986), pp. 13–49.
[89] Dahse, *Mapa de La Extrema Riqueza*.
[90] Fernando Dahse, *El Poder de Los Grandes Grupos Económicos* (Santiago, Chile: FLACSO, 1983).
[91] Silva, *The State and Capital in Chile,* pp. 97-102.

adoption of ODEPLAN's original radical proposal. Working in close collaboration with Manuel Cruzat, head of the Cruzat-Larraín group, Piñera waged a campaign for the imposition of private accounts managed by private providers since 1976. The campaign benefited from the support of the newspapers of the Edwards conglomerate, which played a crucial role in savaging the pay-as-you-go system (see more on this below) and legitimising a radical reform.[92] *Privileged media access*, in this context, was other source of instrumental power greatly strengthened during this period. The Cruzat-Larraín conglomerate, for instance, acquired the influential Ercilla Magazine in September 1976.[93] Piñera regularly wrote op-eds for the magazine,[94] alongside Miguel Kast.[95]

The final road to privatisation, 1979-1981

Notwithstanding their growing clout, neoliberals could not impose their project between 1976 and 1978. According to General Díaz: 'they [Chicago Boys] did not dare to touch the reform for two years since I left the ministry'.[96] Leigh's continuity in the junta mainly explains the deadlock. The turning point only came in July 1978 when Pinochet removed General Leigh from the junta, thus giving further impetus to the pension reform.[97] Leigh was the only member of the military junta with connections to the segment of internationally

[92] Herrero, *Agustín Edwards Eastman: Una Biografía Desclasificada*. Besides El Mercurio, the Edwards group controlled (and still does) the evening newspaper "La Segunda", and the more popular "Las Últimas Noticias".
[93] Human Rights Watch, *The Limits of Tolerance: Freedom of Expression and the Public Debate in Chile* (New York and London: Human Rights Watch, 1998). Until then, Ercilla was a popular and influential magazine which opposed Pinochet's dictatorship.
[94] For example: Piñera, José, 'A Paso Ligero', *Ercilla Magazine* (Santiago, Chile, 21 December 1977), p. 20; 'Ahora o Nunca', *Ercilla Magazine* (Santiago, Chile, 29 March 1978), p. 25.
[95] For example: Kast, Miguel, 'El Empleo: Un Derecho Por Adquirir', *Ercilla Magazine* (Santiago, Chile, 26 April 1978), p. 16.
[96] Sergio Marras, 'Entrevista Al General Nicanor Díaz Estrada', in Sergio Marras (ed.), *Confesiones: Entrevistas Con Sergio Marras*, ed. by Sergio Marras (Santiago, Chile: Editorial Ornitorrinco, 1988), pp. 95–119.
[97] Huneeus, *The Pinochet Regime*; Arancibia and Balart, *Sergio de Castro: El Arquitecto Del Modelo Económico Chileno*.

uncompetitive industrialists (excluded from both the gradualist and radical coalitions) and his departure made the policy process even more exclusionary [98].

After Leigh's departure the Cabinet became totally dominated by neoliberal technocrats, all members of the radical coalition. Seven of the twelve top government positions shown in Figure 1D had been top-executives or board members of the Cruzat-Larraín, Vial and Edwards groups. Three others (Sergio Fernández, Miguel Kast and Alfonso Serrano) did not have employment or business links with conglomerates but were committed neoliberals and the last two (Generals Vidal and Jiménez) had close ties to Pinochet.

After Piñera's appointment to the Ministry of Labour in December 1978, he convened a commission charged with the formulation of the reform.[99] The commission, coordinated by Martín Costabal (a former top executive of the Matte group), began to meet weekly[100] and held regular meetings with representatives of the Ministry of Finance.[101] It worked on actuarial studies and the specific reform design following ODEPLAN´s earlier ideas.[102] Later in early 1980, Pinochet convened a joint, special legislative commission charged with the single task of discussing the proposal prepared by Piñera's team.[103]

[98] Guillermo Campero, 'Entrepreneurs under the Military Regime', in Paul W. Drake and Iván Jaksic (eds.), *The Struggle for Democracy in Chile, 1982-1990* (Lincoln, NE: University of Nebraska Press, 1991), pp. 128–60; Florencia Varas, *Gustavo Leigh: El General Disidente* (Santiago, Chile: Editorial Aconcagua, 1979), p. 34.
[99] Interview with Advisor to the Minister of Economy 1974-1979, 31 May 2017; Interview with Member #1 of the Technical Committee of the 1980 Pension Reform, 4 July 2017.
[100] La Tercera, 'Regreso Al Origen de Las AFP', 31 July 2016, *Sección Reportajes*, pp. 10–12.
[101] Arancibia and Balart, *Sergio de Castro: El Arquitecto Del Modelo Económico Chileno,* pp. 324-325.
[102] Interview with Member #2 of the Technical Committee of the 1980 Pension Reform, 30 May 2017.
[103] Secretaría de Legislación, *Historia de La Ley: Decreto de Ley 3.500, Vol 1]*; Secretaría de Legislación, *Historia de La Ley: Decreto de Ley 3.500, Vol 2*.

Publicly, the first announcement of the reform came in May 1980. In the commemoration of May Day, the government officially declared 1980 'the year of social security'.[104] In that event, both Pinochet and Piñera declared to an audience of 3000 attendees that 'the old system was totally bankrupt'.[105] As noted above, the campaign for the neoliberal reform was chiefly based on savaging the pay-as-you-go system, which entailed disseminating inaccurate facts and figures. In this regard, during our research we had access to a secret, unpublished report prepared by the Ministry of Finance's Office Budget, which neoliberal technocrats used to support their claims on the alleged bankruptcy of the pay-as-you-go system.[106] The document constitutes the main historical proof of the blatant, deliberate attempt to discredit the old pay-as-you-go system and to legitimise the radical pension reform promoted by the Chicago Boys.

The argument developed in the secret report lacks scientific rigour. For instance, in computing the overall financial balance of the system, it makes the indefensible assumption that every Chilean worker would automatically switch from the pay-as-you-go scheme to the AFP system once the latter was implemented. Of course, this situation would mean the pay-as-you-go scheme would have been seriously underfunded instantly. Following this assumption, the authors underestimated the assets of the old system since they did not include the present value of workers' payroll contributions.

[104] Hoy, 'El Año de La Previsión', 7 May 1980, p. 10.
[105] Ibid, p. 10.
[106] Dirección de Presupuestos, *EL Antiguo Sistema Previsional: Cómo Era y a Dónde Va* (Santiago, Chile: Ministerio de Hacienda, 1980).

The legislative process slowed down for some months while the government concentrated on the constitutional referendum scheduled for September 1980.[107] Then, Piñera cunningly seized the opportunity offered by the triumphant atmosphere in the aftermath of the referendum to convince Pinochet to discuss the bill in the junta's secret sessions.[108] The junta discussed and passed the reform in two days, 14 and 24 October.[109] As mentioned in the introduction, Pinochet raised his concerns regarding the management of the funds in the opening of the first session: 'I also agree on the fact that the social security system has to be modified (…) But at the same time, I have said that I do not agree with the idea that the funds go to the private sector'.[110] Then, he openly proposed that funds were managed by the state:

> Therefore, minister [Piñera], everything is ok, but when we discuss the issue of the management of the funds, I hesitate. Let me explain: if it were possible that an agency of ours managed the funds with responsibility, such as the Central Bank, that such agency kept the money and assigned it to banks and cajas.[111] I do not know, but in this moment, I imagine something like that.[112]

Finally, he once again made clear his reservations about the role the private sector was to play in the defined-contribution, for-profit system:

[107] Secretaría de Legislación, *Historia de La Ley: Decreto de Ley 3.500, Vol 1*.
[108] José Piñera, *El Cascabel Al Gato: La Batalla Por La Reforma Previsional* (Santiago, Chile: Editorial Zig-Zag, 1991).
[109] Secretaría de la Junta, 'Acta Nº 398-A', p. 175; Secretaría de la Junta, 'Acta Nº 399-A', 24 October 1980, ASJG, p. 41.
[110] Secretaría de la Junta, 'Acta Nº 398-A', p. 3.
[111] "Cajas" refers to the "cajas previsionales" which were the 32 pension funds -allegedly in bankruptcy according to the Chicago Boys- that formed the old pay-as-you-go system.
[112] Secretaría de la Junta, 'Acta Nº 398-A', p. 3.

> I maintain the apprehensions I pointed out before. Why? Because here there are two gentlemen who are trying to grab… I will not name them, but you know them perfectly well since the Hoy magazine published a report on this… The machinery is so big, but if you remove the nut at the bottom the whole building would collapse. The evidence is clear: they have built an empire. Therefore, I know… they will be those who ruin the [pension] system.[113]

According to Huneeus (2007),[114] in this passage Pinochet specifically pointed at the heads of the two largest financial conglomerates ('the gentlemen'). One was Manuel Cruzat, head of the Cruzat-Larraín group and minister Piñera's former boss, and the other was Javier Vial, head of the Vial group. Pinochet thus clearly expressed his fears that financial conglomerates could exploit the privatised pension system to their benefit. From the press, and from information provided by the Comité Asesor de la Junta (Advisory Committee of the Junta, COAJ) and the military intelligence, Pinochet knew very well the structure of the financial conglomerates and the way in which the operated.[115]

Pinochet expressed his concerns fourteen times during this secret session. Why, then, in the end did he support the radical pension reform? The answer lies to a large extent on the radical coalition's structural power augmented by their instrumental power: as we saw, by 1980 financial conglomerates controlled vast sectors of Chile's economy and Pinochet needed their investment in order to foster economic growth and consolidate his rule.

[113] Secretaría de la Junta, 'Acta Nº 398-A', p. 45.
[114] Huneeus, *The Pinochet Regime*, p. 349.
[115] Ibid.

Critically, the days before the junta's secret sessions *El Mercurio* waged a campaign stressing the urgent need to boost investment. Just two days after the constitutional referendum, on 13 September 1980, in its editorial page the conservative daily urged 'the authorities' [i.e. Pinochet] to formulate a development programme that should 'further clarify the rules of the game and to propose specific policies in critical aspects for a development with stability, with special emphasis on issues not resolved yet, such as the size of the state, the structure of public spending, the improvement of the investment rate (…) and the extension of property to all Chileans'.[116] *El Mercurio* called for a reduction of the size of the state and an expansion of the role of the private sector in the economy.

In the same editorial, the newspaper announced 'the upcoming pension reform' and its potential effects (even before the junta discussed the reform proposal), under the sub-heading 'Investment must increase' *El Mercurio* insisted that 'private development in areas such as social security (…) is, in practice, hindered by the existing quasi-monopoly of the state'. The editorial also advocated for the elimination of employers' contribution to social security, which was incorporated to the letter in the reform approved by Pinochet: 'The social security tax is still present and it seems essential to eliminate it completely in the coming years.'

As the discussion of the reform in the junta approached, the pressure became even more explicit. For example, on 28 September 1980, under the sub-heading 'Urgent Advance' El

[116] El Mercurio, 'Temas Económicos: La Futura Marcha de La Economía', 13 September 1980, p. A3.

Mercurio's editorial stated: 'For the Government is inevitable to keep moving forward implementing the programme that is has formulated (…) The second modernisation (…) is the reform to social security and, specifically, to the old-age pension system'.[117] With an imperative tone, under the sub-heading 'The Importance of the Pension Reform' the newspaper insisted on the topic by asserting: 'the reform means a mandatory allocation of substantial funds to productive investment'. This campaign thus represents a textbook case of structural power augmented by instrumental power:[118] the country's most influential newspaper, controlled by the radical financial coalition, used its editorial page, the one which set the daily political agenda at that time, to stress time and again the urgent need for pension privatisation.

In this context, in October the discussion in the junta became fraught with military mistrust, on the one hand, and the Chicago Boys' insistence on the alleged benefits of the reform, on the other. In such circumstances, Piñera's attempts to convince a mistrustful military leadership were carefully framed. In the second secret session held on 24 October 1980, Piñera highlighted the importance of creating workers committed to private ownership:

> By having an individual account and seeing how his savings rise, which depends on how the economy is doing, the worker will necessarily be interested in having an efficient and responsible Minister of Finance, Parliaments not so committed to partisan politicking, and in avoiding violent revolutions, because every worker will

[117] El Mercurio, 'La Semana Política: Avance Impostergable', 28 September 1980, p. A3.
[118] See Fairfield, 'Structural Power in Comparative Political Economy'.

become an owner with a direct interest in the general performance of the economy. In this way, strikes will also diminish.[119]

The few top-officers that still defended the corporatist agenda then raised additional concerns. For instance, mayor Juan Romero, member of the COAJ, criticised that the alleged bankruptcy of the old system reported by Piñera was based on dubious accountable criteria.[120] Yet most members of the junta easily bought Piñera's overstated arguments and felt intimidated when they tried to inquire about further details.[121] Piñera, in this context, grossly misled the junta during the debate. For example, he said: 'I want to emphasise what I have said before: the change (…) will mean zero cost for the state'.[122] The statement soon proved inaccurate: the state had to continue paying pensions to retirees of the old system but simultaneously received far fewer contributions from active workers --as the number of affiliates decreased from circa 1.7 million to nearly 450 thousand by 1984.[123] Arenas[124] reports that the reform caused a total budget deficit of 5.7 per cent of GDP from 1981 to 1998, more than doubling the deficit for the 1974-1980 period.

The reform was finally approved in early November 1980. The following implementation stage of the policy-making process offers a further example of the power of the business elite. Their unmediated access to policy-making provided financial conglomerates with

[119] Secretaría de la Junta, 'Acta Nº 398-A', p. 97.
[120] Secretaría de la Junta, 'Acta Nº 398-A', p. 110.
[121] Secretaría de la Junta, 'Acta Nº 398-A', pp. 35-37.
[122] Secretaría de la Junta, 'Acta Nº 399-A', p. 22.
[123] José Pablo Arellano, *Políticas Sociales y Desarrollo: Chile 1924-1984* (Santiago, Chile: CIEPLAN, 1985).
[124] Alberto Arenas, 'El Sistema de Pensiones En Chile: Principales Resultados y Desafíos Pendientes', in *Encuentro Latinoamericano y Caribeño Sobre Las Personas de Edad, Seminario Técnico* (Santiago, Chile: CEPAL, 2000), pp. 465–502.

privileged information even before the final approval. Hoy magazine reported that from 15 October to 4 November 1980, Chile's government gazette published the registration of 57 original trademarks that might be used for the new AFPs.[125] These registrations were made before the new pension system was announced to the public on 6 November 1980.

The launch of the AFP system was a success. Most of the economically active population moved to the new system during the first six months.[126] In this context, the most powerful financial groups became key actors in the new system. Of the 11 AFPs initially created,[127] the Cruzat-Larraín conglomerate controlled two (PROVIDA and ALAMEDA), the Vial Group controlled another two as well (SANTA MARÍA and SAN CRISTÓBAL), and the Edwards conglomerate controlled EL LIBERTADOR. Those traditional groups which had successfully adapted to the changing environment in the previous three years also benefited: Luksic, Matte and Angelini conglomerates created SUMMA AFP, and Yarur-Bana and Said conglomerates associated to create PLANVITAL. The CChC (Chilean Chamber of Construction), in turn, created HABITAT AFP. In summary, 10 out of 11 eleven corporations were owned either by conglomerates or big business interests.

Furthermore, the cosy relationship between radical conglomerates and the Chicago Boys was reflected in the structure of the boards. For instance, in the case of PROVIDA, the chairman was Jorge Cauas, former Minister of Finance, and Alfonso Márquez de la Plata, former Minister of Agriculture, was a member of the board. INVIERTA counted Álvaro

[125] Hoy, 'Previsión: Ya Viene La Reforma', 22 October 1980, pp. 30–32; Hoy, 'Previsión: En La Puerta Del Horno', 5 November 1980, pp. 19–20. Among the names registered were "Trust de Previsión Privada", and "Corporación Previsional de Profesionales de Chile".
[126] Arellano, *Políticas Sociales y Desarrollo*.
[127] Análisis, 'Las Once de La "Competencia'.

Bardón, former president of the Central Bank, as board chairman. These well-known economists -along with the prestige of the conglomerates behind the AFPs- were presented as the guarantee of the efficiency, success and 'modernity' of the system.

CONCLUSIONS

This paper has illustrated the suitability of the structural-instrumental framework for the analysis of business power under authoritarian regimes. By adapting the instrumental-structural framework for non-democratic settings, we show that these categories are useful to account for the economic elite's progressive accumulation of power in authoritarian Chile. More specifically, the financial segment progressively accumulated sources of power until it was able to secure its goal of privatising the old-age pension system.

Multiple sources of power enabled financial conglomerates to defeat their opponents, while its state allies simultaneously gained more influence. The unmediated, privileged interaction between the state and the financial fraction of the economic elite gradually built, reached its zenith between 1979 and 1981, when neoliberal civilians dominated the cabinet. This resulted in the creation of the new pension scheme based on individual accounts managed by for-profit companies controlled by the financial conglomerates. Even general Augusto Pinochet -arguably the most powerful dictator in Latin American during the 1960s and 1970s- ended up accepting a reform that he did not particularly like.

In contributing to our understanding of business power in non-democratic contexts, we offer a more nuanced view than previous literature: the state is not a transmission belt of business interests, nor is completely autonomous. Policy-making in authoritarian regimes,

then, results from a complex interplay between dynamics within both the state and the economic elite. These dynamics, in turn, are influenced by the power resources wielded by each actor.

Overall, in rethinking the policy-making process in authoritarian contexts we make a broader contribution to the literature on the political economy of business-state relations in Latin America and beyond. We have shown that - important as it is- the study of the regime's structure is not enough to formulate an accurate picture of social policy reform in authoritarian contexts in general and Pinochet´s Chile in particular. Likewise, factors that have previously occupied a central role in explaining outcomes -such as the ideological position of policymakers- fall short of providing a sound explanation. Instead, we stress the need to include in the analysis the power resources of the different actors involved in the policy process, and the study of their material interests and relations. Given their central role in shaping public policies in unequal contexts, Latin Americanists and other scholars of the global South should pay special attention to role played by economic elites and their different fractions both in the past and the future.

Table 1

Type of power	Foundation-Defining attribute	Sources of Power		Actions	Observable implications in the realm of pension policymaking
Instrumental Power	Capacity for deliberate political action	Relationships with policymakers	• Institutionalised consultation • Recruitment into government • Informal ties • **Ties to the armed forces** • Partisan linkages • Election to public office	• Lobbying • Business involvement in the management of state services. • Editorialising in the press • Engagement in various types of collective action • Direct participation in policymaking • Funding political parties • Funding political campaigns	• Former top-executives of business conglomerates are recruited into office, which may result in convergence of preferences between the economic elite and policymakers. • Business editorialises in the press to promote a pension reform according to their interests. • By lobbying based on informal ties, representatives of big business push for a market-oriented reform. • Government negotiates a reform to the pension system with business representatives before its introduction to Congress. • Conservative, right-wing parties block the introduction of redistributive mechanism to the pension system in Congress.
		Resources	• Money • Media access • Technical expertise • Cohesion		
Structural Power	Market-coordinated investment decisions. It does not require organisation.	Policymakers' perceptions of how investors would react toward a particular policy.		By definition, it does not require political engagement. It arises from policymakers' perceptions.	• Policymakers may implement policies aimed at creating an investment climate favourable to the interests of capital controllers.

Table 2

Type	Conglomerate	Total Companies	Fixed-Asset Domestic Market Orientated Sectors	Liquid-Asset, Internationally Oriented & Speculative Sectors
Traditional	Edwards	30	43.2	56.5
	Matte	26	53.7	45.9
	Luksic	16	68.7	31.1
	Yarur-Bana	7	43.0	57.0
	Briones	5	100.0	---
	Lepe	4	100.0	---
Financial	BHC (Vial)	27	29.6	70.3
	Cruzat-Larraín (1974)	11	36.2	63.6
	Menéndez	8	---	100.0
	Angelini	4	---	100.0

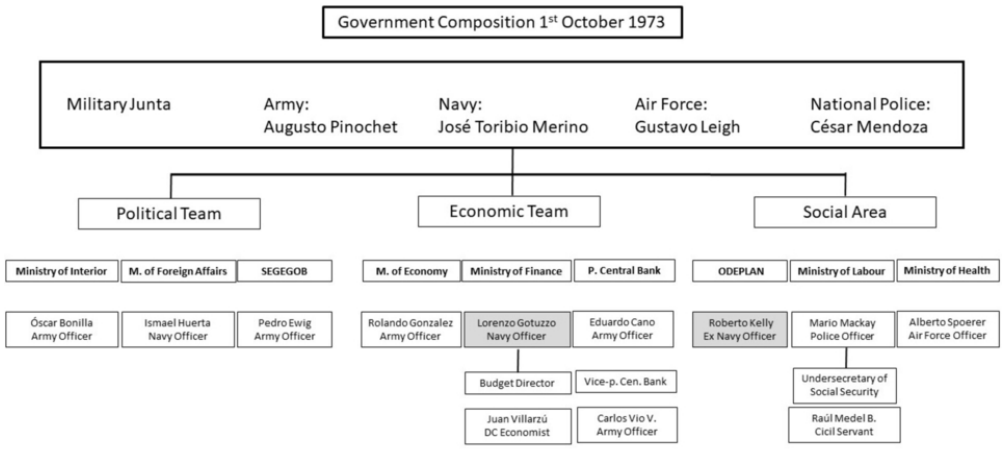

Figure 1a

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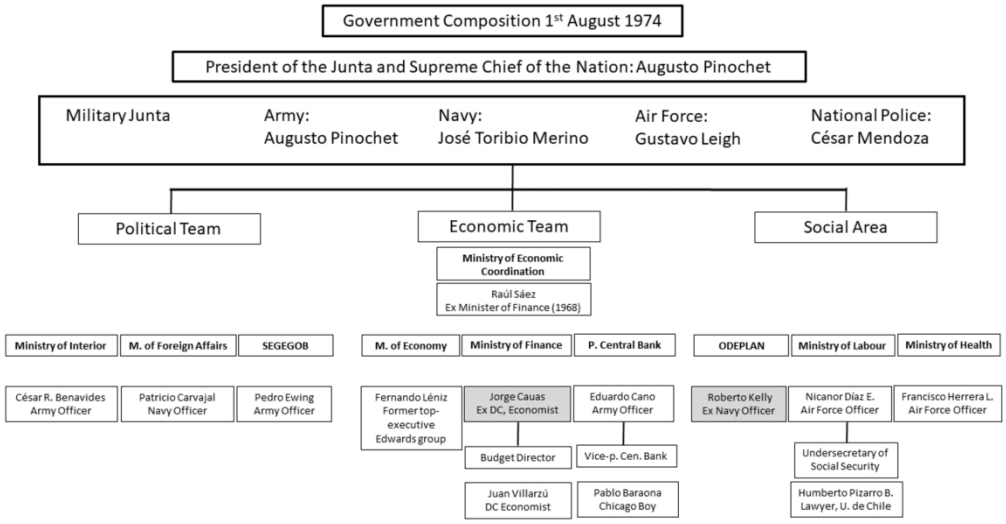

Figure 1b

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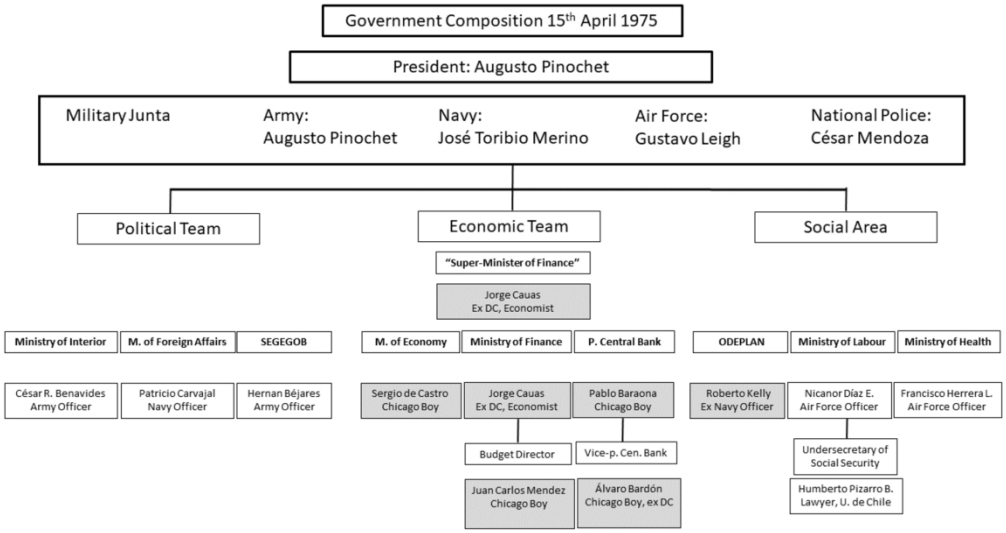

Figure 1c

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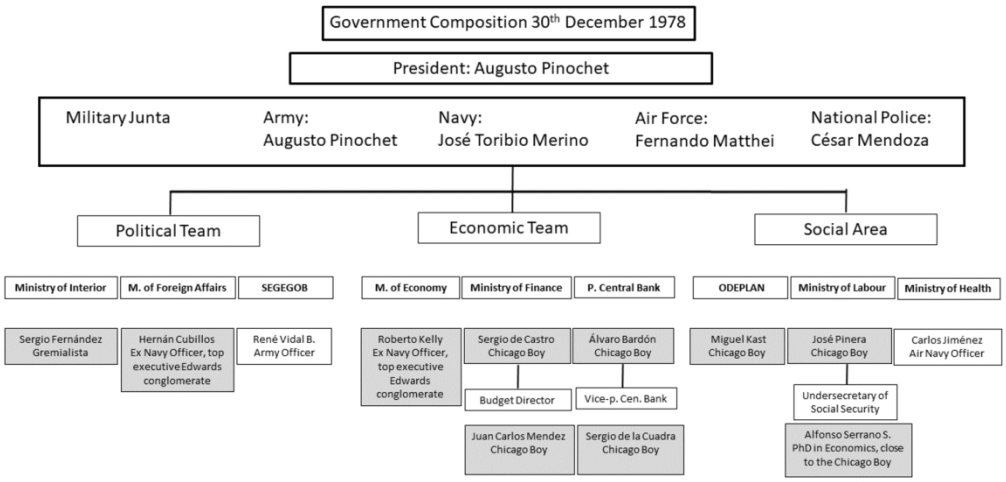

Figure 1d

206x116mm (236 x 236 DPI)